Gulf Power

Jeffrey A. Stone
Vice President
General Counsel
Corporate Secretary
Chief Compliance Officer

One Energy Place
Pensacola, FL 32520-0100
850 444 6550 tel
850 982 0178 cell
850 444 6744 fax
jastone@southernco.com

February 27, 2018

RESPONSE TO STAFF'S FIRST DATA REQUEST
SBrownle@PSC.STATE.FL.US

Suzanne Brownless
Special Counsel
Florida Public Service Commission
2540 Shumard Oak Boulevard
Tallahassee, Florida 32399-0850

Re: Docket No. 20180039-EI - Docket to consider Stipulation and Settlement Agreement between Gulf Power Company and Office of Public Counsel, Florida Industrial Power Users Group and the Southern Alliance for Clean Energy regarding Tax Cuts and Jobs Act of 2017.

Dear Ms. Brownless:

This letter is in response to yours dated February 22, 2018, containing Staff's data requests 1 through 21. In accordance with the instructions at the end of your letter, this letter is also being filed electronically on the Commission's website at www.floridapsc.com by use of the Clerk's Office tab and Electronic Filing Web Form.

As clearly noted in the title of this docket, the purpose of this proceeding is to consider the Stipulation and Settlement Agreement filed on February 14, 2018 (the 2018 Agreement). The 2018 Agreement is the product of successful settlement negotiations between and among Gulf Power Company (Gulf Power, Gulf or the Company), the Office of Public Counsel (OPC), the Florida Industrial Power Users Group (FIPUG) and the Southern Alliance for Clean Energy (SACE) (collectively the Parties), which collectively constitute all of the ultimate signatories to the comprehensive settlement agreement between OPC and Gulf filed on March 20, 2017 (the 2017 Agreement), subsequently joined separately by FIPUG and SACE and ultimately approved by the Commission as evidenced by its Order No. PSC-17-0178-S-EI, issued May 16, 2017 (the 2017 Rate Order).

As noted in the 2018 Agreement, the 2017 Agreement and the 2017 Rate Order established new 2017 base rates for Gulf that took effect on July 1, 2017, only six months prior to the January 1, 2018, effective date of the Tax Cuts and Jobs Act of 2017 (TCJA). The 2018 Agreement seeks to (1) immediately reduce Gulf's base rates by $18.2 million in response to the federal income tax rate changes applied to Gulf through operation of the TCJA; (2) immediately reduce Gulf's fuel cost recovery rates for the remainder of 2018 by $69.4 million to refund the full jurisdictional amount of "unprotected" excess deferred taxes (EDT) resulting from application of the new federal income tax rate in the TCJA; (3) immediately reduce Gulf's Environmental Cost Recovery Clause (ECRC) rates by $15.6 million on an annual basis in response to the federal income tax rate changes applied to Gulf through operation of the TCJA; and (4) capture and refund to Gulf's customers impacts of the TCJA between January 1, 2018, and the effective date of the new rates that would result from approval of the 2018 Agreement. In addition, the 2018 Agreement sets the stage for a future limited scope proceeding to consider and address the appropriate ratemaking impacts of the "protected" EDT resulting from application of the new federal income tax rate in the TCJA.

Importantly, the 2018 Agreement is structured to accomplish the incorporation of the TCJA into Gulf's rates as a continuation from both the 2017 Agreement and the 2018 clause rates. The compromise agreements between the parties in both the 2017 Agreement and the 2018 Agreement are based on this central foundation.

The 2018 Agreement is a compromise settlement between and among the Parties that must be considered as a comprehensive whole, not as individual parts. The 2018 Agreement is the product of a give and take among the Parties on individual elements that ultimately allowed the Parties to reach the filed consensus result. The foundation for these negotiations was paragraph 6 of the 2017 Agreement, which contemplated the possibility of the type of tax reform that, in fact, occurred through enactment of the TCJA effective January 1, 2018. An important element of the negotiations was to reach an agreement that would allow a permanent base rate reduction as soon as possible and thereby avoid both the uncertainty and the inherent delay associated with litigating all of the ratemaking issues arising from the TCJA. All of the Parties are united in support of the 2018 Agreement.

Gulf has prepared the following responses to the questions set forth in your letter of February 22, 2018. The positions taken below are intended to be limited to the facts and circumstances unique to Gulf and are not intended for application to the facts and circumstances relevant to other investor owned electric utilities or to other regulated industries.

1. Referring to Paragraph 9 of the 2018 Stipulation and Settlement Agreement (2018 Agreement), please explain how the reduction of $15.6 million for the (ECRC) will be annualized.

   RESPONSE:

   The $15.6 million ECRC reduction is the annual estimated impact that Gulf is proposing to include in the proposed ECRC rates beginning in April. Any portion of the $15.6 million reduction not received by customers in revised 2018 rates will be discussed in estimated true-up testimony, reflected in the ECRC recovery balance, and included in the true-up provision when Gulf proposes its 2018 estimated true-up amounts and 2019 proposed ECRC rates in the upcoming ECRC proceedings.

---

2. Referring to Paragraph 9 of the 2018 Agreement, please explain what benefit the petition has to the ratepayers as compared to the company filing a true-up in the next ECRC proceedings.

RESPONSE:

The primary benefit is reducing rates now for customers rather than waiting until January 2019. The negotiated settlement, if approved, would allow customers to realize ECRC tax savings benefits in electric bills much earlier than they otherwise would if the 2018 benefits were delayed until the normal true-up for 2018 costs in subsequent periods. Gulf and the other signatories to the 2018 Agreement firmly believe there is a real benefit to customers to pass through tax savings to customers as expeditiously as possible.

---

3. Please refer to Attachment A, Page 5. Please explain the significance of the information shown. The proposed monthly bill of $141.81 does not match the bill shown on Attachment B, page 7 of 7 ($131.28).

RESPONSE:

The proposed monthly bill shown on page 5 of Attachment A shows only the base rate impact of tax reform and does not reflect the proposed cost recovery clause rates. Page 7 of Attachment B shows the total monthly bill impact of all proposed changes, both base rate and cost recovery clause rates.

---

4. When and how does the Company plan on notifying customers about the proposed rate changes?

RESPONSE:

Gulf Power began notifying its customers of the proposed rate decreases as soon as it filed the 2018 Agreement on February 14, 2018, by:

1. Issuing a news release on February 14, 2018, that was sent to all news media in Gulf Power's service area.
2. Posting a news release to the Company's news site, GulfPowerNews.com.
3. Posting a notice of the proposed rate changes on social media channels including the Company's Facebook and Twitter pages.
4. Making phone calls to the Company's largest commercial and industrial customers.

In addition, Gulf has fielded inquiries from the following local media outlets that in turn produced their own articles as shown below that reached a total of 73,390 unique viewers, with 319,427 impressions and 222 shares/retweets.

Media Outlet/Article

WJHG News Channel 7 Panama City
Gulf Power files request to pass along tax savings

WMBB Channel 13 Panama City
Gulf Power Requests Rate Decrease

WEAR-TV News Channel 3 Pensacola
Gulf Power customers to see $103 million decrease for 2018

NorthEscambia.com
Gulf Power Seeks To Pass Savings Along To Customers

Pensacola News Journal
Gulf Power seeks bill reduction for customers following tax cuts

NWF Daily News
Gulf Power customers could see lower bills

The Destin Log
Gulf Power customers could see lower bills

Panama City News Herald
Gulf Power bills expected to drop $14 per month

WPMI, MyNBC15, Mobile, Ala.
Gulf Power: Florida customers to see $103 million in savings for 2018

WCOA 1370 News Talk
Gulf Power Rate Reduction

Media Outlet/Article (cont.)
Santa Rosa Press Gazette
Gulf Power says customers will see $103 million decrease for 2018

Crestview News Bulletin
Gulf Power customers could see lower bills

Upon approval of the 2018 Agreement, Gulf Power will begin notifying customers using the following channels:

1. Send out a news release to all news media in Gulf Power's service area.
2. Post news release to the Company's news site, GulfPowerNews.com.
3. Email all customers who have a current email address on file.
4. Post notice of the rate changes on social media, including the Company's Facebook, Twitter and Instagram pages.
5. Make personal phone calls to the Company's largest commercial and industrial customers.
6. Send an official rate notification bill insert to all customers through their electricity bills in the next available bill cycle.
7. Include notification in the Company's monthly newsletter that accompanies customers' bills in the next available bill cycle.
8. Include notification in the Company's monthly business e-newsletter in the next available issue.

---

5. Referring to page 3 of the 2018 Agreement, please state which day the first billing cycle for April 2018 falls on.

RESPONSE:

April 2, 2018

---

6. Please refer to the 2018 Agreement, Attachment B, page 6 of 7.

   a. The total for "Projected Sales at meter (kWh)" is shown as 10,907,192,000. Is the 2018 Agreement's "Projected Sales at Meter (kWh)" amount sourced from the company forecast that produced the 2018 "Total Sales to Ultimate Customers" appearing in the 2017 Gulf Ten Year Site Plan, Schedule 2.2? If not, please describe the date of the load forecast used as the basis of total "Projected Sales at Meter" for 2018 and identify any other Commission filings inclusive of such forecasts.
   b. Is it correct that all of the rate class level 2018 "Projected Sales at Meter (kWh)" are the energy forecasts identified as "GWH sales" appearing in the 2017 Ten Year Site Plan, Schedule 2.2? If not, please explain the source of these projections.
   c. What is the date of Gulf Power Company's most current load forecast?
   d. When will the next Gulf Power Company load forecast be produced?
   e. Did Gulf use its most recent load forecast to prepare the units appearing in Attachments A and B of the 2018 Agreement? If not, why not?

