REBUTTAL TESTIMONY OF

**DAVID P. POROCH AND SARAH P. ADAMS**

**ON BEHALF OF GEORGIA POWER COMPANY**

**GPSC DOCKET NO. 42516**

**I. INTRODUCTION**

**Q. PLEASE STATE YOUR NAME, TITLE AND BUSINESS ADDRESS.**

A. David P. Poroch. I am Executive Vice President, Chief Financial Officer, Treasurer, and Comptroller for Georgia Power Company (“Georgia Power” or the “Company”). My business address is 241 Ralph McGill Boulevard, Atlanta, Georgia 30308.

A. Sarah P. Adams. I am Assistant Comptroller for Georgia Power. My business address is 241 Ralph McGill Boulevard, Atlanta, Georgia 30308.

**Q. MR. POROCH AND MS. ADAMS, DID YOU PRESENT DIRECT TESTIMONY AND EXHIBITS ON BEHALF OF GEORGIA POWER IN THIS PROCEEDING?**

A. Yes.

# WHAT IS THE PURPOSE OF YOUR REBUTTAL TESTIMONY?

A. The purpose of our testimony is to respond to a number of the recommendations made by the Georgia Public Service Commission’s (“Commission”) Public Interest Advocacy (“PIA”) Staff and various Intervenors. It is important to note, however, that not specifically addressing in this rebuttal testimony any particular PIA Staff or Intervenor recommendation should not be construed as support for such position.

**Q. PLEASE SUMMARIZE YOUR TESTIMONY.**

A. Our testimony advocates that this Commission continue fostering the constructive regulatory policy that has benefitted customers for over two decades. This policy as implemented has resulted in a sustained period of high customer satisfaction, high reliability, rates well below the national average, and Georgia being consistently ranked as the best state in which to do business. This Commission has a well-deserved national reputation for maintaining a consistent regulatory environment with gradual changes when appropriate. The Company encourages the Commission to continue that regulatory approach because it has proven results that benefit all stakeholders. Within that regulatory structure: (i) the Company will continue to be able to access capital to meet future needs; (ii) the Company can continue providing clean, safe, reliable, and affordable service that meets or exceeds the customer service Georgia Power’s customers expect; and (iii) Company investors will have an opportunity to receive the returns appropriate for a well-run and efficient utility that satisfies customer needs.

Taken as a whole, PIA Staff and several Intervenors would set this well-designed and balanced regulatory structure on its head by slashing the Company’s return on equity (“ROE”) by at least 175 basis points. This would represent the largest ROE reduction for any utility over the past several decades; notwithstanding the Company’s exemplary performance over the past six years since rates were last set. Many of those same parties would reduce the allowed equity in the Company’s capital structure by 400 basis points from the level deemed appropriate by this Commission less than two years ago, and they would deny the actual cost of financing the Company’s coal combustion residuals (“CCR”) asset retirement obligation (“ARO”) compliance costs, which are necessary to carry out the Environmental Compliance Strategy (“ECS”) approved by the Commission less than six months ago.

All parties acknowledge, in one form or another, the benefits of the Alternate Rate Plans (“ARP”) that have worked so well in the past. And, all parties understand that the Company must agree to any ARP, or else the outcome must be a traditional rate case order, which would eliminate the positive attributes of a three-year predictable rate “plan,” and eliminate any sharing of revenues above the top end of an earnings “band.” Yet, these same parties suggest radical and harmful modifications to the sharing band. PIA Staff goes so far as to recommend that the Commission impose an earnings “cap.” The Company finds these modifications unacceptable and would not agree to such an ARP.

Given the Company’s performance under the Commission’s track record of consistent regulation, these modifications and proposed changes, taken together, are unnecessarily punitive. What is more, the parties supporting these positions fail to consider the impact their proposals would have on the Company’s ability to access capital markets and attract the substantial capital necessary to provide industry leading customer service and comply with environmental mandates.

No party appears to dispute that any outcome that causes the Company to fall below Standard & Poor’s (“S&P”) and Moody’s credit metrics supporting the Company’s current credit rating would be a negative outcome. Yet, the combined effect of the recommendations by PIA Staff and some Intervenors would result in a dramatic, negative reaction from investors and likely downgrades of the Company’s credit ratings – all of which would directly harm customers.

**Q. HOW IS THE REST OF YOUR TESTIMONY STRUCTURED?**

A. First, our testimony explains the likely reaction of the capital markets if the Commission were to adopt the positions of PIA Staff and Intervenors. Next, we identify the flaws in the analyses of those parties that, when corrected, support the Company’s initial filing. As part of that discussion, we address PIA Staff and Intervenor recommendations related to the Company’s ROE, capital structure, use of an ARP, the appropriate earnings band, and ratemaking treatment of CCR compliance costs among other issues. We also show how the proposed radical changes to the traditional ARP structure would eliminate the benefits of an ARP, and be unacceptable to the Company, as it should be unacceptable to this Commission and our customers. Then, we address certain of the remaining other specific recommendations proposed by PIA Staff and Intervenors.

In addition to our testimony, the Company is filing the testimony of: (1) Dr. James Vander Weide to address the ROE recommendations and analyses of PIA Staff Witness Gorman and Intervenor Witnesses Pollock and Reno; (2) Mr. Steven Fetter to explain the credit rating impacts of PIA Staff and Intervenor recommendations in this case; and (3) Mr. Larry T. Legg and Mr. Lawrence J. Vogt to rebut rate design and cost of service issues raised by PIA Staff and Intervenors.

**II. FINANCIAL INTEGRITY AND ACCESS TO CAPITAL**

**Q. WOULD ADOPTION OF PIA STAFF AND INTERVENOR’S COST OF CAPITAL POSITIONS IN THIS CASE UNDO THIS COMMISSION’S HISTORY OF CONSISTENT AND PREDICTABLE REGULATION AND HARM THE COMPANY’S FINANCIAL INTEGRITY?**

A. Yes.

**Q. PLEASE EXPLAIN THE IMPORTANCE OF CONSISTENT AND PREDICTABLE REGULATION WITHIN THE CONTEXT OF INVESTOR AND CREDIT PERCEPTIONS AND THE FINANCIAL INTEGRITY OF THE COMPANY.**

A. As described by Mr. Fetter, regulation is a key factor in assessing the credit profile of a utility because a state public utility commission determines rate levels (recoverable expenses including depreciation and O&M, fuel cost recovery, and return on investment) and the terms and conditions of service. Regulation thus affects utility investors’ decisions. Before investors put forward substantial sums of money, they will want assurances that regulators (1) understand the economic requirements and the financial and operational risks of an evolving industry and (2) engage in a fair decision-making process that includes a significant degree of predictability and consistency.

For these reasons, rating agencies look for consistent application of sound economic regulatory principles by utility regulators. If a regulatory body encouraged a utility to invest based upon an expectation of the opportunity to earn a reasonable return, and subsequently applied regulatory principles in a manner inconsistent with such expectations, investor interest in providing funds to such utility would decline, debt ratings likely would suffer, and the utility’s cost of capital would increase.

**Q. WITHIN THE CURRENT ECONOMIC ENVIRONMENT, HOW IS THE COMMISSION VIEWED BY THE FINANCIAL COMMUNITY?**

A. S&P Global Market Intelligence (formerly Regulatory Research Associates or RRA), a respected commentator on U.S. regulatory policy, ranks this Commission among the top quartile of utility commissions across the country. The beneficial aspect of such ranking for both Georgia Power investors and customers is that it is reflected in the credit rating process as a positive factor and provides the rating agencies with a degree of confidence that the final decision in this rate case will be supportive of the Company’s financial condition. As the rating agencies have stated:

* **S&P**: “Our business risk assessment for GPC takes into account the strength of the regulatory compact in Georgia…”[[1]](#footnote-1)
* **Moody’s**: “The stable outlook incorporates a view for continued regulatory and political support for the project and the utility will recover all prudently incurred Vogtle related costs on a timely basis; that the overall regulatory framework in Georgia will remain credit supportive; and that financial metrics will remain at levels that support the rating including a ratio of CFO pre-W/C to debt of about 20-23%.”[[2]](#footnote-2)
* **Fitch**: “The ratings of Georgia Power Company reflect stable and predictable cash flow generation of its regulated electric utility operations, constructive regulation in Georgia and robust growth across its service territory.”[[3]](#footnote-3)

**Q. WHY IS IT IN CUSTOMERS’ BEST INTERESTS FOR THE COMPANY TO MANAGE ITS BUSINESS TO MEET INVESTOR EXPECTATIONS?**

A. Customers benefit when the Company continues meeting investor expectations because it provides the Company the ability to access and attract the capital (both debt and equity) needed to maintain and expand the system to meet the needs of our customers in a cost-effective manner. A financially healthy company is also able to dedicate additional resources to focus on its customers and is more likely to meet customer expectations of high reliability and satisfaction. Customers also benefit from operating efficiencies realized by the Company in its efforts to meet investor expectations. The efficiencies gained and the corresponding cost reductions that result from those efforts are provided to customers through savings in rates.

**Q. WOULD PIA STAFF’S PROPOSALS, TAKEN AS WHOLE, IMPAIR THE COMPANY’S FINANCIAL INTEGRITY AND THREATEN ITS ACCESS TO CAPITAL MARKETS?**

**A.** Yes. Taken as whole, and in many cases taken as individual parts, PIA Staff’s proposal would cause the Company’s ratio of Funds from Operations to Debt (“FFO to Debt”) to fall well below S&P and Moody’s established expectations necessary to retain the Company’s current credit ratings. Such a reduction would clearly impair the Company’s financial integrity and threaten its access to capital markets at reasonable terms and at reasonable cost. This would then restrict the Company’s ability to provide the level of service that customers expect and deserve.

