Gulf Power

February 18, 2019

Mr. Adam Teitzman, Commission Clerk
Florida Public Service Commission
2540 Shumard Oak Boulevard
Tallahassee FL 32399-0850

Re: Docket No. 20180143-EI – Petition to initiate rulemaking to revise and amend portions of Rule 25-6.0426, F.A.C., by Florida Power & Light Company, Gulf Power Company, and Tampa Electric Company

Dear Mr. Teitzman:

Attached for official filing in the above-referenced docket is Gulf Power Company's Post-Workshop Comments.

Sincerely,

C. Shane Boyett

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Regulatory Issues Manager

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Attachments

cc: Gulf Power Company
Russell Badders, Esq., VP & Associate General Counsel
Beggs & Lane

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

In re: Petition of Florida Power & Light Company, Gulf Power Company, and Tampa Electric Company to Initiate Rulemaking to Revise and Amend Portions of Florida Administrative Code Rule 25-6.0426 _____________________________________/	Docket No. 20180143-EI Date: February 18, 2019

GULF POWER COMPANY'S POST-WORKSHOP COMMENTS

I. Introduction

Gulf Power Company ("Gulf Power" or "the Company") appreciates the opportunity to provide comments concerning Florida Power & Light's, Gulf Power Company's and Tampa Electric Company's joint proposal to revise portions of Rule 25-6.0426, Florida Administrative Code (the "Joint Proposal") and the related Florida Public Service Commission ("Commission") Rule Development Workshop held on January 16, 2019 (the "Workshop").

Competition for the attraction and retention of new and expanding businesses has intensified on both a national and global scale. Consequently, Gulf Power believes that it is necessary, now more than ever, to aggressively support and promote economic growth and development across the State of Florida. The Joint Proposal furthers this objective through minor revisions to Rule 25-6.0426, F.A.C. which would increase the effective cap on recoverable utility economic development expenses on a phased basis through 2023 in order to provide a more appropriate and representative cap for larger utilities and to counter the effects of inflation since the cap was originally established in 1995.

Incremental economic development funding generated through the proposed rule revisions would be available to further stimulate new economic development that will expand Florida's economic base and foster growth in a manner that benefits Gulf Power's general body of customers and the State of Florida as a whole. Attraction of new and expanding high-load factor commercial and industrial customers to a utility's service area results in additional jobs (both direct and indirect), capital investment, increased tax revenues, and new electric load. The addition of new electric load allows a utility's fixed costs to be spread over a larger number of customers, thus maximizing the efficient use of the utility's existing electric system and benefitting all of the utility's customers. In particular, the new base rate revenue contribution of these businesses will, in the long term, help lower base rates for all customers, while the additional cost recovery clause revenue contribution of these businesses will help lower clause rates for all customers in the short term. In short, economic development is a win for the general body of utility customers, new and expanding business, individual communities and local governments, and the State of Florida as a whole.

II. Section 288.035, Florida Statutes and Rule 25-6.0426, F.A.C.

In recognition of the crucial role that public utilities play in fostering economic development, the Florida legislature enacted section 288.035, Florida Statutes in 1994. This statute grants the Commission jurisdiction to authorize public utilities to recover reasonable economic development expenses. Subsequently, in 1995, the Commission adopted Rule 25-6.0426, F.A.C. which, at that time, allowed public utilities to recover 90 percent of qualifying economic development expenses incurred for the reporting period, not to exceed the *lesser* of 0.15 percent of gross annual revenue or $3.0 million. The remaining 10 percent of expenses were to be borne by the utility shareholders. In 1998, the Commission chose to modify the customer and stockholder sharing ratio from 90/10 percent to 95/5 percent. The Commission's stated intent in this regard was to create a further incentive for utilities to take part in economic development.

III. Joint Proposal

Despite the passage of over twenty years since the adoption of Rule 25-6.0426, the expenditure cap has remained unchanged. Economic development is no less crucial today than it was at the time of the rule's adoption. In fact, with the intensification of competition on the national and global scale, the importance of economic development has continued to increase. Recognizing the foregoing and considering the effects of inflation and the disproportionately restrictive impact of the $3 million cap on larger utilities, the petitioners have proposed to revise the annual cap to the *greater* of 0.15 percent of gross annual revenues or $3 million. Further, recognizing the value that economic development expenditures can bring to electric customers and to the state as whole, the petitioners have proposed to gradually escalate the percentage of gross annual revenues for the promotion of economic development as follows: 2020 – 0.175 percent; 2021- 0.2 percent; 2022- 0.225 percent; 2023 – 0.25 percent. This phased, gradual, approach will increase funding to a level that will appropriately allow utilities to conduct additional outreach and continue building a sustainable pipeline of viable new projects while, at the same time, moderating rate impacts and avoiding piecemeal rule amendments over time.