RESPONSE:

a. Yes.

b. Yes.

c. Gulf's most recent load forecast was approved on September 20, 2017, and will be shown in Gulf's 2018 Ten Year Site Plan.

d. Gulf's next load forecast is expected to be approved in September 2018.

e. No. The 2018 Agreement is structured to accomplish the incorporation of the TCJA into Gulf's rates as a continuation from (a) the 2017 base rate settlement as though it was a known change when the 2017 Agreement was reached, and (b) when the 2018 clause rates were calculated. As such, it is important that the load forecasts used in the underlying rates (base and clause) serve as the basis for the proposed changes to those underlying rates. Therefore, the load forecasts used to develop the current-approved base and clause rates were used to develop the corresponding Attachments in the 2018 Agreement. As such, Attachment A uses the 2017 projected test year included in the 2017 Agreement approved by the Commission in Order No. PSC-17-0178-S-EI. This same forecast is shown in Gulf's 2016 Ten Year Site Plan. Using a different forecast to calculate base rates in the 2018 Agreement would be inconsistent with the 2017 Agreement approved by the Commission. Attachment B uses the load forecast from the cost recovery proceedings in Docket Nos. 20170001-EI and 20170007-EI, which is the forecast shown in Gulf's 2017 Ten Year Site Plan.

7. Please refer to the 2018 Agreement, Attachment A, Page 9 through 14 of 32. Explain the method used by the Company to project the number of bills, KWH, and KW by rate schedule as shown in Columns (2) and (6) on these pages, in particular as relates to the Company's rate class level forecasts.

RESPONSE:

Because the 2018 Agreement is structured as a continuation from the 2017 base rate settlement as though the TCJA was a known change when the 2017 Agreement was reached, the billing determinants used in the 2018 Agreement are the same as those approved by the Commission as part of the 2017 Agreement in Order No. PSC-17-0178-S-EI. Specifically, the bills, kWh, and kW as shown in columns (1), (2), (3), (5), (6), and (7) in the 2018 Agreement, Attachment A, pages 9 through 22 of 32 are the same determinants as shown in Document No. 04264-17, Attachment C, pages 10 through 23 of 33, columns (5), (6) and (7). The billing determinants for Rate Schedule OS are also unchanged from those approved in the 2017 Agreement.

8. Please refer to the 2018 Agreement, Attachment B, Page 6 of 7, Column (F) and Attachment A, Page 9 through 14 of 32 (Column 2). Please reconcile the Projected Sales at Meter by Rate Class in Attachment B with the KWH by rate schedule shown in Attachment A. If a reconciliation cannot be done, please explain why.

RESPONSE:

Please see Gulf's response to Item Nos. 6(e) and 7.

9. Starting on page 4, Paragraph 5, of the 2018 Agreement, it states that an amount equal to $1/24^{th}$ of the \$18.2 million base rate reduction will be recorded to a regulatory liability for the month of January 2018, and an amount equal to $1/12^{th}$ of the \$18.2 million will be recorded to the regulatory liability for the month of February 2018, and each month thereafter up to the effective date of new rates outlined in Attachment A. Please describe the rationale of only including half of the annualized impact for the month of January 2018.

RESPONSE:

The approach described in Paragraph 5 of the 2018 Agreement includes the full impact for all energy used in 2018. Bills rendered in January include energy usage for December 2017. The December 2017 energy usage was accrued as unbilled revenue for the month of December in 2017 and, as such, had an income tax rate of 35 percent applied. This December 2017 energy usage is approximately half of the January billed energy usage. The attached graphical depiction (Attachment 1), of the billing cycles and the Federal tax rate in effect for the periods presented, provides further details regarding this approach.

---

10. Paragraph 6 of the 2018 Agreement addresses the excess accumulated deferred income taxes created by the Tax Cuts and Job Act (Act) as regulatory liabilities under certain paragraphs of Accounting Standards Codification (ASC) 740-10. Provision (10) of Rule 25-14.013, F.A.C., entitled Accounting for Deferred Income Taxes under SFAS 109, states: "[w]hen the statutory income tax rate is changed as a result of legislative action after the implementation of SFAS 109, each utility shall adjust its deferred income tax balances to reflect the new statutory income tax rate. The recording of regulatory assets and liabilities for the excess or deficient deferred income taxes, accounting detail and reversal of the excess and deficient deferred income taxes shall comply with subsections (4) through (9) of this rule." The following questions relate to the accounting for the accumulated deferred income tax effects resulting from the Act.

    a. In light of the fact that Statement of Financial Accounting Standards (SFAS) 109 essentially became ASC 740, does the 2018 Agreement comply with provisions (4) through (10) of Rule 25-14.013, F.A.C., entitled Accounting for Deferred Income Taxes under SFAS 109?
    b. If so, please explain in detail how the 2018 Agreement complies with provisions (4) through (10) of Rule 25-14.013, F.A.C.
    c. If not, please explain in detail how the 2018 Agreement does not comply with provisions (4) through (10) of Rule 25-14.013, F.A.C.

RESPONSE:

a. Yes.

b. As of December 31, 2017, the Company recalculated all deferred income tax balances to reflect the new federal income tax rate and recorded the difference from prior rates in the appropriate regulatory asset and liability accounts. In addition, the gross up for the amount recorded to regulatory asset and liability accounts was also recorded to deferred income tax and regulatory asset and liability accounts. The reference in paragraph 6 of the 2018 Agreement to the Company's restatement of deferred taxes at December 31, 2017, indirectly acknowledges compliance with Rule 25-14.013 provisions (4) through (10).

The method and amounts were audited by Deloitte & Touche LLP as part of the preparation of the 2017 Annual Report, Form 10-K, filed with the Securities and Exchange Commission on February 20, 2018.

c. N/A

---

11. Please refer to Paragraph 6 of the 2018 Agreement. Please provide the amount and method of determining the excess deferred taxes at December 31, 2017 including a delineation of the protected and unprotected amounts.

RESPONSE:

The excess deferred tax and the related gross up (EDT) at December 31, 2017, was $457,498,000.

The protected EDT (subject to normalization) amount of $386,099,000 is comprised of timing differences for accelerated depreciation methods used for the tax return (e.g. Modified Accelerated Cost Recovery System (MACRS) and bonus depreciation) and book depreciation. As noted by paragraphs 13 and 14 in the 2018 Agreement, there are remaining issues regarding the protected EDT that remain to be addressed in a future limited scope proceeding.

The unprotected EDT (not subject to normalization) amount of $71,399,000 is comprised of differences related to property basis differences between book and tax (e.g. repairs expensing for tax) and other differences primarily related to the regulatory asset for the Plant Smith early retirement, the deferred return on transmission projects, benefits, cost recovery clause over/under recoveries, the property damage insurance reserve, and the injuries and damage reserve.

The method and amounts were audited by Deloitte & Touche LLP as part of the preparation of the 2017 Annual Report, Form 10-K, filed with the Securities and Exchange Commission on February 20, 2018.

---

12. Please refer to Paragraph 7 of the 2018 Agreement. Please provide the method used to determine the amount $69,407,000 and the assets associated with this amount.

RESPONSE:

Please see Gulf's response to Item No. 11 for the assets and liabilities associated with the $71.4 million unprotected EDT (not subject to normalization). The $69,407,000 is the jurisdictional portion of the $71.4 million total system amount using the jurisdictional separation factor of 97.20871 percent from MFR Schedule C-4, page 6 of 6 in Gulf's rate case resolved by the 2017 Agreement.

---

13. On page 4, Paragraph 4, of the 2018 Agreement, it states the annualized impact on Gulf's base rates as a result of the TCJA is a reduction of $18.2 million. Please provide a copy of the calculations used to determine the $18.2 million annualized impact on base rates. Please provide these calculations in Microsoft Excel format, with all formulas and cell references intact.

RESPONSE:

The $18.2 million annualized impact on Gulf's base rates resulting from the TCJA is a compromise settlement among the parties that is consistent with Gulf's approved 2017 Agreement. The 2017 Agreement states there will be an assumed impact of $1.3 million per each percentage point change in the federal income tax rate. The TCJA reduced the corporate federal income tax rate from 35 percent to 21 percent. Therefore, a 14-percentage point decrease in the federal income tax rate results in an $18.2 million annualized reduction to Gulf's base rates using the calculation described in the 2017 Agreement.

Calculation:

Corporate Federal Income Tax Rate – After TCJA	21.0%
Less: Corporate Federal Income Tax Rate – Before TCJA	35.0%
Change in Corporate Federal Income Tax Rate	(14.0%)
X Assumed Impact per Percentage Point Change in Tax Rate (2017 Agreement, Paragraph 6)	$1.3M
Prospective Adjustment to Base Rates from TCJA	($18.2M)

---

14. Please provide the December 2017 Earnings Surveillance Report that reflects annualized revenues for the rates that became effective in July 2017.

15. Please provide the December 2017 Earnings Surveillance Report that reflects annualized revenues for the rates that became effective in July 2017, as well as the effects of the Tax Cut and Jobs Act assuming that tax reform had become effective on January 1, 2017.

RESPONSE:

The 2017 test year is the most appropriate basis for adjusting Gulf's base rates going forward. The compromise agreements between the parties in both the 2017 Agreement and the 2018 Agreement are based on this important foundation.

Recalculating a December 2017 Earnings Surveillance Report (2017 ESR) that incorporates only the annualized revenues that became effective in July 2017 would not result in an appropriate basis for adjusting Gulf's base rates. There are too many items in 2017, in addition to the lack of a full year of rate relief, that would need to be considered, accepted, and adjusted in order to begin to make the 2017 ESR an appropriate basis on which to make a future base rate adjustment. The compromise settlement set forth in the 2018 Agreement avoids the time and expense for all parties that would result from litigation over such issues and speeds the delivery of tangible savings to Gulf's customers.