**Q. PLEASE BRIEFLY DISCUSS WHY CREDIT RATINGS ARE IMPORTANT FOR REGULATED UTILITIES AND THEIR CUSTOMERS.**

A. As Mr. Fetter has already pointed out in his direct testimony, while credit ratings are important to both debt and equity investors for a variety of reasons, their most important purpose is to communicate to investors a company’s financial strength or the underlying credit quality of a particular debt security issued by that company. It is well-established that a utility’s credit ratings significantly impact whether that utility can raise capital on a timely basis and upon reasonable terms. As respected economist Charles F. Phillips stated in his treatise on utility regulation:

Bond ratings are important for at least four reasons: (1) they are used by investors in determining the quality of debt investment; (2) they are used in determining the breadth of the market, since some large institutional investors are prohibited from investing in the lower grades; (3) **they determine, in part, the cost of new debt, since both the interest charges on new debt and the degree of difficulty in marketing new issues tend to rise as the rating decreases**; and (4) they have an indirect bearing on the status of a utility’s stock and on its acceptance in the market.[[4]](#footnote-4) (Emphasis added.)

Thus, in addition to accessing capital markets on a timely basis at reasonable rates, a utility with strong credit ratings can also share the benefit of those attractive interest rate levels with customers since the cost of capital gets factored into utility rates. Conversely, the lower a regulated utility’s credit rating, the more that utility must pay to raise funds from debt and equity investors to carry out its capital-intensive operations. In turn, the ratemaking process factors the cost of capital for both debt and equity into customer rates. This is especially true for a company like Georgia Power, which needs to attract significant levels of capital in the near term for continued transmission and distribution investments, environmental controls, and the construction of new nuclear units, all while continuing to safely and reliably serve customers.

**Q. WHAT ASPECTS OF PIA STAFF’S RECOMMENDATIONS THREATEN THE COMPANY’S FINANCIAL INTEGRITY?**

**A.** Taken individually, Mr. Gorman’s recommended 9.2% ROE and capital structure of 51% equity threaten the Company’s financial health. However, the cumulative effect of Mr. Gorman’s recommendations coupled with Messrs. Smith and Trokey’s recommendations is even more pronounced.

**Q. DO YOU AGREE WITH MR. GORMAN THAT PIA STAFF’S RECOMMENDATIONS KEEP THE COMPANY WELL ABOVE THE S&P AND MOODY’S BENCHMARKS?**

A.No. Although Mr. Gorman seems to accept that it is important to keep the Company’s FFO to Debt above S&P and Moody’s general benchmarks, he fails to consider S&P and Moody’s specific expectations, which are specific to Georgia Power. In addition, he madeseveral calculational errors and incorrect assumptions that, when corrected, reveal PIA Staff’s proposals would cause a drop in credit metrics that could lead to a ratings downgrade, as described in the rating agencies’ most recent opinions on Georgia Power. This degradation in financial health and credit quality would result in harmful effects to the Company’s customers.

**Q. WHAT ARE THE S&P AND MOODY’S EXPECTATIONS NECESSARY TO MAINTAIN THE COMPANY’S CURRENT CREDIT RATING?**

A. Based on the latest Moody’s Credit Opinion issued on October 16, 2019, Moody’s stated that a ratio of cash flow from operations (“CFO”) pre-working capital (“W/C”) to debt should be about 20-23% in order to support the Stable outlook for the Company. In addition, S&P stated in the latest Summary for Georgia Power issued on October 12, 2018 that they “expect GPC’s funds from operations (FFO)-to-debt ratio to average close to 15% through 2019, with gradual improvements beginning in 2020.” Thus, it is reasonable for the Company to target 20-23% for Moody’s CFO pre-W/C to debt and above 15% for S&P FFO to Debt in order to maintain the Company’s current credit ratings based on S&P and Moody’s expectations.

**Q. WHAT ERRORS HAS MR. GORMAN MADE IN REACHING THE CONCLUSION THAT PIA STAFF’S RECOMMENDATION KEEPS THE COMPANY ABOVE DOWNGRADE THRESHOLDS?**

**A.** The Company has identified several issues with Mr. Gorman’s application of S&P’s methodology for calculating the FFO to Debt credit metric. We focus, however, on three of the more impactful items. First, Mr. Gorman drastically understated the amount of Georgia Power’s debt he used in his Test Year and 2022 FFO to Debt calculations by ignoring the $3 billion increase in the Company’s ARO obligation recorded in 2018 in S&P’s debt imputation methodology. Instead, Mr. Gorman omitted roughly $3 billion of ARO liability in his calculations of Off-Balance Sheet Debt in Exhibit MPG-20, page 6, lines 3 and 9, columns 1 and 3. He did this by choosing to use the average of the Company’s 2015, 2016 and 2017 ARO obligation amounts in his Test Year calculation. For the 2022 FFO to Debt calculation, Mr. Gorman took the ARO obligation amount that he used in the Test Year calculation and reduced it another $200 million, further understating the Company’s amount of debt. These modifications contradict the current calculations performed by S&P, and Mr. Gorman provided no rational justification for deviating from S&P’s established method. If Mr. Gorman’s calculations reflected Georgia Power’s current ARO obligation, and these materially inappropriate adjustments were corrected, his recalculated credit metrics would be significantly lower.

Second, in Exhibit MPG-20, page 3, line 3, column 1, Mr. Gorman incorrectly projects that the Company will recover in 2022 roughly $130 million of depreciation expenses (assuming 12 months of depreciation and a 40-year useful life) associated with Plant Vogtle Units 3 and 4. Mr. Gorman’s projection of depreciation expense recovery is inconsistent with the Commission’s Vogtle Construction Monitoring (“VCM”) 17 Order, which provides for retail base rates to be adjusted the first month after Unit 3 is in Commercial Operation for the portion of costs related to Unit 3 and common facilities deemed prudent in the January 3, 2017 Stipulation. Vogtle Unit 3 is expected to be placed in service in November 2021; therefore, base rates would be adjusted in December 2021. Because of Mr. Gorman’s gross over-projection of depreciation expense recovery in 2022, he significantly overstated the Company’s funds from operations resulting in the overstatement of his calculated 2022 FFO to Debt ratio.

Third, in Exhibit MPG-20, pages 2 and 3, line 12, column 1, Mr. Gorman incorrectly used his projected Company 2020 debt balance of $15.5 billion instead of his projected Company 2022 debt balance of $17.9 billion in his calculation of the 2022 FFO to Debt ratio. This understated the projected debt amount in 2022 by approximately $2.4 billion, and thereby incorrectly increased the FFO to Debt ratio in 2022. These clear, obvious, and material errors along with other errors in Mr. Gorman’s attempted recalculation of the Company’s credit metrics cast significant doubt on the reliability of any of his statements related to the effects of his recommendations on the Company’s credit quality.

**Q. DID MR. GORMAN ASSESS PIA STAFF’S PROPOSAL ON THE CREDIT AGENCIES’ EXPECTATIONS?**

**A.** No. Mr. Gorman did not analyze the cumulative impacts of PIA Staff’s recommendations on Moody’s or S&P’s credit calculations. He acknowledged during cross examination that he did not analyze the impact of PIA Staff’s proposals on Moody’s metrics. (Tr. 1596.) Mr. Gorman looked exclusively at S&P’s metrics only for the test period and 2022, and even then, his adjustments to the calculation methodology and the errors described in the preceding answer do not accurately depict the effect of PIA Staff’s total recommendations on the financial health of Georgia Power.

**Q. DID THE COMPANY PERFORM ITS OWN CALCULATIONS BASED ON MR. GORMAN’S ROE, CAPITAL STRUCTURE AND COST OF DEBT PROPOSALS?**

A. Yes. The Company calculated credit metrics based on 9.2% ROE, 51% equity ratio, and 4.08%, 4.15% and 4.13% cost of debt in 2020, 2021 and 2022, respectively, as proposed by Mr. Gorman, with corrections for Mr. Gorman’s erroneous inputs. This shows a severe decline in the Company’s credit metrics to approximately 17% for Moody’s CFO pre-W/C to debt and approximately 13% for S&P’s FFO to Debt. Please see Trade Secret Exhibit\_\_\_(DPP/SPA-1).

Q. **WHAT ARE THE IMPACTS OF COMBINING MR. GORMAN’S RECOMMENDATIONS WITH THOSE OF MESSRS. SMITH AND TROKEY?**

The combination of Mr. Gorman’s recommendations and Messrs. Smith and Trokey’s recommendations, including but not limited to, removing contingency from CCR ARO compliance costs and limiting the Company’s return on CCR ARO investments to the cost of long-term debt that result in an even more dramatic decline in the Company’s FFO to Debt ratio. This decline will almost certainly lead to a credit downgrade based on Moody’s and S&P’s most recent rating agency reports.

Based on the Company’s and PIA Staff’s recommendations, Table 1 below compares the impact of each to the FFO to Debt ratio (adjusted to correct for the errors identified by the Company).

**Table 1: FFO to Debt Calculations (By Rating Agency)** 

**Q. DID THE MOODY’S OPINION COMMENT ON THE POSSIBLE IMPACTS OF A COMMISSION DECISION THAT COULD IMPAIR THE COMPANY’S CREDIT QUALITY AND FINANCIAL INTEGRITY?**

A. Yes. The Moody’s October 16, 2019 Credit Opinion also stated that a downgrade of the Company could occur if financial metrics are expected to decline for an extended period, including a ratio of CFO pre-W/C to debt below 19%. As described above and shown in Table 1, the Company’s calculations show that its credit metrics will fall below that 19% FFO to Debt threshold if Mr. Gorman’s proposals are adopted.

**Q. TAKEN AS A STANDALONE ISSUE, DOES THE COMPANY AGREE WITH MR. GORMAN THAT THE COMPANY SHOULD REDUCE ITS EQUITY RATIO TO 51%?**

A.No. Less than two years ago, the Company’s equity ratio was adjusted from 51% to 55% as a part of the Tax Cuts and Jobs Act (“TCJA”) Settlement in Docket No. 36989 (“Tax Reform Settlement”) in order to address the negative implications of tax reform, provide support for maintaining the Company’s credit profile, and allow the Company timely access to capital markets and the ability to borrow at reasonable interest rates. There have been no subsequent revisions to the Tax Reform Settlement or any change to the TCJA that have altered its impact on regulated utilities or the Company. Since the negative impacts of tax reform on credit metrics remain going forward, it is inappropriate to reduce the Company’s equity ratio to the pre-tax reform level of equity.