Under the existing rule, Gulf Power's economic development expenditures are currently capped at approximately $2.3 million (0.15% system operating revenues).[1] Under the Joint Proposal, Gulf Power's allowed expenditure level would equal $3.0 million in 2019 and gradually increase to approximately $3.8 million by 2023.

As noted during the Workshop, Gulf Power is not currently spending to its existing cap, and it is not the Company's intention to immediately accelerate spending should the cap be

[1] Based on the plain meaning of the term and the fact that *all* of Gulf Power's customers benefit from economic development, Gulf Power interprets the term "gross annual revenues" in Rule 25-6.0426(3)(b) to refer to system, as opposed to jurisdictional, revenues.

revised. Rather, consistent with its past practices, Gulf Power intends to take a thoughtful and stepwise approach. While Gulf Power would consider moderate increases in spending on certain initiatives including a second round of Florida First Sites (site certification), further execution of the Northwest Florida Forward Regional Transformational Strategy (including enhanced implementation of talent attraction, retention and training programs) as well as business development of the key targeted business sectors, it is not expected that these expenditures would approach the revised caps in the near term. Nevertheless, given the passage of time since the rule's adoption, and the increasing importance of fostering economic development, Gulf Power believes that the Joint Proposal is both timely and appropriate insofar as it provides optionality and places Florida's public utilities in a posture to nimbly and proactively respond to, and address, ever changing conditions in the economic development marketplace.

With respect to customer rate impacts associated with the Joint Proposal, Gulf Power expects that the downward impact on rates resulting from incremental electric service revenues generated through economic development would more than offset the economic development expenses it recovers from customers. However, even if one were to assume that the Company's economic development activities resulted in no incremental electric revenues --a highly unlikely scenario-- increasing economic development expenditures to the requested levels would result in minimal bill impacts for Gulf Power customers – only $0.14 on a typical residential customer bill (1,000 kWh) and $0.12 on a typical small business customer bill (850 kWh) by 2023.

IV. Workshop Discussions

Among other subjects addressed during the Workshop, Commission Staff and the parties touched upon potential alternate scenarios for rule revisions, and the economic development expense sharing ratio between customers and shareholders. Gulf Power believes that the Joint

Proposal strikes the appropriate balance on both accounts. Although adjusting the cap upward to account for the effects of inflation is a step in the right direction, such a measure would result in a cap which is still not commensurate with the economic size and reach of Florida's larger utilities. With regard to expense sharing, Gulf Power is of the view that the 95/5% expense sharing ratio embodied in the current rule appropriately recognizes that utility customers, rather than shareholders, are the primary beneficiaries of utility economic development efforts. These benefits manifest themselves in the form of downward rate pressure associated with incremental electric revenues and spreading of fixed costs over a larger customer base, as well as increased employment opportunities, increased state and local tax revenues, increased capital investment in communities and overall improvements in quality of life. The Commission's decision to unilaterally modify the sharing ratio in 1998 from 90/10% to 95/5% is a clear acknowledgement of the overwhelming customer benefit associated with utility economic development activities and expenditures. The existing sharing ratio has served customers well over the years, and any modification which shifts additional costs to utility shareholders would serve to disincentive, rather than incentivize, additional economic development activities.

Gulf Power disagrees with any suggestion or implication that its economic development activities disproportionately inure to the benefit of the Company's shareholders –through enhanced "good will," increased capital expenditures, or otherwise. Gulf Power places its customers at the center of everything it does and strives to provide nothing less than excellent customer service. The fact that these activities result in high customer satisfaction –and, therefore, a related degree of "good will"—is not a basis to disallow prudent business expenditures or otherwise penalize Company shareholders. This logic applies similarly to increases in electric service revenue and potential capital expenditures associated with successful economic development activities. As noted previously, Gulf Power's general body of customers benefit from downward rate pressure associated with incremental electric revenues and spreading of fixed costs over a larger customer base. This is particularly true during periods when utilities are experiencing low (or contracting) load growth and/or excesses in generation capacity. Utilities should be incentivized to optimize the efficient use of their systems for the benefit of their general body of customers. The fact that utility shareholders may experience some ancillary degree of benefit from these same activities should not form a basis for disincentivizing the activities or penalizing the Company.

V. Conclusion

In summary, Gulf Power reiterates is support for the Joint Proposal and truly appreciates the opportunity to provide comments concerning these important issues.

Respectfully submitted this 18th day of February, 2019.

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CERTIFICATE OF SERVICE

I HEREBY CERTIFY that a true copy of the foregoing has been furnished by electronic mail this 18th day of February, 2019 to the following:

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