---

16. Please refer to Paragraph 10 of the 2018 Agreement. Provide the analysis, including calculations, used to determine that "...returning the full amount of 'unprotected' deferred taxes to customers in 2018, along with the loss of bonus depreciation, will put a strain on Gulf's credit metrics (specifically its Funds From Operations ("FFO") to Debt) over the short and long term.

RESPONSE:

It is well documented in financial industry publications that the TCJA will negatively impact investor-owned regulated utilities. For example, on January 19, 2018, in a public announcement, Moody's Investors Service (Moody's) stated:

> Tax reform is credit negative for US regulated utilities because the lower 21% statutory tax rate reduces cash collected from customers, while the loss of bonus depreciation reduces tax deferrals, all else being equal. Moody's calculates that the recent changes in tax laws will dilute a utility's ratio of cash flow before changes in working capital to debt by approximately 150 - 250 basis points on average, depending to some degree on the size of the company's capital expenditure programs.

Gulf agrees with Moody's conclusion. All things being equal, returning the EDT to customers without mitigating efforts will reduce Gulf's Funds From Operations (FFO), regardless of the time period the EDT is returned to customers. In the instance of the unprotected EDT of $69.4 million, the resulting reduction in revenues negatively impacts Gulf's cash flow because the flowback of the $69.4 million will reduce amortization expense, which is a non-cash expense. Therefore, Gulf's cash flow metrics will be negatively affected by the return of the unprotected EDT to customers. As an example, returning the $69.4 million over a five-year period would reduce Gulf's FFO by approximately $10.4 million in each year.

The example below illustrates the impact on FFO-to-debt that would result from returning the amount associated with unprotected EDT to customers over a five-year period. The amounts shown are illustrative but represent a close approximation to Gulf's FFO and adjusted debt. Under this example, the reduction to FFO-to-debt would be an average 100 basis points annually.

Illustrative FFO-to-Debt – No Return of Unprotected EDT ($000s)

	Year 1	Year 2	Year 3	Year 4	Year 5
Funds from Operations	350,000	350,000	350,000	350,000	350,000
Adjusted Debt	1,500,000	1,500,000	1,500,000	1,500,000	1,500,000
FFO-to-Debt	23.3%	23.3%	23.3%	23.3%	23.3%

Illustrative FFO-to-Debt – 5-Year Return of Unprotected EDT ($000s)

	Year 1	Year 2	Year 3	Year 4	Year 5
Funds from Operations[1]	339,637	339,637	339,637	339,637	339,637
Adjusted Debt[2]	1,507,288	1,514,575	1,521,863	1,529,151	1,536,439
FFO-to-Debt	22.5%	22.4%	22.3%	22.2%	22.1%

[1] Incorporates the after-tax amount of $69.4 million refunded to customers over five-year period ($69.4 million x 74.655% / 5 Years)

[2] Assumes reduction to capital structure in each year is financed with mix of 47.5% debit and 52.5% equity

While the 2018 Agreement mitigates this long-term credit deterioration and also provides an accelerated benefit to the customers of the full amount of unprotected EDT, a strain would still be placed on Gulf's credit metrics. Once fully refunded to customers, the $69.4 million associated with unprotected EDT will be permanently removed from Gulf's capital structure. In order to mitigate the impact to the Company's credit metrics, Gulf intends to fund the $69.4 million with 100 percent equity.

Illustrative FFO-to-Debt – Return of Unprotected EDT in Year 1 ($000s)

	Year 1	Year 2	Year 3	Year 4	Year 5
Funds from Operations[1]	298,184	350,000	350,000	350,000	350,000
Adjusted Debt[2]	1,500,000	1,500,000	1,500,000	1,500,000	1,500,000
FFO-to-Debt	19.9%	23.3%	23.3%	23.3%	23.3%

[1] Incorporates the after-tax amount of $69.4 million fully refunded to customers in year 1 ($69.4 million x 74.655%)

[2] Assumes $69.4 million reduction to capital structure in 2018 is funded with 100 percent common equity

As illustrated in the example above, credit metrics are affected in the year of the refund but return to pre-tax reform levels in subsequent years. Although the TCJA will result in a strain to Gulf's credit metrics in isolation, the 2018 Agreement, which includes an increase in Gulf's equity ratio to 53.5 percent, helps mitigate the strain and maintain Gulf's financial integrity and credit quality. The 2018 Agreement ensures Gulf remains in a healthy position and continues to have access to investor capital, providing benefits to customers over the long term.

17. On February 19, 2018, Gulf Power provided an analysis of the base rate impact resulting from the change in the federal income tax rate from 35 percent to 21 percent. This analysis was based on the 2017 projected test year Minimum Filing Requirements (MFRs) used in the Company's recently completed rate case and included recognition of the $56 million rate increase approved as part of the 2017 Comprehensive Settlement Agreement (2017 Agreement). What is the achieved return on equity (ROE) assumed in this analysis?

RESPONSE:

The analysis provided on February 19, 2018 (Attachment 2), was prepared by Gulf as support for the reasonableness of the stipulated $18.2 million base rate reduction resulting from the TCJA. This analysis is consistent with Gulf's 2017 projected test year MFRs adjusted for the approved rate increase provided in the 2017 Agreement. The analysis quantifies the jurisdictional net operating income (NOI) impact associated with a 14-percentage point decrease in the federal income tax rate based on the NOI reflected in Gulf's 2017 projected test year MFRs subsequently adjusted for the approved rate increase from the 2017 Agreement. The analysis does not assume an ROE for purposes of determining the NOI impact. It focuses on changes to jurisdictional operating revenues and jurisdictional operating expenses to determine what a base rate revenue equivalent would be for the resulting reduction in federal income tax expense.

18. On page 2 of Gulf Power's 2018 Agreement, the Company proposes an $18.2 million base rate reduction to account for the change in the income tax rate from 35 percent to 21 percent. What would the base rate reduction be based on Gulf Power's actual earned ROE in 2017 of 10.77 percent if the ROE assumed in the Company's projected 2017 test year MFR filing referenced in question 17 is something other than 10.77 percent? Please provide all calculations.

RESPONSE:

It is important to note that the proposed $18.2 million base rate reduction set forth in the 2018 Agreement is by agreement with the Parties. It is a compromise amount reached in light of all aspects of the 2018 Agreement. As noted in response to questions 14 and 15 above, it is inappropriate to utilize any aspect of the December 2017 ESR for Gulf Power to calculate prospective base rate adjustments. The 2017 test year is the most appropriate basis for adjusting Gulf's base rates going forward. The compromise agreements among the parties in both the 2017 Agreement and the 2018 Agreement are based on this important foundation.

19. On page 6 of Gulf Power's 2018 Agreement, the Company proposes to implement revised Environmental Cost Recovery Clause (ECRC) rates for the remainder of 2018 that reflect a reduction of $15.6 million. What would the reduction in ECRC rates be based on Gulf Power's actual earned ROE in 2017 of 10.77 percent if the ROE assumed in the Company's projected 2017 test year MFR filing referenced in question 17 is something other than 10.77 percent? Please provide all calculations.

RESPONSE:

The requested analysis and calculations are not appropriate in the context of cost recovery clause revenue requirement calculations. The cost of capital used in clause calculations is currently governed by the stipulation and settlement agreement (WACC Agreement) approved by Order No. PSC-12-0425-PAA-EU issued August 16, 2012, in Docket Nos. 20120001-EI, 20120002-EG and 20120007-EI. Specifically, page 9 of the order approving the WACC Agreement states, "The cost rate for common equity will be the last authorized rate of return on equity ("ROE")." Gulf's current authorized midpoint ROE of 10.25 percent is used for cost recovery clause purposes. (Order No. PSC-17-0178-S-EI)

The $15.6 million estimated annual ECRC revenue requirement impact was calculated by updating the original 2018 ECRC projection approved in Docket No. 20170007-EI to include a pre-tax WACC of 7.1734 percent to reflect the lower federal income tax rate gross-up in the equity components of the clause capital structure. A comparison of the cost of capital revenue requirement rate used to calculate the $15.6 million impact is presented in Attachment B, page 5 of 7, of Gulf's 2018 Agreement. Applying the lower pre-tax WACC to all ECRC programs for the full year results in a $15.6 million annual revenue requirement difference. Attachment 3 is an illustration that highlights the impact of the lower pre-tax WACC on Gulf's ECRC revenue requirements.

20. On page 2 of Gulf Power's 2018 Agreement, it states that the amount of the base rate reduction due to the change in the income tax rate from 35 percent to 21 percent was formulated pursuant to Paragraph 6 of the 2017 Agreement. Paragraph 6 of the 2017 Agreement, specifically with regard to the assumed impact of $1.3 million per each percentage point of change in the income tax rate, provides "In any hearing conducted pursuant to this paragraph, any party may introduce evidence to overcome such assumption, ..." Does the 2018 Agreement still allow for a future review of the amount of tax savings assumed in the 2018 Agreement? If no, why not?

RESPONSE:

No. The 2018 Agreement is a settlement of the issues around the $18.2 million base rate reduction left open by paragraph 6 of the 2017 Agreement and is intended by the Parties to permanently resolve those issues if the 2018 Agreement is approved by the Commission. This resolution of such issues allows for tax savings to flow to customers as soon as possible and eliminate the need for future proceedings on that aspect of the matter.

21. On page 10 of the 2018 Agreement, Paragraph 17 states that "Except as expressly amended herein in Paragraph 11, the 2017 Comprehensive Settlement Agreement is not modified by this Agreement." If the 2018 Agreement no longer contemplates an opportunity to review the assumption that $1.3 million per percentage point change in the income tax rate is an appropriate measure of tax savings, how is the removal of the opportunity for a limited proceeding to test this assumption not an additional amendment of the 2017 Agreement approved by the Commission in Order No. PSC-17-0178-S-EI?