**Q. DOES ANY OTHER WITNESS RECOMMEND A SPECIFIC REDUCTION IN THE EQUITY LEVEL IN THE COMPANY’S CAPITAL STRUCTURE?**

A.No. U.S. Department of Defense (“DOD”) Witness Reno accepts the Company’s capital structure in her analysis while Georgia Industrial Group (“GIG”) / Georgia Association of Manufacturers (“GAM”) Witness Pollock makes a general unsupported and non-specific assertion that the Company does not need the equity level it proposed.

**Q. TAKEN AS A STANDALONE ISSUE, DOES THE COMPANY AGREE WITH MR. GORMAN’S RECOMMENDATION TO REDUCE THE COMPANY’S ROE 175 BASIS POINTS TO 9.2% OR MS. RENO’S RECOMMENDATION TO REDUCE THE COMPANY’S ROE 185 BASIS POINTS TO 9.1%?**

A.No. Dr. Vander Weide will address the errors in Mr. Gorman’s and Ms. Reno’s calculations in this regard. Putting those errors aside, no justification supports such dramatic and severe reductions in the Company’s cost of equity since the last base rate case. Not only would adoption of Mr. Gorman or Ms. Reno’s recommendations be the largest reductions in ROE for any utility in decades, it would be unwarranted punishment for a Company that has performed so well since the last rate case and over the past several decades. We note that the average ROE reduction for vertically integrated investor owned electric utilities has been 22 basis points since 2013 when Georgia Power’s last rate case concluded. The ROE reductions proposed by Mr. Gorman and Ms. Reno would signify a dramatic departure from the gradualism approach employed by this Commission over the past several rate cases. Such a reduction would surely be viewed negatively by the capital markets for it would be a radical and dramatic change from the consistent and historically constructive regulation for which this Commission has a reputation – one where excellence is recognized and rewarded, not punished.

**Q. HAS PIA STAFF CHANGED ITS METHOD OF ASSESSING THE COST OF EQUITY FROM HOW IT PRESENTED IT IN PAST CASES?**

A. Yes. While it is true that each cost of equity witness develops recommendations using different methods, assumptions, and model inputs, and applying their own judgment, in this case Mr. Gorman ignored the key comparable earnings test that Dr. Vander Weide and Ms. Reno used. Importantly, Mr. Parcell, PIA Staff’s cost of equity witness in the last three Georgia Power rate cases, also used the comparable earnings test and explained its importance in estimating cost of equity. The comparable earnings test produces the highest cost of equity numbers in this proceeding, including Ms. Reno’s 10.86%, and ignoring it artificially depresses PIA Staff and Intervenor cost of equity recommendations. The Company calculated the impact on PIA Staff’s case and found that had PIA Staff used the same methods used in the last three rate cases to estimate the Company’s cost of capital, their recommendation would have been significantly higher than that presented by Mr. Gorman in this case. This Commission has found in each of the last three rate cases that a reasonable cost of equity for Georgia Power is about 100 basis points above the industry comparable average, or in this case about 10.9%. This level of ROE is consistent with the Value-Line forecasted average for the proxy group that Ms. Reno noted in her testimony. PIA Staff failed to justify why they used a witness who performed an analysis so fundamentally different than what PIA Staff used in the last three rate cases and why they did not use the comparable earnings test, even if only as a check against extreme results reflecting flawed calculations such as those that PIA Staff is endorsing.

**Q. DOES THE COMPANY AGREE WITH MR. GORMAN’S ADJUSTMENTS TO THE COMPANY’S COST OF DEBT?**

A. No. Mr. Gorman makes two major adjustments to the Company’s filed cost of debt: (1) he updates the coupon rates for two debt issuances; and (2) he adjusts the projected cost of debt to 3.65% for projected issuances beyond March 2020. Neither of these adjustments is a necessary or appropriate adjustment to the Company’s cost of debt.

First, interest rate assumptions affect the Company’s financial and economic projections of various items and not just the rates at which the Company issues debt. Mr. Gorman’s recommended adjustment to the cost of debt revises only one component of the Company’s filing impacted by interest rates and creates inconsistencies with the interest rate assumptions throughout the remainder of the Company’s filing. For example, adjusting interest rates only for the debt assumptions included in the Company’s weighted average cost of capital (“WACC”) and ignoring the related impacts to the discount rate used to project the Company’s pension obligations would increase the amounts assumed necessary to fund the Company’s pension plan needed to meet the Company’s projected future obligation to retirees. This would result in higher pension costs and put upward pressure on the revenue deficiency, which would more than offset any debt cost rate decreases that Mr. Gorman calculates in his testimony.

Second, Mr. Gorman’s adjustment of projected cost of debt to 3.65% for the projected issuances beyond March 2020 is inappropriate for forecasting the Company’s future cost of debt because it: (i) is estimated on a backward-looking basis; (ii) contains only 13-weeks of history; and (iii) is unclear on tenure. Georgia Power’s forward-looking approach using a reputable, third party, independently-developed interest rate forecast is more appropriate and consistent with industry best practice and has been supported historically by this Commission.

**III. MODIFICATIONS TO TRADITIONAL ALTERNATE RATE PLAN**

**Q. DO PIA STAFF’S PROPOSED CHANGES TO THE COMPANY’S ALTERNATE RATE PLAN (“ARP”) SUPPORT THE CONSTRUCTIVE REGULATORY HISTORY TYPICAL OF PRIOR ARPS APPROVED BY THIS COMMISSION?**

A. No. PIA Staff’s recommendations, taken as a whole, radically depart from the previously accepted ARP structure and have the effect of removing the benefits to customers stemming from the Company agreeing to enter an ARP in the first place.

**Q. PLEASE DESCRIBE THE HISTORY OF THE COMMISSION’S ADOPTION OF THREE-YEAR ARPs.**

A. The first three-year ARP was approved by the Commission in the Company’s 1995 rate case as a way to align the Company’s interests with those of its customers. Since that case, every base rate case proceeding has concluded by Commission approval of a Company agreement to resolve those cases authorizing a three-year ARP in lieu of traditional test year ratemaking, including the ARP currently in place today. Since 1995, the Commission has shown a desire for consistency. These ARPs have provided significant rate stability and consistency for Georgia Power’s customers and have been a meaningful part of the Commission’s constructive regulatory structure. This constructive framework has been viewed positively by the credit rating agencies and has allowed the Company to access capital at reasonable rates and on reasonable terms.

**Q WHAT IS THE ALTERNATIVE TO A THREE-YEAR ARP?**

A. The alternative to a three-year ARP would be for the Commission to issue a traditional rate order, which sets rates based on the traditional test year. Under a traditional rate order, the Company can file another rate case whenever it deems appropriate or the Commission can call the Company in for a rate case through a Rule Nisi to address any overearnings. Frequent rate cases can lead to increased focus on near-term needs, limiting the Company’s ability to focus on long-term opportunities for innovation and efficiencies. Under a three-year ARP, the Company assumes the risk that revenues or costs will be different than forecast, which is why customers benefit from the tradeoffs under an ARP.

**Q. PLEASE DESCRIBE THE BENEFITS OF THE THREE-YEAR ARP?**

A. Three-year ARPs agreed to by the Company, PIA Staff, and several Intervenors, and approved by the Commission produce several benefits for customers:

* Avoid the potential for more frequent base rate case filings, which require significant time and resources from the Company and the Commission.
* Provide rate stability to customers, who are able to know with a reasonable degree of certainty what their base rates will be over that three-year period.
* Allow for the Commission’s regular review of the Company’s historical earnings with increased transparency through the Annual Surveillance Report (“ASR”) process.
* Establish an earnings band around the approved ROE that allows for equitable sharing of earnings above the band if revenues or costs differ significantly from what had been forecasted.
* Continue the Interim Cost Recovery (“ICR”) mechanism, which shields customers from exposure to increased risks as compared to a traditional rate case setting.
* Encourage the Company to achieve operating efficiencies by allowing it to share in the earnings between what is allowed in rates and actual results.
* Provide regulatory consistency that is viewed favorably in the investment community and demonstrates a continuation of the constructive regulatory environment in which the Company, PIA Staff, and Commission work together to achieve balanced resolutions.

**Q. IN WHAT WAY DOES THE COMPANY ASSUME RISK DURING THE THREE- YEAR ACCOUNTING PERIOD?**

A. Because the Company surrenders its right to file a full rate case during the three-year term when the ROE is within the earnings band, the Company assumes the risks that conditions might change during the term such as the cost of debt and/or equity might increase, sales may be less than forecasted, or costs will be more than forecasted. A three-year rate plan holds the Company accountable for inefficiencies or costs overruns, due to rates being set at a predetermined level for the duration of the three-year period.

**Q. DOES THE COMPANY AGREE WITH PIA STAFF’S RECOMMENDATION TO USE THE TEST PERIOD REVENUE REQUIREMENT FOR PURPOSES OF ESTABLISHING THE FIRST YEAR REVENUE REQUIREMENTS OF AN ARP?**

A. No. The revenue deficiency calculated for the calendar year ending December 31, 2020 reflects a more accurate depiction of the costs the Company will incur in its first year under a new ARP when the new rates are effective. Determining the revenue deficiency in this manner reduces regulatory lag. Based on the Company’s Errata filing, the projected revenue deficiency based on the traditional test period and the 2020 calendar year is $197.8 million and $356.0 million, respectively, resulting in a difference of $158.2 million. This difference illustrates that basing the year one rate increase on the split test period’s revenue deficiency amount creates a revenue shortfall of $158.2 million in the very first year of the three-year period. Therefore, setting rates based on the test period would not permit the Company to timely recover its prudently incurred costs in serving customers.