RESPONSE:

The 2018 Agreement expresses the clear intent of the parties to implement the 2017 Agreement by accepting the $18.2 million base rate reduction as a final determination of that issue. As noted by paragraphs 13 and 14 of the 2018 Agreement, there are other remaining issues regarding protected EDT, which are not resolved by the $18.2 million compromise, that remain to be addressed in a future limited scope proceeding.

Gulf appreciates the opportunity to assist the Commission in its consideration of the Stipulation and Settlement Agreement between and among the Company and OPC, FIPUG and SACE regarding the Tax Cuts and Jobs Act of 2017.

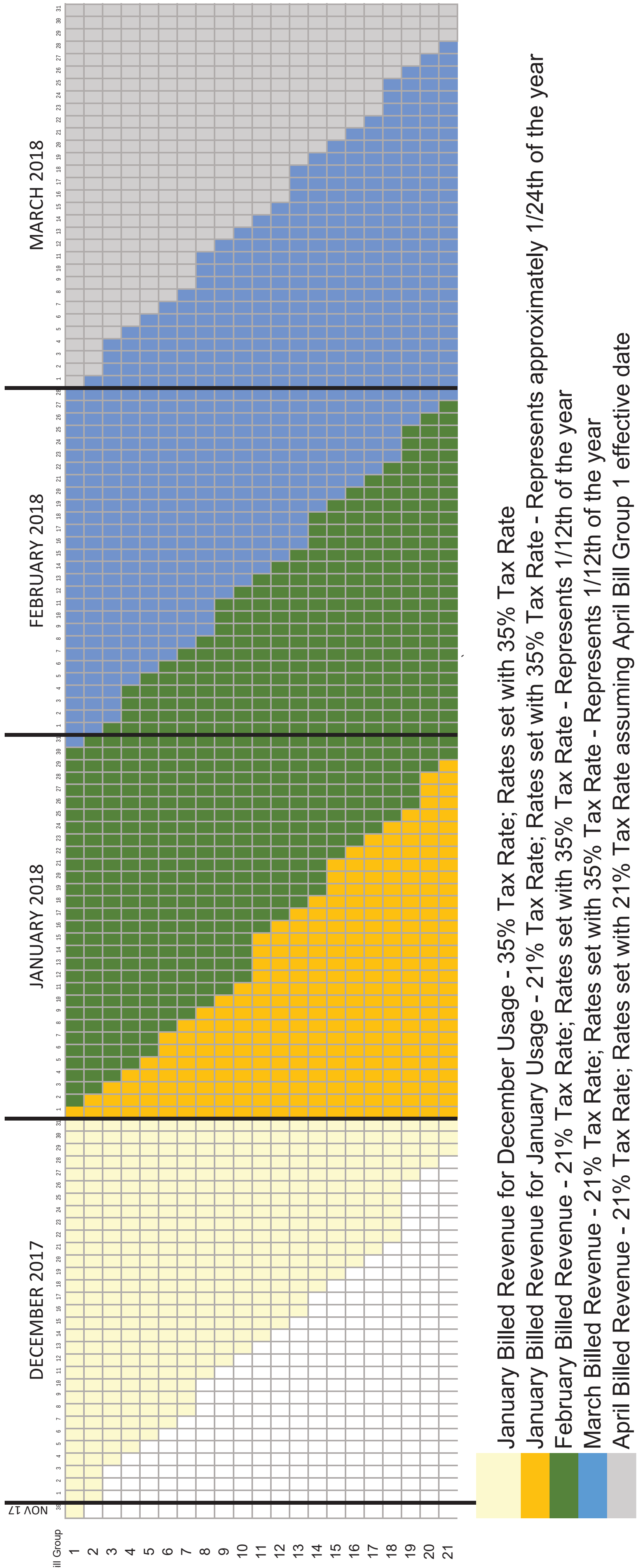
Sincerely,

Jeffrey A. Stone
Vice President, General Counsel & Corporate Secretary

Attachments

Cc: J. R. Kelly, Public Counsel
Charles J. Rehwinkel, Deputy Public Counsel
Stephanie Morse, Associate Public Counsel
Jon C. Moyle, Jr., FIPUG
Karen A. Putnal, FIPUG
George Cavros, SACE
Russell A. Badders, Beggs & Lane
Braulio Baez, FPSC Executive Director
Keith Hetrick, FPSC General Counsel

Suzanne Brownless, Special Counsel
Florida Public Service Commission
Re: Docket No. 20180039-EI
February 27, 2018
Attachment 1



Suzanne Brownless, Special Counsel
Florida Public Service Commission
Re: Docket No. 20180039-EI
February 27, 2018
Attachment 2, Page 1 of 8

STATE AND FEDERAL INCOME TAX CALCULATION

FLORIDA PUBLIC SERVICE COMMISSION

EXPLANATION: Provide the calculations of state and federal income taxes for the historical base year and the projected test year.

COMPANY: GULF POWER COMPANY

DOCKET NO.: 160186-EI

Type of Data Shown:
X Projected Test Year Ended 12/31/17
___ Prior Year Ended 12/31/16
___ Historical Year Ended 12/31/15
Witness: J. J. Hodnett

(000's)

(1) Line No.	(2) DESCRIPTION	(3) CURRENT TAX STATE	(4) CURRENT TAX FEDERAL	(5) CURRENT TAX TOTAL	(6) DEFERRED TAX STATE	(7) DEFERRED TAX FEDERAL	(8) DEFERRED TAX TOTAL
1	NET UTILITY OPERATING INCOME	$ 168,288	$ 168,288				
2	ADD INCOME TAX ACCOUNTS	69,372	69,372				
3	LESS INTEREST CHARGES (FROM C-23)	(60,851)	(60,851)		FL Rate	Federal net of State Rate	
4	TAXABLE INCOME PER BOOKS	176,809	176,809		5.5%	19.845%	
5	TEMPORARY ADJUSTMENTS TO TAXABLE INCOME (LIST)						
6	ADD: BOOK DEPRECIATION	169,660	169,660				
7	LESS: AFUDC Equity	0	0				
8	LESS: TAX DEPRECIATION	(298,851)	(214,077)				
9	Tax over book depreciation	(129,191)	(44,417)		7,106	7,835	
10	Employee Benefits	1,884	1,884		(104)	(374)	
11	Emission Allowances	19	19		(1)	(4)	
12	Injuries and Damages Reserve	130	130		(7)	(26)	
13	Loss/Gain on Reacquired Debt	1,016	1,016		(56)	(202)	
14	Property Damage Reserve	3,735	3,735		(205)	(741)	
15	Deferred revenue	130	130		(7)	(26)	
16	Bad Debt Reserve	47	47		(3)	(9)	
17	Other	1,213	1,213		(67)	(401)	
18		8,173	8,173		(450)	(1,783)	
19	TOTAL TEMPORARY DIFFERENCES	(121,018)	(36,244)		6,656	6,052	

1

STATE AND FEDERAL INCOME TAX CALCULATION

FLORIDA PUBLIC SERVICE COMMISSION

EXPLANATION: Provide the calculations of state and federal income taxes for the historical base year and the projected test year.

COMPANY: GULF POWER COMPANY

DOCKET NO.: 160186-EI

Type of Data Shown:
X Projected Test Year Ended 12/31/17
__ Prior Year Ended 12/31/16
__ Historical Year Ended 12/31/15
Witness: J. J. Hodnett

(000's)

(1) Line No.	(2) DESCRIPTION	(3) CURRENT TAX STATE	(4) CURRENT TAX FEDERAL	(5) CURRENT TAX TOTAL		(6) DEFERRED TAX STATE	(7) DEFERRED TAX FEDERAL	(8) DEFERRED TAX TOTAL
1	PERMANENT ADJUSTMENTS TO TAXABLE INCOME (LIST)							
2	Non-deductible book depreciation	3,368	3,385					
3	AFUDC Equity	0	0					
4	Meals and Entertainment	405	405					
5	Medicare Subsidy	0	0					
6	Other	80	30					
7	TOTAL PERMANENT ADJUSTMENTS	3,853	3,820			0	0	
8	ADJUSTMENTS TO DEFERRED TAXES							
	Excess Deferred Taxes	145	(471)					
9	STATE TAXABLE INCOME	59,789				6,656	6,052	
10	STATE INCOME TAX (5.5% OR APPLICABLE RATE)							
11	Florida 5.5%; Mississippi 5.0%; Georgia 5.7%	3,669						
12	ADJUSTMENTS TO STATE INCOME TAX (LIST)							
13	State of Georgia Investment Tax Credit	0				0		
14	FIN 48 Reserve	0				0		
15	Return to Accrual Out of Period Adj	0				0		
16	TOTAL ADJUSTMENTS TO STATE INCOME TAX	0				0		
17	STATE INCOME TAX	3,669				6,656		
18	FEDERAL TAXABLE INCOME		143,914			6,656	6,052	
19	State Tax Deduction		(3,669)			0		
20			140,245					
21	FEDERAL INCOME TAX (21% OR APPLICABLE RATE)		29,451	Changed rate in formula from 35% to 21%				

2

Suzanne Brownless, Special Counsel
Florida Public Service Commission
Re: Docket No. 20180039-EI
February 27, 2018
Attachment 2, Page 3 of 8

FLORIDA PUBLIC SERVICE COMMISSION

EXPLANATION: Provide the calculations of state and federal income taxes for the historical base year and the projected test year.

COMPANY: GULF POWER COMPANY

DOCKET NO.: 160186-EI

Type of Data Shown:
X Projected Test Year Ended 12/31/17
___ Prior Year Ended 12/31/16
___ Historical Year Ended 12/31/15
Witness: J. J. Hodnett

(000's)

(1) Line No.	(2) DESCRIPTION	(3) CURRENT TAX STATE	(4) CURRENT TAX FEDERAL	(5) CURRENT TAX TOTAL	(6) DEFERRED TAX STATE	(7) DEFERRED TAX FEDERAL	(8) DEFERRED TAX TOTAL
1	ADJUSTMENTS TO FEDERAL INCOME TAX						
2	ORIGINATING ITC						
3	WRITE OFF OF EXCESS DEFERRED TAXES						
4	OTHER ADJUSTMENTS (LIST)						
5	R&D Credit		0			0	
6	FIN 48 Reserve		0			0	
7	Return to Accrual Out of Period Adj		0			0	
8	TOTAL ADJUSTMENTS TO FEDERAL INCOME TAX		0			0	
9	FEDERAL INCOME TAX		29,451			6,052	
10	ITC AMORTIZATION	0	(394)				
11	**SUMMARY OF INCOME TAX EXPENSE AT 21%:**						
		FEDERAL	STATE	TOTAL			
12	CURRENT TAX EXPENSE	29,451	3,669	33,121			
13	DEFERRED INCOME TAXES	6,052	6,656	12,708			
14	INVESTMENT TAX CREDITS, NET	(394)	0	(394)			
15	TOTAL INCOME TAX PROVISION	35,110	10,325	45,435			
16	**ORGINAL SUMMARY OF INCOME TAX EXPENSE at 35% - AS FILED:**						
		FEDERAL	STATE	TOTAL			
17	CURRENT TAX EXPENSE	49,087	3,669	52,756			
18	DEFERRED INCOME TAXES	10,357	6,656	17,013			
19	INVESTMENT TAX CREDITS, NET	(394)	0	(394)			
20	TOTAL INCOME TAX PROVISION	59,050	10,325	69,375			

3

Schedules: C-23

Recap Schedules: C-1

SDR-1, Schedule 4 - AS FILED

Florida Public Service Commission
Docket No.: ______-EI
GULF POWER COMPANY
Witness: S. D. Ritenour
Exhibit No. ____ (SDR-1)
Schedule 4
Page 1 of 3

Gulf Power Company
Net Operating Income
For the Twelve Months Ended December 31, 2017
(Thousands of Dollars)

Description	(1) Total System	(2) Regulatory Adjustments *	Adjust No.	(3) Scherer Off System Sales	(4) System Adjusted	(5) Jurisdictional Factor **	(6) Jurisdictional Adjusted NOI	
Operating Revenues:								
Sales of Electricity	1,435,921	(834,474)	(1-4, 6)	(12,919)	588,528	0.9753521	574,022	
Other Operating Revenues	67,213	(40,344)	(5, 7, 8)	-	26,869	0.8427556	22,644	
Total Operating Revenues	1,503,134	(874,818)		(12,919)	615,397	0.9695627	596,666	A
Operating Expenses:								
Operation & Maintenance Expense								
Recoverable Fuel	508,191	(508,191)	(9-12)					
Recoverable Capacity	87,837	(87,837)	(13-14)					
Recoverable Conservation	10,354	(10,354)	(15)					
Recoverable Environmental	45,588	(45,588)	(16)					
Other Operation & Maintenance	320,295	2,801	(17-29)	(3,283)	319,813	0.9812609	313,820	B
Depreciation & Amortization	177,929	(37,057)	(30-39)	(2,002)	138,870	0.9813351	136,278	B
Amortization of Investment Tax Credit	(394)			61	(333)	0.9819820	(327)	B
Taxes Other Than Income Taxes	115,277	(80,029)	(40-45)	(185)	35,063	0.9800074	34,362	B
Income Taxes:								
Federal	49,087	(27,484)	(46-47)	(1,786)	19,817	0.9043098	17,921	C
State	3,669	(4,570)	(46-47)	(134)	(1,035)	0.9043098	(936)	
Deferred Income Taxes - Net								
Federal	10,357			(377)	9,980	0.9043098	9,025	C
State	6,656			(242)	6,414	0.9043098	5,800	
Total Operating Expenses	1,334,846	(798,309)		(7,948)	528,589		515,943	
Net Operating Income	168,288	(76,509)		(4,971)	86,808		80,723	

* See Pages 2 and 3
** See O'Sheasy Exhibit MTO-2

Calculation of Effective Federal Income Tax Rate
For the Twelve Months Ended December 31, 2017 - As Filed
(Thousands of Dollars)

			Reference
Total Operating Revenues		596,666	Line A (Sch. 4 - As Filed)
Other Operation & Maintenance	(313,820)		Line B (Sch. 4 - As Filed)
Depreciation & Amortization	(136,278)		Line B (Sch. 4 - As Filed)
Amortization of Investment Tax Credit	327		Line B (Sch. 4 - As Filed)
Taxes Other Than Income Taxes	(34,362)		Line B (Sch. 4 - As Filed)
Total Operating Expenses		(484,133)	∑ Line B
Jurisdictional Pre-Tax NOI		112,533	Line A - ∑ Line B
Federal Income Taxes - Total		26,946	∑ Line C (Sch. 4 - As Filed)
Effective Federal Income Tax Rate		**23.9%**	Federal Income Taxes / Pre-Tax NOI

Jurisdictional Pre-Tax NOI - As Filed	112,533
Add: Rate Relief per Settlement	56,000
Pro-Forma Pre-Tax NOI with Rate Relief	168,533
x Effective FIT Rate - As Filed	x 23.9%
Pro-Forma FIT per Settlement	**40,355**

SDR-1, Schedule 4 - ADJUSTED TAX RATES

Florida Public Service Commission
Docket No.: ______-EI
GULF POWER COMPANY
Witness: S. D. Ritenour
Exhibit No. ____ (SDR-1)
Schedule 4
Page 1 of 3

Gulf Power Company
Net Operating Income
For the Twelve Months Ended December 31, 2017
(Thousands of Dollars)

Description	(1) Total System	(2) Regulatory Adjustments *	Adjust No.	(3) Scherer Off System Sales	(4) System Adjusted	(5) Jurisdictional Factor **	(6) Jurisdictional Adjusted NOI	
Operating Revenues:								
Sales of Electricity	1,435,921	(834,474)	(1-4, 6)	(12,919)	588,528	0.9753521	574,022	
Other Operating Revenues	67,213	(40,344)	(5, 7, 8)	-	26,869	0.8427556	22,644	
Total Operating Revenues	1,503,134	(874,818)		(12,919)	615,397	0.9695627	596,666	A
Operating Expenses:								
Operation & Maintenance Expense								
Recoverable Fuel	508,191	(508,191)	(9-12)					
Recoverable Capacity	87,837	(87,837)	(13-14)					
Recoverable Conservation	10,354	(10,354)	(15)					
Recoverable Environmental	45,588	(45,588)	(16)					
Other Operation & Maintenance	320,295	2,801	(17-29)	(3,283)	319,813	0.9812609	313,820	B
Depreciation & Amortization	177,929	(37,057)	(30-39)	(2,002)	138,870	0.9813351	136,278	B
Amortization of Investment Tax Credit	(394)			61	(333)	0.9819820	(327)	B
Taxes Other Than Income Taxes	115,277	(80,029)	(40-45)	(185)	35,063	0.9800074	34,362	B
Income Taxes:	Adjusted C-22							
Federal	29,451	(16,490)	(46-47)	(1,073)	11,888	0.9043098	10,750	C
State	3,669	(4,570)	(46-47)	(134)	(1,035)	0.9043098	(936)	
Deferred Income Taxes - Net	Adjusted C-22							
Federal	6,052			(220)	5,832	0.9043098	5,274	C
State	6,656			(242)	6,414	0.9043098	5,800	
Total Operating Expenses	1,310,905	(787,315)		(7,078)	516,512		505,021	
Net Operating Income	192,229	(87,503)		(5,841)	98,885		91,645	

Calculation of Effective Federal Income Tax Rate
For the Twelve Months Ended December 31, 2017 - Adjusted
(Thousands of Dollars)

			Reference
Total Operating Revenues		596,666	Line A (Sch. 4 - Adjusted) - no change
Other Operation & Maintenance	(313,820)		Line B (Sch. 4 - Adjusted) - no change
Depreciation & Amortization	(136,278)		Line B (Sch. 4 - Adjusted) - no change
Amortization of Investment Tax Credit	327		Line B (Sch. 4 - Adjusted) - no change
Taxes Other Than Income Taxes	(34,362)		Line B (Sch. 4 - Adjusted) - no change
Total Operating Expenses		(484,133)	∑ Line B
Jurisdictional Pre-Tax NOI		112,533	Line A - ∑ Line B
Federal Income Taxes - Total		16,024	∑ Line C (Sch. 4 - Adjusted)
Effective Federal Income Tax Rate		**14.2%**	Federal Income Taxes / Pre-Tax NOI

Jurisdictional Pre-Tax NOI - As Filed	112,533
Add: Adjusted Rate Relief per Settlement	56,000
Pro-Forma Pre-Tax NOI with Rate Relief	168,533
x Effective FIT Rate - As Adjusted	x 14.2%
Pro-Forma FIT per Settlement - Adjusted Rates	**23,998**
less: Pro-Forma FIT per Settlement	(40,355)
Change in Federal Income Taxes	**(16,357)**
÷ (1 - Composite Tax Rate)	÷ 0.74655
Revenue Requirement due to Change in FIT	**(21,910)**
less: Estimated Tax Impact on OATT Revenues	$1M - $2M
Adjusted Revenue Requirement	**$19.9M - $20.9M**