**Q. DOES THE COMPANY AGREE WITH PIA STAFF’S OR GIG/GAM WITNESS LACONTE’S RECOMMENDATION TO USE ANY REVENUE SUFFICIENCY BASED ON PIA STAFF’S CALCULATED TEST YEAR AND 2020 REVENUE REQUIREMENT FOR ACCELERATED RECOGNITION OF DEFERRED COSTS OR TO AMORTIZE A PORTION OF CCR ARO COMPLIANCE COSTS?**

A. No. Based on the Company’s proposal, the Company does not have a projected revenue sufficiency in 2020 to apply to the deferred costs. As stated previously, the Company’s revenue deficiency should be based on the calendar year 2020 revenue requirement rather than the test period if the Company’s ARP is adopted. However, the Company generally agrees with PIA Staff’s concept of applying revenue sufficiency in the rate case, in the event there is any, to certain regulatory assets for maintaining rate stability for the customers.

**Q. WHY DOES THE COMPANY BELIEVE IT IS MORE APPROPRIATE TO USE A LEVELIZED RATHER THAN A STEP INCREASE APPROACH AS RECOMMENDED BY PIA STAFF FOR TRADITIONAL BASE TARIFFS, EXCLUDING CCR ARO COMPLIANCE COSTS, AND ECCR TARIFFS DURING THE THREE-YEAR ARP PERIOD?**

A. The levelized approach balances the needs of both customers and the Company where customers can benefit from three years of stable and predictable rates and the Company can recover its projected revenue deficiency. This rate stability provides customers a beneficial tool when budgeting for utility costs and provides a predictable revenue stream for the Company. Levelization shifts economic risks to the Company by insulating customers from the impacts of a possible downturn in the sales forecast or cost increases. The Company is better equipped to manage negative economic factors that impact the cost of running the business, as opposed to relying on customers to shoulder the impacts, which would occur with increased rates under step increases.

The step increase approach would increase customer rates by an increasing amount in each of the next three years. Although an annual increase would result in a lower than requested projected revenue requirement for 2020, the increases for 2021 and 2022 would be greater than the levelized amount. The fluctuation in projected costs year-to-year creates uncertainty for customers. The Company shares PIA Staff’s interest in rate stability, however, the Company maintains that levelizing the proposed increases over the three-year ARP period is the most appropriate approach for customers.

**Q. ARE CUSTOMERS FAIRLY COMPENSATED FOR THE PROJECTED OVER-COLLECTION IN THE FIRST YEAR OF THE LEVELIZATION?**

A. Yes. Based on the Company’s projections under the levelized revenue requirement, the Company would over-collect in 2020 and under-collect in 2021 and 2022. For the projected advancement of revenues in 2020, the Company proposes to defer the amount as a regulatory liability, reducing retail rate base and giving customers credit on the advanced amount based on the Company’s full WACC. This proposed deferral reduces the levelized revenue requirement requested by the Company and the advancement would be fully amortized by the end of 2022.

**Q. DO YOU AGREE WITH PIA STAFF’S RECOMMENDATION THAT ALL EARNINGS ABOVE THE TOP END OF THE EARNINGS BAND BE USED TO ACCELERATE DEFERRED COSTS?**

A. No. In this case, the Company’s objection to the earnings cap as proposed is that the top end of the band is set artificially low and at a level which our evidence shows is below even the Company’s cost of equity. While it is true that in at least one prior case the Company agreed to use all earnings above the top of the band to retire regulatory assets, that agreement was dependent upon an appropriate earnings band having been set. The Company’s general concern in this regard is that removing any incentive for the Company to exceed the top end of the band may be counterproductive to the goal of encouraging the Company to gain efficiencies to the maximum extent.

**Q. HAS THE EARNINGS SHARING MECHANISM WORKED WELL FOR THE COMPANY AND ITS CUSTOMERS?**

A. Yes. The Company returned approximately $160 million to customers as a result of the sharing arrangement approved by the Commission in the 2013 base rate case. The Company has achieved this without jeopardizing superior customer satisfaction or reliability. In addition, the amount customers pay through rates does not change when the Company’s earnings are within the band because rates are set on the ROE set point. As previously mentioned, the sharing mechanism is a critical component of the ARP and appropriately encourages the Company to look for efficiencies and process improvements, which can lead to higher earnings that benefit both customers and the Company.

**Q. DOES THE COMPANY AGREE WITH MR. CHRISS’ RECOMMENDATION TO LIMIT THE COMPANY’S RECOVERY BELOW THE EARNINGS BAND TO TWO-THIRDS OF THE UNDER-RECOVERED AMOUNT?**

A. No. The ARP is structured such that the use of an earnings band provides benefits and protections to both customers and the Company. One of the protections afforded by the ARP is the Company’s ability to apply for rate relief if earnings are projected to fall below the bottom of the band. This earnings relief mechanism allows the Company the opportunity to earn a full return on equity commensurate with the bottom of the ROE earnings range. Only recovering a portion of interim rate relief, as proposed by Mr. Chriss, could send a signal to rating agencies and investors that the long-standing constructive regulatory environment in Georgia has been compromised. This recognition could worsen the qualitative factors that rating agencies use when assessing the Company’s credit quality, which ultimately has a negative impact on customers.

**Q. DO YOU AGREE WITH DOD WITNESS BLANK’S PROPOSAL TO NARROW THE ROE EARNINGS BAND?**

A. No. Mr. Blank recommends narrowing the ROE earnings band to +/- 50 basis points around the authorized ROE. However, Mr. Blank’s support for narrowing the earnings band is based on assumptions that it would reduce the risk to the Company. However, he fails to recognize that by reducing the risk to the Company, he would necessarily increase the risk to customers, thereby altering the fundamental nature of the ARPs that have been in place for the last 25 years.

**IV. CCR AROS**

**Q. IS THE APPROVAL OF THE COMPANY’S CCR COMPLIANCE PLAN AT ISSUE IN THIS PROCEEDING?**

A. No. The Company’s ECS, including the Company’s plan to comply with the federal and state CCR regulations, was approved in the Company’s 2019 IRP in Docket No. 42310, which is now a final order of the Commission.

**Q. WHAT REMAINS TO BE DETERMINED WITH REGARD TO THE COMPANY’S PROPOSED CCR COMPLIANCE COSTS IN THIS CASE?**

A. Only the Company’s proposed recovery of CCR compliance costs remains to be decided as part of this case. The Commission-approved 2019 IRP Stipulation approved the Company’s ECS and plan to comply with federal and state CCR regulations but reserved CCR cost recovery for determination in this rate case. This includes the method of recovery and the appropriate period over which costs should be recovered.

**Q. ARE PIA STAFF AND INTERVENOR RECOMMENDATIONS REGARDING THE RATEMAKING TREATMENT AND RECOVERY OF CCR AROs FAIR, CONSISTENT AND SUPPORTABLE?**

A. No. The Company’s CCR ARO compliance costs are required to comply with federal and state environmental regulations and are appropriately included in rate base. As a rate base asset, the Company should be able to timely recover its prudently incurred costs and have the opportunity to recover all of its financing costs, including equity. PIA Staff and Intervenor recommendations prevent the Company’s ability to recover its actual costs of financing these required investments. In addition, the ratemaking treatment proposed by PIA Staff and Intervenors contradicts past treatment of ARO compliance costs and such departure from past precedent is unjustified.

*Proposed Cost of Debt Return on CCR AROs*

**Q. DO YOU AGREE WITH PIA STAFF’S BASIS FOR DENYING THE COMPANY AN EQUITY RETURN FOR THE UNDER-RECOVERED PORTION OF CCR ARO COMPLIANCE COSTS AND SUBSTITUTE IT WITH A CARRYING COST ALLOWANCE BASED ON THE LONG-TERM COST OF DEBT?**

A. No. It is true that if the Company did not have to finance these costs and recovered them immediately from customers, there would be no financing costs. But such an approach would drive customer rates significantly higher. PIA Staff seems to recognize that financing these costs is necessary but wants to deny the Company the true cost of that financing. PIA Staff failed to justify why the Company should be denied the opportunity to recover all of its financing costs on the projected under-recovered CCR ARO amounts. PIA Staff offers three insufficient reasons to limit the Company’s ability to earn a return on under-recovered CCR ARO compliance costs: (1) the expenditures are not providing energy and capacity; (2) a burden is being placed on customers without an offsetting benefit; and (3) PIA Staff is otherwise recommending timely recovery of the Company’s coal ash pond and landfill remediation costs over the three-year period requested by the Company.

**Q. IS DIRECTLY PROVIDING ENERGY AND CAPACITY A NECESSARY CONDITION FOR ALLOWING THE FULL COST OF FINANCING THE COMPANY’S CCR ARO COMPLIANCE COSTS?**

A. No. Many rate base assets that are critical to the Company’s provision of electric service to customers do not directly produce energy or provide capacity. For example, materials and supplies, operating headquarters, environmental controls, such as scrubbers, and environmental remediation all do not “provide” energy or capacity and are appropriately included in rate base for which the Company is provided an opportunity to recover its financing costs at the full WACC. Each of these examples represent capital necessarily used in the business of providing service to retail consumers and none directly generates or provides electricity. In addition, customers have received the benefit of the electricity generated by the plants in question for decades and an inherent cost of that generation is coal ash handling and disposal in compliance with environmental regulations, all for which the Company has complied in a cost-effective manner for customers. Therefore, the expenditure of this capital is a direct result of having provided energy and capacity to customers.

**Q. IS IT TRUE THAT THE COMPANY’S CCR ARO COMPLIANCE EXPENDITURES PROVIDE NO BENEFIT TO CUSTOMERS?**

A. No. It is incorrect to characterize the cost of complying with federal and state CCR regulations as a burden with no benefit to customers. Although the Company relies less on coal as a generation resource today than it has in years past, the Company’s coal fleet has served customers with reliable and affordable electricity for almost 90 years. Coal ash is a necessary byproduct of coal-fired electricity production. Ash ponds were originally designed, installed, operated, and permitted by the Georgia Environmental Protection Division (“EPD”) to function as treatment systems for power plant wastewaters, and they have effectively served in this capacity for decades. The Company’s compliance with environmental regulations allows the Company to operate its business, which allows the Company to provide benefit to customers through safe and reliable electric service. The Company’s CCR ARO compliance costs are an inherent cost of electricity generation for which the Company should earn a full rate base return as it would for environmental capital investments on the coal units themselves or any other capital investment that is a necessary part of conducting lawful public utility service.