Line		Old Rate	New Rate
1	Federal Tax Rate	35.00%	21.00%
2	State Tax Rate	5.50%	5.50%
3			
4	Federal (incl. State offset)	33.075%	19.845%
5	State Tax Rate	5.500%	5.500%
6	**Composite Tax Rate**	**38.575%**	**25.345%**
7			
8	**Gross Up Rate (1 - Composite)**	**61.425%**	**74.655%**
9			
10			

Gulf Power Company
Environmental Cost Recovery Clause (ECRC)
Calculation of the Projected Period Amount
January 2018 - December 2018
Return on Capital Investments, Depreciation and Taxes
For Project: Air Quality Compliance Program

P.E.s 1034, 1035, 1036, 1037, 1067, 1095, 1168, 1188, 1222, 1233, 1279, 1288, 1362, 1505, 1508, 1512, 1513, 1517, 1551, 1552, 1646, 1684, 1701, 1727, 1728, 1729, 1768, 1774, 1778, 1791, 1798, 1809, 1810, 1824, 1826, 1909, 1911, 1913, 1950
(in Dollars)

Line	Description	Beginning of Period Amount	Projected January	Projected February	Projected March	Projected April	Projected May	Projected June	Projected July	Projected August	Projected September	Projected October	Projected November	Projected December	12-Month Total
1	Investments														
a	Expenditures/Additions		844,698	2,253,582	1,416,698	1,076,695	654,698	654,695	930,858	654,695	769,779	872,279	863,267	647,771	11,639,715
b	Clearings to Plant		3,288	3,288	373,288	2,391,169	258,288	3,285	3,285	3,285	118,369	118,369	121,857	15,781	3,413,552
c	Retirements		0	0	0	399,300	815,393	0	0	0	0	0	0	54,074	1,268,767
d	Cost of Removal		29,665	133,315	234,653	4,165	4,165	4,170	4,165	4,165	4,170	4,165	5,415	5,420	437,633
e	Salvage		0	0	0	0	0	0	0	0	0	0	0	0	0
2	Plant-in-Service/Depreciation Base (B)	1,341,555,665	1,341,558,953	1,341,562,241	1,341,935,529	1,343,927,398	1,343,370,293	1,343,373,578	1,343,376,863	1,343,380,148	1,343,498,517	1,343,616,886	1,343,738,743	1,343,700,450	
3	Less: Accumulated Depreciation (C)	(245,618,048)	(249,490,581)	(253,259,472)	(256,927,033)	(260,427,024)	(263,517,558)	(267,421,409)	(271,325,272)	(275,229,144)	(279,133,019)	(283,037,118)	(286,940,187)	(290,789,402)	
4	CWIP - Non Interest Bearing	4,536,892	5,378,302	7,628,596	8,672,006	7,357,532	7,753,942	8,405,352	9,332,925	9,984,335	10,635,745	11,389,655	12,131,065	12,763,055	
5	Net Investment (Lines 2 + 3 + 4) (A)	1,100,474,509	1,097,446,674	1,095,931,365	1,093,680,502	1,090,857,906	1,087,606,677	1,084,357,521	1,081,384,516	1,078,135,339	1,075,001,243	1,071,969,423	1,068,929,621	1,065,674,103	
6	Average Net Investment		1,098,960,592	1,096,689,020	1,094,805,934	1,092,269,204	1,089,232,292	1,085,982,099	1,082,871,019	1,079,759,927	1,076,568,291	1,073,485,333	1,070,449,522	1,067,301,862	
7	Return on Average Net Investment														
a	Equity Component (Line 6 x Equity Component x 1/12) (D)		6,412,435	6,399,180	6,388,193	6,373,391	6,355,670	6,336,706	6,318,552	6,300,399	6,281,776	6,263,787	6,246,073	6,227,706	75,903,869
b	Debt Component (Line 6 x Debt Component x 1/12)		1,293,477	1,290,803	1,288,587	1,285,601	1,282,026	1,278,201	1,274,539	1,270,877	1,267,121	1,263,492	1,259,919	1,256,214	15,310,857
8	Investment Expenses														
a	Depreciation (E)		3,876,486	3,876,495	3,876,503	3,877,744	3,884,381	3,882,309	3,882,317	3,882,325	3,882,334	3,882,553	3,882,772	3,882,998	46,569,218
b	Amortization (F)		25,711	25,711	25,711	25,711	25,711	25,711	25,711	25,711	25,711	25,711	25,711	25,711	308,536
c	Dismantlement		0	0	0	0	0	0	0	0	0	0	0	0	0
d	Property Taxes		547,313	547,313	547,313	547,313	547,313	547,313	547,313	547,313	547,313	547,313	547,313	547,313	6,567,751
e	Other (G)		0	0	0	0	0	0	0	0	0	0	0	0	0
9	Total System Recoverable Expenses (Lines 7 + 8)		12,155,422	12,139,502	12,126,306	12,109,760	12,095,102	12,070,239	12,048,433	12,026,626	12,004,254	11,982,856	11,961,788	11,939,942	144,660,231
a	Recoverable Costs Allocated to Energy		935,032	933,808	932,793	931,520	930,392	928,480	926,803	925,125	923,404	921,758	920,138	918,457	11,127,710
b	Recoverable Costs Allocated to Demand		11,220,390	11,205,694	11,193,513	11,178,240	11,164,710	11,141,759	11,121,630	11,101,501	11,080,850	11,061,098	11,041,650	11,021,485	133,532,521
10	Energy Jurisdictional Factor		0.9682436	0.9686254	0.9698642	0.9708346	0.9714940	0.9726051	0.9725230	0.9720301	0.9719801	0.9708758	0.9689218	0.9673536	
11	Demand Jurisdictional Factor		0.9718277	0.9718277	0.9718277	0.9718277	0.9718277	0.9718277	0.9718277	0.9718277	0.9718277	0.9718277	0.9718277	0.9718277	
12	Retail Energy-Related Recoverable Costs (H)		906,426	905,595	905,768	905,437	904,955	904,128	902,418	900,329	898,608	895,987	892,611	889,539	10,811,800
13	Retail Demand-Related Recoverable Costs (I)		10,904,285	10,890,004	10,878,166	10,863,323	10,850,174	10,827,870	10,808,308	10,788,746	10,768,677	10,749,481	10,730,582	10,710,985	129,770,602
14	Total Jurisdictional Recoverable Costs (Lines 12 + 13)		11,810,711	11,795,599	11,783,934	11,768,760	11,755,129	11,731,998	11,710,727	11,689,075	11,667,285	11,645,468	11,623,193	11,600,523	140,582,403

Notes:
(A) Description and reason for 'Other' adjustments to net Investment for this project, if applicable
(B) Beginning Balances: Crist $786,245,146; Smith $229,742; Daniel $372,214,957, Scherer $182,865,821. Ending Balances: Crist $787,788,337; Smith $229,742; Daniel $372,509,385, Scherer $183,172,987.
(C) Description of Adjustments to Reserve for Gross Salvage and Other Recoveries and Cost of Removal
(D) The equity component has been grossed up for taxes. The approved ROE is 10.25%.
(E) Applicable depreciation rate or rates.
(F) PE 1168 and portions of PEs 1222, 1233, 1279, 1768, 1909 and 1950 have a 7 year amortization period.
(G) Description and reason for "Other" adjustments to investment expenses for this project.
(H) Line 9a x Line 10 x line loss multiplier
(I) Line 9b x Line 11.

Suzanne Brownless, Special Counsel
Florida Public Service Commission
Re: Docket No. 20180039-EI
February 27, 2018
Attachment 3, Page 1 of 4

Suzanne Brownless, Special Counsel
Florida Public Service Commission
Re: Docket No. 20180039-EI
February 27, 2018
Attachment 3, Page 2 of 4

Gulf Power Company
Environmental Cost Recovery Clause (ECRC)
Calculation of the Projected Period Amount
January 2018 - December 2018
Return on Capital Investments, Depreciation and Taxes
For Project: Air Quality Compliance Program

P.E.s 1034, 1035, 1036, 1037, 1067, 1095, 1168, 1188, 1222, 1233, 1279, 1288, 1362, 1505, 1508, 1512, 1513, 1517, 1551, 1552, 1646, 1684, 1701, 1727, 1728, 1729, 1768, 1774, 1778, 1791, 1798, 1809, 1810, 1824, 1826, 1909, 1911, 1913, 1950
(in Dollars)