**Q. SHOULD THE TIMELINESS OF COST RECOVERY INFLUENCE THE COMPANY’S OPPORTUNITY TO RECOVER ALL OF ITS FINANCING COSTS?**

A. No. The timeliness of cost recovery does not influence the amount of financing costs the Company incurs during the period of time the Company is financing the underlying cost. While it is true that the longer it takes to recover a cost, such as the CCR AROs, the more total financing costs the customer pays, it does not follow that the Company should ever recover less than its financing costs, whether the period over which the costs are financed is three years, as proposed by the Company and accepted by PIA Staff, or a longer period of time as suggested by some Intervenors.

While the Company continues to support the timely recovery of CCR ARO compliance costs over a three-year period (which reduces the total amount of carrying costs charged to customers), the timeliness of the associated recovery is not and should not be a factor in determining whether the Company is entitled to recover its full cost of capital return on its capital investment required to provide retail service safely and lawfully. The proposed restriction on the Company’s return on investment to only the cost of long-term debt essentially operates as a disallowance with no allegation or finding of imprudence.

**Q. WHAT IS THE IMPACT OF PIA STAFF’S RECOMMENDATION TO USE COST OF DEBT RETURN ON THE UNDER-RECOVERED PORTION OF CCR ARO COMPLIANCE COSTS?**

A. All assets in the Company’s rate base, including under-recovered CCR ARO compliance costs, are funded by a mix of capital, both debt and equity. To assume that one portion of rate base is funded solely with debt would require that the remaining rate base be funded with a higher proportion of equity than the Company is requesting. This will allow the overall capital structure to be balanced at the level required to support the Company’s current credit rating. Therefore, any reduction in cost to customers from assuming CCR ARO compliance costs are funded solely by debt would be offset by higher costs on the remainder of rate base. Certainly, PIA Staff is not recommending that assets with a long recovery period should be financed with all equity. Rather, the cost of equity is a cost of doing business. It’s the cost that Georgia Power needs to pay shareholders for the equity investment in the Company. As such, the cumulative impact of PIA Staff’s recommendation to recover CCR ARO compliance costs at 100% debt is punitive and contrary to constructive regulatory policy.

**Q. IS PIA STAFF’S PROPOSED ELIMINATION OF AN EQUITY RETURN ON THE UNDER-RECOVERED PORTION OF CCR ARO COMPLIANCE COSTS INCONSISTENT WITH PAST PRECEDENT?**

A. Yes. The recovery of ash pond and landfill remediation costs, which are costs currently included as ARO costs today, have historically been in an over-recovered position since the inception of ARO accounting in 2003. From 2003 to 2016, the Company was in an over-recovered position related to these compliance costs, and during that period, customers were afforded the benefit of carrying cost based on the Company’s full weighted average cost of capital. Similarly, allowing the Company a full WACC return on the costs associated with CCR ARO compliance costs is consistent with this prior treatment.

**Q. DOES THE COMPANY AGREE WITH MS. LACONTE’S ASSERTION THAT UNDER THE COMPANY’S CURRENT PROPOSED THREE-YEAR RECOVERY METHOD, THE COMPANY SHOULD FUND THE CCR ARO COMPLIANCE EXPENDITURES AT SHORT-TERM DEBT RATES?**

**A.** No.As previously stated, for many decades, customers benefited from the electricity generated by these plants and an inherent byproduct of that generation is coal ash. These CCR ARO compliance costs are incurred in order to comply with federal and state CCR rules which legally obligate the Company to close each ash pond. As such, CCR ARO compliance costs are appropriately included in rate base. Denying the Company the opportunity to recover all of its financing costs on any unrecovered CCR ARO compliance costs amounts to a disallowance and inappropriately and prematurely assumes that any such expenditures are imprudent.

Furthermore, the Company only applies short-term debt in limited circumstances to two non-rate base assets for ratemaking purposes. The Company first applies short-term debt to the under-recovered fuel balance (as noted by Ms. LaConte) and then applies all remaining balance of short-term debt to the balance of construction work in progress (“CWIP”). Therefore, there is no short-term debt left to be applied to rate base items such as CCR ARO compliance costs. It is inappropriate to apply short-term debt in lieu of a full return (including equity) to items included in rate base.

**Q. IS IT TRUE THAT THE COMPANY ONLY EARNS A FULL RETURN ON ASSETS THAT ARE “LONG-LIVED” AS SUGGESTED BY MS. LACONTE?**

A. No. Not every asset in rate base has a useful life of several decades as Ms. LaConte suggests. There are assets with “useful lives that can be measured in decades” as Ms. LaConte points out, as well as assets with shorter lives. For example, the Company has an opportunity to recover all of its financing costs on rate base items with shorter-term lives such as software and licensing costs, fleet vehicles, fuel inventory, and materials and supplies inventory. All these items are in rate base and are recovered at the Company’s WACC.

*Contingency*

**Q. DOES THE COMPANY AGREE WITH PIA STAFF’S PROPOSAL TO REMOVE CONTINGENCY FROM BOTH THE ECCR TARIFF AND THE CCR ARO ESTIMATES?**

A. No. Contingency is an essential component of a comprehensive and transparent cost estimate. The Company typically includes contingency in major capital projects and environmental capital projects with contingency have been included in the ECCR tariff costs previously approved in the IRPs and base rate cases. Eliminating contingency from the ECCR tariff fails to recognize the expected costs of the environmental projects and thereby sets rates artificially low.

It is common industry practice to include contingency when developing cost estimates for large capital-intensive projects and the Company continues to support the inclusion of contingency in its CCR ARO compliance cost estimates. The inclusion of contingency in cost estimates helps to mitigate risk, maintain cost stability, and support transparent estimating processes. Further, Accounting Standard Codification (ASC) 410 – Asset Retirement Obligations, formerly Financial Accounting Standard (FAS) 143, requires the Company to include estimates of probable costs to be incurred, including contingency.

**Q. HISTORICALLY, HAS ECCR AND ARO RECOVERY BEEN ESTABLISHED BASED ON COST ESTIMATES THAT INCLUDE CONTINGENCY?**

A. Yes, and the Commission has approved prior capital and ARO recovery on cost estimates with contingency included.

**Q. DID MESSRS. SMITH AND TROKEY ACCURATELY CHARACTERIZE THE APPROPRIATENESS OF CONTINGENCY WITHIN THE COMPANY’S CCR ARO COMPLIANCE COST ESTIMATES?**

A. No. Messrs. Smith and Trokey stated that “the Company’s CCR ARO compliance cost estimate was developed such that there is a high probability that actual costs for this work will be below the total estimated project cost” based on the confidence levels used in the Company’s CCR ARO compliance cost estimates. PIA Staff’s testimony incorrectly asserts that estimated contingency dollars will not be necessary to complete the CCR projects. However, the confidence levels used in the cost estimates indicate that there is a reasonable possibility that actual cost may not be greater than the *total* cost estimate, which *includes* contingency. It does not imply that the estimated contingency dollars will not be necessary to complete the CCR projects. The Company fully anticipates that the contingency dollars will be needed to complete the CCR projects. As stated previously, the Company will refine its estimates and provide updates to the Commission and Commission Staff through CCR ARO semi-annual reporting as well as annual ECS filings, as approved in the Company’s 2019 IRP.

**Q. WILL THE COMPANY ULTIMATELY RECOVER ANY UNUTILIZED CCR ARO CONTINGENCY AMOUNTS?**

A. No. Under ARO accounting, any over- or under-recovery of actual cost incurred compared to the amounts included in rates will be deferred in a regulatory asset or liability account for future consideration by this Commission. Therefore, the Company will ultimately recover only its actual asset retirement obligation costs incurred related to the fulfillment of permit and other regulatory requirements to comply with both the federal and state CCR Rules.

*Recovery Period*

**Q. DOES THE COMPANY AGREE WITH MS. LACONTE THAT CCR ARO COMPLIANCE COSTS BE AMORTIZED OVER A PERIOD OF AT LEAST 25 YEARS?**

A. No. As stated in the Company’s response to data request STF-L&A-1-43, the Company has proposed to recover CCR ARO compliance costs from customers over a three-year period, which reasonably provides the Company timely recovery of costs while minimizing the initial rate impact on customers. Ms. LaConte’s proposed recovery period of at least 25 years will negatively impact the Company’s cash flows, put downward pressure on the Company’s credit metrics, and hinder the Company’s ability to maintain current credit ratings to the detriment of customers. Further, increasing the length of the recovery period would result in a greater under-recovered balance and its associated carrying costs, which ultimately results in higher overall costs to customers.

*Alternate Review and Recovery Mechanisms*

**Q. DOES THE COMPANY SUPPORT SIERRA CLUB’S RECOMMENDATION TO HOLD SEPARATE CCR ARO HEARINGS?**

A. No. As part of the Commission’s Final Order in the Company’s 2019 IRP, the Commission-approved Stipulation requires that the Company file semi-annual reports to provide the Commission updates on the Company’s CCR ARO compliance efforts. The 2019 IRP Final Order also requires that the Company file its ECS annually to ensure the Commission is updated on the Company’s environmental strategy, including CCR compliance efforts. The Company’s filed CCR ARO cost estimates are projections that will be updated and refined over time through these semi-annual compliance filings. Further, the Company proposed as part of the 2019 rate case filing to revise the recovery amounts in rates each year following the most recent cost updates included in the semi-annual filing. Because these Commission-ordered filings will provide the Commission with detailed information on the Company’s compliance plans and associated costs, separate CCR ARO hearings beyond what has already been proposed by the Company and agreed to in the 2019 IRP would be time consuming, overly burdensome, and costly to the Commission, the Company, and customers.