Line	Description	Beginning of Period Amount	Projected January	Projected February	Projected March	Projected April	Projected May	Projected June	Projected July	Projected August	Projected September	Projected October	Projected November	Projected December	12-Month Total
1	Investments														
	a Expenditures/Additions		844,698	2,253,582	1,416,698	1,076,695	654,698	654,695	930,858	654,695	769,779	872,279	863,267	647,771	11,639,715
	b Clearings to Plant		3,288	3,288	373,288	2,391,169	258,288	3,285	3,285	3,285	118,369	118,369	121,857	15,781	3,413,552
	c Retirements		0	0	0	399,300	815,393	0	0	0	0	0	0	54,074	1,268,767
	d Cost of Removal		29,665	133,315	234,653	4,165	4,165	4,170	4,165	4,165	4,170	4,165	5,415	5,420	437,633
	e Salvage		0	0	0	0	0	0	0	0	0	0	0	0	0
2	Plant-in-Service/Depreciation Base (B)	1,341,555,665	1,341,558,953	1,341,562,241	1,341,935,529	1,343,927,398	1,343,370,293	1,343,373,578	1,343,376,863	1,343,380,148	1,343,498,517	1,343,616,886	1,343,738,743	1,343,700,450	
3	Less: Accumulated Depreciation (C)	(245,618,048)	(249,490,581)	(253,259,472)	(256,927,033)	(260,427,024)	(263,517,558)	(267,421,409)	(271,325,272)	(275,229,144)	(279,133,019)	(283,037,118)	(286,940,187)	(290,789,402)	
4	CWIP - Non Interest Bearing	4,536,892	5,378,302	7,628,596	8,672,006	7,357,532	7,753,942	8,405,352	9,332,925	9,984,335	10,635,745	11,389,655	12,131,065	12,763,055	
5	Net Investment (Lines 2 + 3 + 4) (A)	1,100,474,509	1,097,446,674	1,095,931,365	1,093,680,502	1,090,857,906	1,087,606,677	1,084,357,521	1,081,384,516	1,078,135,339	1,075,001,243	1,071,969,423	1,068,929,621	1,065,674,103	
6	Average Net Investment		1,098,960,592	1,096,689,020	1,094,805,934	1,092,269,204	1,089,232,292	1,085,982,099	1,082,871,019	1,079,759,927	1,076,568,291	1,073,485,333	1,070,449,522	1,067,301,862	
7	Return on Average Net Investment														
	a Equity Component (Line 6 x Equity Component x 1/12) (D)		5,276,110	5,265,204	5,256,163	5,243,984	5,229,404	5,213,800	5,198,864	5,183,927	5,168,604	5,153,803	5,139,228	5,124,116	62,453,209
	b Debt Component (Line 6 x Debt Component x 1/12)		1,293,477	1,290,803	1,288,587	1,285,601	1,282,026	1,278,201	1,274,539	1,270,877	1,267,121	1,263,492	1,259,919	1,256,214	15,310,857
8	Investment Expenses														
	a Depreciation (E)		3,876,486	3,876,495	3,876,503	3,877,744	3,884,381	3,882,309	3,882,317	3,882,325	3,882,334	3,882,553	3,882,772	3,882,998	46,569,218
	b Amortization (F)		25,711	25,711	25,711	25,711	25,711	25,711	25,711	25,711	25,711	25,711	25,711	25,711	308,536
	c Dismantlement		0	0	0	0	0	0	0	0	0	0	0	0	0
	d Property Taxes		547,313	547,313	547,313	547,313	547,313	547,313	547,313	547,313	547,313	547,313	547,313	547,313	6,567,751
	e Other (G)		0	0	0	0	0	0	0	0	0	0	0	0	0
9	Total System Recoverable Expenses (Lines 7 + 8)		11,019,097	11,005,526	10,994,277	10,980,354	10,968,836	10,947,334	10,928,744	10,910,154	10,891,083	10,872,872	10,854,943	10,836,352	131,209,571
	a Recoverable Costs Allocated to Energy		847,623	846,579	845,714	844,643	843,757	842,103	840,673	839,243	837,776	836,375	834,996	833,566	10,093,044
	b Recoverable Costs Allocated to Demand		10,171,474	10,158,947	10,148,563	10,135,711	10,125,079	10,105,231	10,088,071	10,070,912	10,053,307	10,036,497	10,019,948	10,002,787	121,116,527
10	Energy Jurisdictional Factor		0.9682436	0.9686254	0.9698642	0.9708346	0.9714940	0.9726051	0.9725230	0.9720301	0.9719801	0.9708758	0.9689218	0.9673536	
11	Demand Jurisdictional Factor		0.9718277	0.9718277	0.9718277	0.9718277	0.9718277	0.9718277	0.9718277	0.9718277	0.9718277	0.9718277	0.9718277	0.9718277	
12	Retail Energy-Related Recoverable Costs (H)		821,690	821,002	821,212	820,992	820,688	820,016	818,555	816,748	815,278	812,990	810,016	807,320	9,806,508
13	Retail Demand-Related Recoverable Costs (I)		9,884,920	9,872,746	9,862,655	9,850,165	9,839,832	9,820,544	9,803,867	9,787,191	9,770,082	9,753,746	9,737,663	9,720,985	117,704,396
14	Total Jurisdictional Recoverable Costs (Lines 12 + 13)		10,706,610	10,693,748	10,683,866	10,671,157	10,660,521	10,640,560	10,622,422	10,603,939	10,585,361	10,566,737	10,547,679	10,528,305	127,510,904

Notes:
(A) Description and reason for 'Other' adjustments to net Investment for this project, if applicable
(B) Beginning Balances: Crist $786,245,146; Smith $229,742; Daniel $372,214,957, Scherer $182,865,821. Ending Balances: Crist $787,788,337; Smith $229,742; Daniel $372,509,385, Scherer $183,172,987.
(C) Description of Adjustments to Reserve for Gross Salvage and Other Recoveries and Cost of Removal
(D) The equity component has been grossed up for taxes. The approved ROE is 10.25%.
(E) Applicable depreciation rate or rates.
(F) PE 1168 and portions of PEs 1222, 1233, 1279, 1768, 1909 and 1950 have a 7 year amortization period.
(G) Description and reason for "Other" adjustments to investment expenses for this project.
(H) Line 9a x Line 10 x line loss multiplier
(I) Line 9b x Line 11.

Gulf Power Company
Environmental Cost Recovery Clause (ECRC)
Calculation of the Projected Period Amount
January 2018 - December 2018
Return on Capital Investments, Depreciation and Taxes
For Project: Air Quality Compliance Program

P.E.s 1034, 1035, 1036, 1037, 1067, 1095, 1168, 1188, 1222, 1233, 1279, 1288, 1362, 1505, 1508, 1512, 1513, 1517, 1551, 1552, 1646, 1684, 1701, 1727, 1728, 1729, 1768, 1774, 1778, 1791, 1798, 1809, 1810, 1824, 1826, 1909, 1911, 1913, 1950
(in Dollars)

Line	Description	Beginning of Period Amount	Projected January	Projected February	Projected March	Projected April	Projected May	Projected June	Projected July	Projected August	Projected September	Projected October	Projected November	Projected December	12-Month Total
1	Investments														
a	Expenditures/Additions		0	0	0	0	0	0	0	0	0	0	0	0	0
b	Clearings to Plant		0	0	0	0	0	0	0	0	0	0	0	0	0
c	Retirements		0	0	0	0	0	0	0	0	0	0	0	0	0
d	Cost of Removal		0	0	0	0	0	0	0	0	0	0	0	0	0
e	Salvage		0	0	0	0	0	0	0	0	0	0	0	0	0
2	Plant-in-Service/Depreciation Base (B)	0	0	0	0	0	0	0	0	0	0	0	0	0	
3	Less: Accumulated Depreciation (C)	0	0	0	0	0	0	0	0	0	0	0	0	0	
4	CWIP - Non Interest Bearing	0	0	0	0	0	0	0	0	0	0	0	0	0	
5	Net Investment (Lines 2 + 3 + 4) (A)	0	0	0	0	0	0	0	0	0	0	0	0	0	
6	Average Net Investment		0	0	0	0	0	0	0	0	0	0	0	0	
7	Return on Average Net Investment														
a	Equity Component (Line 6 x Equity Component x 1/12) (D)		1,136,325	1,133,976	1,132,029	1,129,406	1,126,266	1,122,905	1,119,689	1,116,472	1,113,172	1,109,984	1,106,845	1,103,590	13,450,660
b	Debt Component (Line 6 x Debt Component x 1/12)		0	0	0	0	0	0	0	0	0	0	0	0	0
8	Investment Expenses														
a	Depreciation (E)		0	0	0	0	0	0	0	0	0	0	0	0	0
b	Amortization (F)		0	0	0	0	0	0	0	0	0	0	0	0	0
c	Dismantlement		0	0	0	0	0	0	0	0	0	0	0	0	0
d	Property Taxes		0	0	0	0	0	0	0	0	0	0	0	0	0
e	Other (G)		0	0	0	0	0	0	0	0	0	0	0	0	0
9	Total System Recoverable Expenses (Lines 7 + 8)		1,136,325	1,133,976	1,132,029	1,129,406	1,126,266	1,122,905	1,119,689	1,116,472	1,113,172	1,109,984	1,106,845	1,103,590	13,450,660
a	Recoverable Costs Allocated to Energy		87,410	87,229	87,079	86,877	86,636	86,377	86,130	85,882	85,629	85,383	85,142	84,892	1,034,666
b	Recoverable Costs Allocated to Demand		1,048,916	1,046,747	1,044,950	1,042,529	1,039,630	1,036,528	1,033,559	1,030,589	1,027,543	1,024,600	1,021,703	1,018,699	12,415,994
10	Energy Jurisdictional Factor		0.9682436	0.9686254	0.9698642	0.9708346	0.9714940	0.9726051	0.9725230	0.9720301	0.9719801	0.9708758	0.9689218	0.9673536	
11	Demand Jurisdictional Factor		0.9718277	0.9718277	0.9718277	0.9718277	0.9718277	0.9718277	0.9718277	0.9718277	0.9718277	0.9718277	0.9718277	0.9718277	
12	Retail Energy-Related Recoverable Costs (H)		84,735	84,594	84,556	84,445	84,267	84,112	83,864	83,580	83,329	82,996	82,595	82,219	1,005,292
13	Retail Demand-Related Recoverable Costs (I)		1,019,365	1,017,258	1,015,512	1,013,159	1,010,342	1,007,327	1,004,441	1,001,555	998,595	995,735	992,919	989,999	12,066,207
14	Total Jurisdictional Recoverable Costs (Lines 12 + 13)		1,104,101	1,101,852	1,100,068	1,097,603	1,094,609	1,091,439	1,088,305	1,085,136	1,081,924	1,078,731	1,075,514	1,072,218	13,071,499

Notes:
(A) Description and reason for 'Other' adjustments to net Investment for this project, if applicable
(B) Beginning Balances: Crist $786,245,146; Smith $229,742; Daniel $372,214,957, Scherer $182,865,821. Ending Balances: Crist $787,788,337; Smith $229,742; Daniel $372,509,385, Scherer $183,172,987.
(C) Description of Adjustments to Reserve for Gross Salvage and Other Recoveries and Cost of Removal
(D) The equity component has been grossed up for taxes. The approved ROE is 10.25%.
(E) Applicable depreciation rate or rates.
(F) PE 1168 and portions of PEs 1222, 1233, 1279, 1768, 1909 and 1950 have a 7 year amortization period.
(G) Description and reason for "Other" adjustments to investment expenses for this project.
(H) Line 9a x Line 10 x line loss multiplier
(I) Line 9b x Line 11.