**Q. DO YOU AGREE WITH MR. BLANK OR MR. POLLOCK’S RECOMMENDATION TO ESTABLISH A SEPARATE CCR ARO RIDER OR USE THE ECCR TARIFF FOR COST RECOVERY OF CCR ARO COMPLIANCE COSTS?**

A. No. As previously stated, under ARO accounting, any over- or under-recovery of actual cost incurred compared to the recovery included in rates will be deferred to the ARO regulatory asset or liability account for future consideration. This occurs whether the recovery is included in traditional base rates or in a separate rider such as the ECCR tariff. Therefore, it is unnecessary to use the ECCR tariff or establish a separate CCR ARO rider to recover CCR ARO compliance costs since the Company will only recover its actual costs incurred related to the fulfillment of permit and other regulatory requirements to comply with the asset retirement obligations of both the federal and state CCR rules.

**Q. IS THE COMPANY IN COMPLIANCE WITH APPLICABLE CCR RULES AND REGULATIONS?**

A. Yes. Georgia Power is in compliance with the federal and state CCR rules. As part of its Security Exchange Commission (“SEC”) disclosure process, ASR responses, and reporting requirements to the Georgia EPD and the U.S. Environmental Protection Agency (“EPA”), Georgia Power has provided ample information outlining its compliance with environmental rules and regulations.

**Q. DID THE COMPANY PROVIDE A DETAILED BREAKOUT OF THE CCR COST IT EXPECTS TO INCUR?**

A. Yes. Contrary to Sierra Club’s assertion, the Company provided details of the annual ash pond and landfill spending by plant as part of its trade secret responses to data requests STF-L&A-1-23 and STF-L&A-1-25 in the 2019 IRP in Docket No. 42310, which were incorporated into this rate case as part of Exhibit RS/T-11 to PIA Staff’s testimony. Further, in response to data requests STF-L&A-10-1, STF-L&A-5-13, and STF-PIA-14-5 issued in this rate case, the Company provided information on past and future CCR ARO compliance-related costs. More specifically, in response to STF-L&A-5-13, the Company reconciled annual ash pond and landfill spending by plant from what was filed in the 2019 IRP to what was filed in the 2019 rate case filing, which actually shows a slightly lower cost estimate in the rate case period. Importantly, PIA Staff, the primary party that participated fully in the evaluation of the Company’s plans for CCR ARO compliance and spending in the 2019 IRP and in this rate case docket, acknowledged in their testimony that the Company provided the detail breakouts of CCR ARO costs.

**Q. SHOULD THE COMMISSION WAIT UNTIL THE EPD ISSUES PERMITS TO ALLOW FOR THE RECOVERY OF CCR ARO COMPLIANCE COSTS AS SIERRA CLUB ASSERTS?**

A. No. The Company cannot delay work on closing its ash ponds and landfills and should recover all prudently incurred costs spent in the process. The Company currently has dual compliance requirements, under the federal and state CCR rules separately, until the Georgia EPD CCR program is approved by the EPA as provided in the Water Infrastructure Improvements for the Nation Act (WIIN Act). The more stringent Georgia CCR rule incorporates the regulatory deadlines outlined in the federal CCR rule plus the permitting process for all of Georgia Power’s ash ponds and landfills. The federal CCR rule does not include permit requirements, but it does include regulatory closure deadlines for certain ash ponds. In order to meet stringent regulatory deadlines, regardless of permit issuance, the Company must complete certain compliance requirements and proceed with work generally, including ash pond closure studies, detailed engineering designs, as well as developing and implementing customized and comprehensive ash pond dewatering processes, and begin certain construction activities. Georgia Power must execute a highly coordinated and early action plan in order to achieve compliance by these regulatory deadlines.

**V. OTHER ISSUES**

*Electric Vehicles*

**Q. DOES THE COMPANY AGREE WITH PIA STAFF’S POSITION THAT THE COSTS AND REVENUES ASSOCIATED WITH EV CHARGING FACILITIES BE EXCLUDED FROM RETAIL COST OF SERVICE?**

A. No. The EV chargers were put in place to help the Company respond to the evolving needs and expectations of its customers, one of which is increased access points for customers to charge electric vehicles. To help the Company respond to and meet this growing demand for EV charging, the Company implemented the EV Pilot Program, which ended in December 2016, and has continued certain aspects of the program with an EV initiative, including the installation of charging stations throughout the state of Georgia.

**Q. HOW HAVE CUSTOMERS BENEFITTED FROM THE EV CHARGERS?**

A. Customers across diverse segments benefit from the Company’s EV chargers. The installation of charging stations helps meet the needs of an increasing number of residential customers who drive electric vehicles by extending the range of the vehicles and saving on fuel all while benefitting the environment by reducing tailpipe emissions. The Company’s residential and business/workplace rebate programs have positive Rate Impact Measure (RIM) values, which helps all customers by putting downward pressure on rates. Commercial and industrial customers are utilizing the Company’s fleet electrification processes and tools to support their needs for both on-road and off-road EV applications, helping them save money on both fuel and maintenance. Rideshare drivers who use EVs on the Lyft platform in Georgia – more than half of whom are from economically disadvantaged areas – are reliant on the Company’s EV chargers to perform their jobs.

**Q. PLEASE EXPLAIN THE PURPOSE OF THE CHARGING INFRASTRUCTURE INVESTMENTS OF $2 MILLION PER YEAR PROPOSED BY THE COMPANY AND THEIR BENEFITS FOR THE CUSTOMERS.**

A. Additional charging infrastructure investment will help meet the increasing charging needs of customers. EV sales in Georgia rose 135% in 2018 compared to 2017, with many industry observers anticipating continued acceleration in EV sales as vehicle costs decline, mileage ranges increase, and more EV models are available. Electric battery pack costs are now below $200/kWh, down from over $1,000/kWh in 2010. According to the Electric Power Research Institute (EPRI), the average mileage range of an EV will increase to 240 miles in 2022, up from 185 miles in 2018 vehicles. By 2023, more than 130 EV models are expected to be available. Additionally, the influx of electric vehicles in rideshare programs – Lyft drivers topped one million miles in six months – requires more public charging to meet their needs.

EV infrastructure deployment serves as a baseline for bringing greater awareness to the benefits of driving electric, including both economic savings and environmental impact. Georgia Power’s deployment strategy connects communities across the state through corridor chargers and serves the needs of existing drivers in high-adoption regions. Through the deployment of EV charging, Georgia Power’s charging deployment is strengthening the backbone of infrastructure necessary to support a growing segment of drivers and further influence future EV adoption. It is through the growing charging network that LYFT selected the Atlanta region for its EV deployment of 50 Chevy Bolts, which creates jobs, advances EV awareness and positively impacts Atlanta’s air quality.

**Q. HAS THE COMMISSION PROVIDED FOR THE RECOVERY OF COSTS ASSOCIATED WITH EV CHARGING FACILITIES IN THE PAST?**

A. Recognizing that this is a matter of Commission policy, the Company notes that the Commission has approved the recovery of costs for EV chargers in some instances in the past. For example, it has allowed recovery of costs associated with EV chargers located on Company premises.

*Property Taxes*

**Q. SHOULD THE COMPANY’S PROPERTY TAXES FOR THE TEST YEAR AND PLAN YEARS 2020-2022 BE ADJUSTED TO REFLECT TAX TRUE-UPS?**

A. No. The Company cannot forecast with any certainty the value of the potential property tax true-ups that it may receive periodically. PIA Staff’s proposed adjustment assumes that the projected annual property tax true-up will be estimable and favorable and inappropriately uses the historical average of the true-ups over the last 17 years as the basis for the adjustment.

**Q. WHY IS THE HISTORICAL AVERAGE PROPERTY TAX TRUE-UP AN INAPPROPRIATE PROXY FOR FUTURE PROPERTY TAX TRUE-UPS?**

A. True-ups, by nature, are unpredictable on a year-to-year basis as actual millage rates and assessed values are undeterminable when accruals are recorded. If they could be reasonably predicted, the Company would not need to record true-ups for property taxes since they would be accrued in the current year for any estimated future true-ups. Many of the prior year property tax true-ups were due to positive outcomes from appeals which do not occur regularly or succeed with any predictability. In addition, each of the Company’s prior appeals were specific to the asset and circumstances at issue.

*Stock-Based Compensation*

**Q. DOES THE COMPANY AGREE WITH THE STOCK-BASED COMPENSATION DISALLOWANCE PROPOSED BY MESSRS. SMITH AND TROKEY?**

A. No. PIA Staff’s proposed disallowance of expenses for the Company’s stock-based compensation program are not based upon any supporting data or market analysis that the Company’s expenses are excessive or that the programs are not competitive with the external market. The fact that the Company previously agreed to remove stock-based compensation for the duration of the then-current ARP as part of a negotiated settlement of the 2013 Rate Case does not imply the Company supports the exclusion of stock-based compensation now or in the future. The budgeted costs to attract, retain and engage employees are expenses that arise in the ordinary course of the Company’s business and appropriately should be included in the Company’s revenue requirements and recovered in retail rates.

**Q. WHY DOES GEORGIA POWER PROVIDE STOCK-BASED COMPENSATION?**

A. The stock-based at-risk compensation program incentivizes employees to make decisions that are in the long-term best interest of our customers and the Company. Customers benefit from a financially healthy company, which should be measured over the short- and long-term to ensure that the decisions made by the Company are optimized for both short- and long-term benefits. This is especially true in the utility industry, where decisions related to infrastructure and other major capital projects may have long-lasting financial consequences to all stakeholders including customers. Customers would be harmed if the Company were to drive its employees to sacrifice long-term financial health for short-term benefits. By designing the at-risk portion of the total compensation plan to include longer-term goals, the Company achieves an appropriate balance that motivates employees to deliver safe and reliable electric service to our customers in a manner that is economically efficient both now and in the years that follow.

1. WHY IS IT IMPORTANT FOR THE COMPANY TO HAVE AN INCENTIVE COMPENSATION PLAN THAT PROVIDES FOR A BALANCE OF OPERATIONAL AND FINANCIAL GOALS?

A. A well-designed total compensation program using sound compensation practice and principles provides a balance between operational focus and financial focus for both the short-term and longer term to drive employee behavior in ways that balance the interests of customers and shareholders alike. A compensation plan that contains only operational goals might inappropriately drive employees to use more financial resources than necessary to achieve operational success. It may also limit the employee’s ability and willingness to focus on process improvement, research and development, which could halt modernization and could jeopardize long-term operational efficiencies, ultimately impacting the customer. Conversely, a plan that contains only financial goals might inappropriately drive employees to make decisions that adversely impact operational success. That is why it is crucial to have a well-designed compensation program that is based on a balanced approach using operational and financial metrics.

**Q. HOW DOES THE COMPANY’S LONG-TERM AT-RISK COMPENSATION PROGRAM COMPARE TO THE EXTERNAL MARKET?**

A. The Company’s long-term at-risk compensation program is comparable to and competitive with the utility industry. Long-term at-risk compensation is not an adder to otherwise competitive compensation but rather an integral component of employee total compensation. As an employee’s total compensation increases with greater responsibility for the direction and performance of the Company, an increasing proportion of total compensation is shifted to long-term at-risk compensation. To remove this component of compensation would result in total compensation that is significantly below market.

**Q. WOULD THERE BE ANY ADVERSE CONSEQUENCES IF THE COMPANY OFFERED BELOW-MARKET COMPENSATION?**

A. Yes. Below-market compensation would result in an inability to attract, retain and motivate qualified employees. It would be undoubtedly difficult for the Company to maintain its high levels of reliability and customer service if the Company’s compensation plans were set below the market median.

**Q. ARE PERFORMANCE SHARES AND RESTRICTED STOCK UNITS PART OF THE COMPANY’S OVERALL EMPLOYEE COMPENSATION PLAN?**

A. Yes. Performance shares and restricted stock units are part of the Company’s overall compensation plan. Long-term at-risk compensation is a legitimate and necessary cost of providing service to customers. It is intentionally designed into the compensation program for employees that are critical to the long-term success of the Company, whose leadership, judgment, and decisions have a major impact on customers.

Providing long-term at-risk compensation through common stock represents a standard and market-competitive compensation expense for the Company, no different than any other compensation elements. Providing long-term compensation through common stock ultimately benefits the customers as the Company uses equity to raise capital needed to ensure that it maintains high levels of customer satisfaction (e.g. by supporting continuous investments in new and existing structures/technologies allowing the Company to maintain top quartile safety, reliability, resiliency and customer service ratings).

**Q.** **IF PIA STAFF’S PROPOSAL TO REMOVE STOCK-BASED COMPENSATION FROM RETAIL JURISDICTIONAL OPERATING EXPENSES WAS APPROVED, WOULD THE COMPANY RECONSIDER THE DESIGN OF ITS CURRENT COMPENSATION PROGRAM?**

A. Yes. Disallowing recovery of stock-based compensation for a level of standard market pay could force the Company, in an effort to align with market compensation, to reconsider the structure of its entire incentive program to remove long-term at-risk compensation in favor of more base pay or short-term at-risk pay.

However, moving long-term at-risk pay to base pay or short-term at-risk pay would not be in the best interests of customers, as it would encourage employees to focus solely on short-term operational performance with no balance or accountability to long-term operational costs and efficiencies. This would diminish incentives to employees to improve operational performance and customer satisfaction regardless of the financial cost to do so. The Company strongly believes that such an imbalance between short-term and long-term compensation would be detrimental to customers and would lead to higher future rate increases with little to no benefit or improvement to operations.

The Company’s existing compensation policy is necessary to attract, motivate, and retain a highly-skilled, dedicated workforce, and to provide customers with efficient, safe, and reliable service while efficiently managing costs. If long-term compensation were eliminated, the Company would have to commensurately increase other components of its total compensation package – such as direct salary costs – to maintain its competitiveness as an employer within the industry and to continue to attract a skilled workforce. It would result in higher fixed costs and poor alignment of all stakeholders’ interests, including customers.

**Q. DOES THE COMPANY AGREE WITH MESSRS. SMITH AND TROKEY’S statement that “the objectives of maximizing shareholder value on the one hand and minimizing costs to ratepayers on the other hand, are generally opposed to each other”?**

A. No. In order to provide a competitive return for shareholders, the Company must constantly find ways to run its business as efficiently as possible without sacrificing customer satisfaction and reliability. The efficiencies gained and the cost reductions resulting from those efforts are returned to customers through lower revenue requirements, as evidenced by the reduction in operations and maintenance expenses in this rate case stemming from the Company’s cost reduction efforts since the 2013 base rate case. Therefore, many of the Company’s actions to increase shareholder returns will result in cost reductions to customers.

*Payroll Taxes*

**Q. DOES THE COMPANY AGREE WITH MESSRS. SMITH AND TROKEY’S ADJUSTMENT TO REMOVE PAYROLL TAX EXPENSES ASSOCIATED WITH STOCK-BASED COMPENSATION?**

A. No. Similar to the Company’s position on stock-based compensation expenses, the payroll tax expenses associated with stock-based compensation are prudently incurred costs associated with providing safe and reliable service to customers and, therefore, should be recovered from customers.

**Q. IS THE AMOUNT OF PAYROLL TAX APPLICABLE TO THE STOCK-BASED COMPENSATion EXPENSE AS CALCULATED BY MESSRS. SMITH AND TROkEY ACCURATE?**

A. No. Mr. Smith and Mr. Trokey applied both the Federal Insurance Contributions Act (“FICA”) and Medicare portions of payroll tax to the stock-based compensation adjustment when calculating the payroll tax expense adjustment to be excluded from retail cost of service. As Mr. Smith and Mr. Trokey noted on schedule E-10 in PIA Staff’s Exhibit\_(RS-RT-2)\_Rev\_Req\_Schs\_Final, it is likely that employees who are eligible for the Company’s stock-based compensation programs would have annual salaries above the projected FICA threshold. Therefore, it is appropriate to apply only the Medicare portion of payroll tax to the stock-based compensation expense when calculating the applicable payroll tax expense adjustment.

*Executive Financial Planning Services*

**Q. DOES THE COMPANY AGREE WITH MESSRS. SMITH AND TROKEY’S ADJUSTMENT TO REMOVE costs associated with EXECUTIVE financial Planning services?**

A. No. Financial planning services are provided to key employees as a benefit. The Company offers this benefit to be competitive in the external market with its competitors who commonly provide this benefit to their key employees. This benefit is provided so employees can focus on providing the highest level of service to customers. As such, these costs are appropriate to include in retail cost of service.

*Storm Damage*

**Q. DOES THE COMPANY BELIEVE A SEPARATE PROCEEDING TO INVESTIGATE AND AUDIT THE COMPANY’S STORM DAMAGE EXPENSES IS NECESSARY AS PROPOSED BY PIA STAFF?**

A. No. The Company relies on a system of financial controls and processes to fully reflect appropriate costs in the storm damage regulatory asset account. Employees follow the Company’s storm damage accounting guidelines to classify appropriate storm damage expenses, which are subject to multiple levels of review. In addition, the Company conducts a periodic internal audit on the storm damage expenses to ensure that the appropriate controls are in place and operating effectively.

**Q. IS THE COMMISSION STAFF CURRENTLY ABLE TO REVIEW EXPENSES IN THE COMPANY’S STORM DAMAGE REGULATORY ASSET ACCOUNT WITHOUT A STAFF INVESTIGATION AUDIT?**

A. Yes. The ASR process affords the Commission a regular and appropriate forum to examine and question Company expenses, including storm damage costs, which they have performed historically. In addition, PIA Staff’s vigorous participation in the Company’s base rate cases, as in the current case, provides ample opportunity for Commission Staff to review and validate the accuracy of expenses charged to the storm damage regulatory asset account. In fact, the Company has responded to approximately 30 storm damage cost-related data requests from Commission Staff in the last six ASR reviews and this base rate case filing. A separate investigation audit of storm damage costs by Commission Staff would be redundant, time consuming, overly burdensome, and costly to the Commission, the Company, and customers.

**Q. HAS PIA STAFF IDENTIFIED ANY ERRORS OR INCONSISTENCIES IN THE COMPANY’S ACCOUNTING FOR STORM DAMAGE COSTS IN GEORGIA POWER’S PRIOR ASR REVIEWS OR BASE RATE CASES?**

A. No. PIA Staff has not proposed any disallowance of storm costs in any of the ASR review processes since the 2013 base rate case.

**Q. DO YOU AGREE WITH MR. BLANK’S RECOMMENDATION TO RECOVER STORM DAMAGE COST THROUGH AN ANNUAL DEFERRED COST RECOVERY MECHANISM AND STORM DAMAGE RECOVERY RIDER?**

A. No. Mr. Blank’s recommendation would be an unnecessary departure from past precedent. Similar to accounting for CCR ARO compliance costs, storm damage costs are separately tracked, and any over- or under-recovery of actual storm damage costs incurred compared to the amounts included in rates are deferred to a regulatory asset.

*Plant Kraft Donation*

**Q. DOES THE COMPANY AGREE WITH MESSRS. SMITH AND TROKEY’S RECOMMENDATION TO APPLY THE TAX SAVINGS RELATED TO THE DONATION OF TRACT-1 AT PLANT KRAFT AGAINST ASH POND CLEAN-UP COST AT PLANT KRAFT?**

A. No. The Company intends to adhere to the Commission’s Order approving the donation of and accounting treatment for Tract-1 Land at Plant Kraft in Docket No. 36989.