Suzanne Brownless, Special Counsel
Florida Public Service Commission
Re: Docket No. 20180039-EI
February 27, 2018
Attachment 3, Page 3 of 4

Suzanne Brownless, Special Counsel
Florida Public Service Commission
Re: Docket No. 20180039-EI
February 27, 2018
Attachment 3, Page 4 of 4

Schedule 3P

Gulf Power Company
Environmental Cost Recovery Clause (ECRC)
Calculation of the Projected Period Amount
January 2018 - December 2018

Capital Investment Projects - Recoverable Costs
(in Dollars)

Line		Projected January	Projected February	Projected March	Projected April	Projected May	Projected June	Projected July	Projected August	Projected September	Projected October	Projected November	Projected December	End of Period 12-Month	Method of Classification Demand	Method of Classification Energy
1	Description of Investment Projects (A)															
. 1	Air Quality Assurance Testing	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
. 2	Crist 5, 6 & 7 Precipitator Projects	38,647	38,531	38,415	38,299	38,183	38,067	37,951	37,835	37,719	37,603	37,487	37,370	456,106	421,021	35,085
. 3	Crist 7 Flue Gas Conditioning	1,550	1,550	1,550	1,550	1,550	1,550	1,550	1,550	1,550	1,550	1,550	1,550	18,604	17,173	1,431
. 4	Low NOx Burners, Crist 6 & 7	18,759	18,711	18,663	18,615	18,567	18,519	18,471	18,423	18,376	18,328	18,280	18,232	221,944	204,871	17,073
. 5	CEMS - Plants Crist & Daniel	5,444	5,428	5,412	5,538	5,797	5,912	5,895	5,878	5,861	5,844	5,827	5,811	68,646	63,366	5,280
. 6	Substation Contamination Remediation	2,021	2,015	2,009	2,003	1,996	1,990	1,984	1,978	1,972	1,965	1,959	1,953	23,846	22,012	1,834
. 7	Raw Water Well Flowmeters - Plants Crist & Smith	114	114	113	113	112	112	111	111	110	110	109	109	1,340	1,237	103
. 8	Crist Cooling Tower Cell	550	550	550	550	550	550	550	550	550	550	550	550	6,600	6,092	508
. 9	Crist Dechlorination System	157	155	154	153	151	150	149	147	146	145	143	142	1,792	1,654	138
. 10	Crist Diesel Fuel Oil Remediation	21	21	21	21	20	20	20	20	19	19	19	19	241	222	19
. 11	Crist Bulk Tanker Unloading Secondary Containment	22	22	21	21	21	20	20	20	19	19	18	18	240	222	18
. 12	Crist IWW Sampling System	13	12	12	12	12	12	11	11	11	11	11	10	137	127	11
. 13	Sodium Injection System	171	170	170	169	168	167	166	165	164	163	162	161	1,993	1,840	153
. 14	Smith Stormwater Collection System	859	848	837	826	814	803	792	781	770	759	747	736	9,572	8,836	736
. 15	Smith Waste Water Treatment Facility	338	337	336	334	333	332	331	330	329	353	404	455	4,212	3,888	324
. 16	Daniel Ash Management Project	9,301	9,262	9,224	9,185	9,147	9,108	9,069	9,031	8,992	8,953	8,915	8,876	109,062	100,673	8,389
. 17	Smith Water Conservation	18,803	19,588	20,374	21,159	21,944	22,730	23,515	24,300	25,086	25,871	26,656	27,462	277,488	256,143	21,345
. 18	Underground Fuel Tank Replacement	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
. 19	Crist FDEP Agreement for Ozone Attainment	92,132	91,976	91,987	92,156	91,998	91,570	91,147	90,725	90,302	89,880	89,458	89,036	1,092,366	1,008,337	84,028
. 20	SPCC Compliance	614	611	607	604	600	597	594	590	587	583	580	577	7,144	6,594	550
. 21	Crist Common FTIR Monitor	34	34	34	34	34	33	33	33	33	32	32	32	398	368	31
. 22	Precipitator Upgrades for CAM Compliance	9,574	9,525	9,477	9,429	9,381	9,332	9,284	9,236	9,188	9,139	9,091	9,043	111,700	103,107	8,592
. 23	Plant Groundwater Investigation	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
. 24	Crist Water Conservation	15,256	15,244	15,239	15,274	15,290	15,280	15,250	15,207	15,164	15,121	15,077	15,034	182,435	168,402	14,033
. 25	Plant NPDES Permit Compliance Projects	3,871	3,850	3,828	3,807	3,786	3,765	3,744	3,722	3,701	3,680	3,659	3,638	45,050	41,584	3,465
. 26	Air Quality Compliance Program	1,136,325	1,133,976	1,132,029	1,129,406	1,126,266	1,122,905	1,119,689	1,116,472	1,113,172	1,109,984	1,106,845	1,103,590	13,450,660	12,415,994	1,034,666
. 27	General Water Quality	1,018	1,070	1,122	1,173	1,199	1,199	1,197	1,193	1,189	1,185	1,181	1,177	13,906	12,836	1,070
. 28	Coal Combustion Residuals	(21,029)	(14,720)	(8,204)	(3,095)	1,394	4,827	6,940	9,285	11,554	13,446	14,957	16,665	32,021	29,558	2,463
. 29	Steam Electric Effluent Limitations Guidelines	5,808	5,789	5,769	5,750	5,731	5,711	5,692	5,673	5,653	5,634	5,615	5,595	68,420	63,157	5,263
. 30	Mercury Allowances	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
. 31	Annual NOx Allowances	30	29	29	28	27	27	26	26	25	24	23	22	317	293	24
. 32	Seasonal NOx Allowances	47	47	47	47	46	44	39	33	28	27	27	27	458	423	35
. 33	SO2 Allowances	6,526	6,525	6,525	6,525	6,525	6,523	6,520	6,516	6,513	6,511	6,510	6,509	78,229	72,211	6,018
. 34	Regulatory Asset Sminth Units 1 & 2	22,009	21,886	21,763	21,641	21,518	21,396	21,273	21,150	21,028	20,905	20,783	20,660	256,012	236,318	19,693
. 35	Scherer/Flint Credit - Energy	(3,136)	(3,149)	(3,158)	(3,167)	(3,200)	(3,231)	(3,239)	(3,248)	(3,258)	(3,270)	(3,281)	(3,298)	(38,635)	0	(38,635)
. 36	Scherer/Flint Credit - Demand	(37,632)	(37,785)	(37,894)	(38,009)	(38,396)	(38,770)	(38,873)	(38,981)	(39,102)	(39,237)	(39,373)	(39,570)	(463,625)	(463,625)	0
2	Total Investment Projects - Recoverable Costs	1,328,217	1,332,224	1,337,062	1,340,149	1,341,565	1,341,251	1,339,900	1,338,761	1,337,449	1,335,887	1,334,021	1,332,191	16,038,677	14,804,933	1,233,744
3	Recoverable Costs Allocated to Energy	102,171	102,479	102,851	103,088	103,197	103,173	103,069	102,982	102,881	102,761	102,617	102,476	1,233,744		
4	Recoverable Costs Allocated to Demand	1,226,046	1,229,745	1,234,211	1,237,061	1,238,368	1,238,078	1,236,831	1,235,779	1,234,568	1,233,127	1,231,404	1,229,715	14,804,933		
5	Retail Energy Jurisdictional Factor	0.9682436	0.9686254	0.9698642	0.9708346	0.9714940	0.9726051	0.9725230	0.9720301	0.9719801	0.9708758	0.9689218	0.9673536			
6	Retail Demand Jurisdictional Factor	0.9718277	0.9718277	0.9718277	0.9718277	0.9718277	0.9718277	0.9718277	0.9718277	0.9718277	0.9718277	0.9718277	0.9718277			
7	Jurisdictional Energy Recoverable Costs (B)	99,045	99,382.67	99,871	100,202	100,376	100,467	100,357	100,221	100,118	99,887	99,547	99,250	1,198,724		
8	Jurisdictional Demand Recoverable Costs (C)	1,191,506	1,195,100.68	1,199,440	1,202,210	1,203,480	1,203,198	1,201,987	1,200,965	1,199,787	1,198,387	1,196,713	1,195,071	14,387,844		
9	Total Jurisdictional Recoverable Costs for Investment Projects (Lines 7 + 8)	1,290,551	1,294,483	1,299,311	1,302,412	1,303,856	1,303,665	1,302,344	1,301,186	1,299,905	1,298,274	1,296,260	1,294,320	15,586,568		
														x 1.00072		
														15,597,790	**Adjusted for revenue tax**	

Notes:
(A) Pages 1-29 of Schedule 4P, Line 9, Pages 30-33 of Schedule 4P, Line 6, Page 34, Line 7, Exhibit CSB-5, Line 15.
(B) Line 3 x Line 5 x Line loss multiplier
(C) Line 4 x Line 6