**Q. DOES THE COMPANY AGREE WITH PIA STAFF’S ALTERNATIVE RECOMMENDATION TO ALLOCATE PLANT KRAFT CCR ARO COMPLIANCE COSTS TO SHAREHOLDERS?**

A.No. Although Plant Kraft is now retired, the plant served customers with reliable and affordable electricity for over 55 years. The Company is required to comply with the federal and state CCR rules for all ash pond and landfill closures. Donating a portion of Plant Kraft land does not excuse the Company from its legal obligation to comply with CCR rules at Plant Kraft. The CCR ARO compliance costs for Plant Kraft are no different than the CCR ARO compliance costs at any other plants and should not be treated differently.

*Plant Held for Future Use*

**Q. DOES THE COMPANY AGREE WITH MESSRS. SMITH AND TROKEY’S RECOMMENDATION TO LIMIT THE TIME LAND AND LAND RIGHTS ARE CLASSIFIED AS PHFFU TO 15 YEARS?**

A. No. For land to be included in PHFFU, there must be a definite plan for future use in electric service. Although the need date for several items currently held in PHFFU has changed, the future plan and need for the land has not.Much of the land at issue was acquired between 2002-2009 for transmission expansion needed to serve the State reliably under the then forecasted energy and customer growth projections. During this period, the Nation was hit with a significant economic downturn, which delayed but did not eliminate the need for those assets.

**Q. WHAT CONSEQUENCES COULD CUSTOMERS FACE IF THE USE OF PHFFU IS CONSTRAINED?**

A. Land is a limited resource that generally appreciates in value over time. If the Company was required to limit its inclusion of PHFFU in rate base, customers could face increased costs to obtain the same or similar land or land rights in the future. What is more, the land required for future projects may be unavailable when needed because of further development. As land availability becomes more constrained, future land acquisitions are more likely to be obtained through condemnation, which is the Company’s least preferred method of securing land and land rights.

**Q. IS IT NECESSARY FOR THE COMMISSION TO DIRECT THE COMPANY TO EVALUATE WHETHER THE STEWART COUNTY SITE SHOULD BE TRANSFERRED TO NON-UTILITY PROPERTY AS RECOMMENDED BY MESSRS. SMITH AND TROKEY?**

**A.** No. The Company monitors the plan and continued need for each PHFFU item on a quarterly basis. The Company classifies land and land rights in accordance with FERC guidelines. As shown in Exhibit \_\_\_\_ (DPP/SPA-2), 35 items have been classified as PHFFU since the Company’s 2013 base rate case. Of those 35 items, 17 items have been removed from PHFFU while nine items have been added to PHFFU. This activity demonstrates that the Company is using the PHFFU account as FERC intended; therefore, PIA Staff’s proposed evaluation of whether to transfer land like Stewart County from PHFFU to non-utility property is not necessary.

*Gains and Losses on the Sale of Utility Property*

**Q. DOES THE COMPANY AGREE WITH PIA STAFF WITNESSES SMITH AND TROKEY’S PROPOSED METHODOLOGY FOR SHARING GAINS AND LOSSES ON THE DISPOSITION OF UTILITY LAND, INCLUDING PHFFU?**

A. No. While it is unclear if PIA Staff is proposing a sharing ratio for the disposition of land that is not classified as PHFFU, the Company does not support PIA Staff’s proposed sharing ratio or methodology for PHFFU. PIA Staff’s proposal is based on the number of years land is classified as PHFFU, subject to a maximum sharing of 80% for customers. This proposed sharing mechanism seems to create an unnecessary and unworkable administrative burden. The Company prefers the efficiency of uniform treatment of land dispositions, including those in PHFFU, as proposed by the Company.

**Q. DOES THE COMPANY MAINTAIN ITS FUNDAMENTAL POSITION REGARDING THE PROSPECTIVE TREATMENT OF GAINS AND LOSSES ON DISPOSITION OF UTILITY LAND, INCLUDING PHFFU?**

A. Yes. As stated in the Company’s response to data request STF-L&A-5-34, the Company supports the accounting guidance contained in the Code of Federal Regulations (CFR) regarding gains or losses on the disposition of land. Customers pay for the costs to maintain land and a reasonable carrying cost on the land. However, they do not pay for the cost of the land itself. Customers benefit from the Company procuring land for projects to be completed in the future (PHFFU), and the Company agrees with the FERC guidance that any gains or losses from the disposition of such property prior to its use in service should be recorded above-the-line.

In addition, use of property for retail electric service and paying the associated costs for that use does not grant customers a right to the proceeds from the sale of that property upon the end of its useful life in serving customers. This view is consistent with the CFR treatment of the disposition of land formerly in electric plant in service. Further, land goes into rate base at its original cost and is not depreciated, nor can the Company recognize the appreciated value of the land in rate base. The Company assumes the risk for any gain or loss on land used to serve customers. This view is consistent with the Commission’s historical treatment of land.

While the Company still maintains that applying the existing CFR accounting guidance pertaining to gains and losses on the disposition of utility land is appropriate, the Company’s alternate proposal of a 20% customer / 80% Company split of gains or losses on the sale of land addresses issues recently raised by Commission Staff on select transactions.

*Future Nuclear Investigation Costs*

**Q. PLEASE COMMENT ON PIA STAFF’S PROPOSAL TO RECOVER THE STEWART COUNTY SITE INVESTIGATION COSTS FROM THE COMPANY’S SHARE OF 2018 EARNINGS OVER THE BAND.**

A. PIA Staff proposes three options to recover the Stewart County future nuclear site investigation costs from the Company’s earnings in 2018: (1) recover the costs from the total 2018 earnings above the band; (2) recover the costs from the 2/3 portion to be returned to customers; or (3) recover the costs from the 1/3 portion to be retained by the Company. It is unnecessary to propose alternate recovery options for future nuclear site investigation costs because the Commission has already determined the appropriate ratemaking treatment for these costs. The Commission’s Final Order in Docket No. 40161 approved recovery for up to $99 million for costs related to the investigation of future nuclear at Stewart County. The Company spent only $49 million prior to ceasing its investigation activities and putting the Stewart County site into a preserved state. Pursuant to the Commission’s March 7, 2017 Order in Docket No. 40161, the Company appropriately included this $49 million in its revenue requirement for rates effective January 1. 2020. Notably, PIA Staff did not adjust the Company’s revenue requirement to remove these future nuclear costs from rate base or remove the amortization of the same from operating expenses.

However, if the Commission determines that it wants to remove Stewart County investigation costs from the current rate case consideration by using some portion of the Company’s 2018 earnings above the band, it should not impair the Company’s share of those earnings because to do so would be retroactively modifying the Commission’s Final Order in the 2013 rate case. However, if the Commission chose to use some portion of the customer’s share of the 2018 earnings above the band to prepay the Stewart County costs and remove that obligation from the Company’s revenue requirements in this case, that would be a policy determination for the Commission.

*Wholesale Sales*

**Q. DOES THE COMPANY AGREE WITH KROGER WITNESS HIGGINS’ PROPOSED CHANGES IN THE TREATMENT OF MARGINS FROM ECONOMY ENERGY/OPPORTUNITY SALES AND MARKET-BASED TARIFF SALES?**

A. No. The Company currently shares with customers 75 percent of the profits related to economy energy sales and 80 percent of the profits from short-term capacity sales as ordered by the Commission in Docket Nos. 3840 and 18300, respectively. This arrangement allows for an equitable sharing of the profits for the benefit of customers and the Company. By allowing the Company to retain a percentage of the profits, both customers and the Company benefit from the Company’s efforts to maximize profit in pursuing these sales.

**Q. HAS THE EXISTING SHARING ARRANGEMENT FOR OFF SYSTEM SALES PROVIDED A BENEFIT FOR CUSTOMERS?**

A. Yes. Through the Company’s efforts to pursue these transactions, the Company has provided $19.7 million and $16.5 million to customers from economy energy sales and short-term capacity sales, respectively, in the last six years alone.

*Amortization of Retired Unit Remaining Net Book Values*

**Q. DOES THE COMPANY AGREE WITH MS. LACONTE THAT THE REMAINING NET BOOK VALUES OF ALL RETIRED UNITS APPROVED IN THE 2019 IRP SHOULD BE AMORTIZED OVER THE USEFUL LIVES OF THE ASSETS AS APPROVED IN THE 2013 RATE CASE?**

A. No. With the exception of Plant Hammond, the Company has proposed a three-year recovery of these regulatory assets to match the three-year ARP proposed by the Company. The three-year amortization period provides the Company timely recovery of these costs, which has a positive impact on the Company’s credit metrics while reducing the financing costs for customers. In order to mitigate the rate impact to customers, the Company proposed the remaining net book value of Plant Hammond to be recovered over the lives of the units as approved in the 2013 Rate Case Order.

**Q. IS THIS CONSISTENT WITH WHAT THE COMPANY IS PROPOSING FOR OTHER REGULATORY ASSETS AND LIABILITIES?**

A. Yes. The amortization periods of the Company’s regulatory assets and regulatory liabilities should be synced to ensure that cash flow and credit quality do not suffer from asymmetric treatment. The Company is proposing to provide approximately $670 million of benefit to customers associated with the excess accumulated deferred income taxes from the Tax Reform legislation over the three-year ARP period. In addition, the Company is proposing a three-year amortization for future nuclear costs and obsolete inventory from retired units. Should the Commission decide to amortize the regulatory assets over a longer period, the Company requests similar treatment for the regulatory liability (tax reform).

**Q. DOES THIS CONCLUDE YOUR TESTIMONY?**

A. Yes.

1. S&P Summary Georgia Power, October 12, 2018. [↑](#footnote-ref-1)
2. Moody’s Credit Opinion, October 16, 2019. [↑](#footnote-ref-2)
3. Fitch Georgia Power Company, July 29, 2019. [↑](#footnote-ref-3)
4. Phillips, Charles F., Jr., The Regulation of Public Utilities, Arlington, Virginia: Public Utilities Reports, Inc., 1993, at p. 250. See also Public Utilities Reports Guide: “Finance,” Public Utilities Reports, Inc., 2004 at pp. 6-7 (“Generally, the higher the rating of the bond, the better the access to capital markets and the lower the interest to be paid.”). [↑](#footnote-ref-4)