BEFORE THE

GEORGIA PUBLIC UTILITY COMMISSION

In the Matter of	**)**	
GEORGIA POWER COMPANY'S	**)**	**DOCKET NO. 44280**
2022 RATE CASE	**)**	

DIRECT TESTIMONY AND EXHIBITS

OF

DANTE MUGRACE

ON BEHALF OF THE

GEORGIA PUBLIC SERVICE COMMISSION
PUBLIC INTEREST ADVOCACY STAFF

October 20, 2022

PUBLIC DISCLOSURE VERSION

TABLE OF CONTENTS

		PAGE
I.	STATEMENT OF QUALIFICATIONS	1
II.	PURPOSE OF TESTIMONY	2
III.	CASE OVERVIEW AND STRUCTURE OF TESTIMONY-RECOMMENDATIONS	3
IV.	OPERATION AND MAINTENANCE EXPENSE ISSUES SUMMARY	6
	A. OPERATING AND MAINTENANCE EXPENSES	
	1. Production	7
	2. Transmission	7
	3. Distribution	10
	4. Customer Accounting	13
	5. Customer Service & Information	16
	6. Marketing	18
	7. Administrative & General	19
	a. Employee Retention	20
	b. Office Supplies and Expenses	21
	c. Outside Services Employed	22
	d. Property Insurance	24
	e. Injury and Damages	25
	f. Employee Benefits and Pension	26
	g. Miscellaneous General/General Advertising	30
	h. Maintenance of General Plant	31
	8. Inflation Adjustments	32
	9. Contract Labor	36
	a. Overtime	37
	b. Performance Pay Program	38
	c. Vacancy Rate Ratio – Employee Headcount	40
	10. Rate Case Expenses	44
	11. Taxes Other Than Income	45
	a. Property Taxes	45
	b. Payroll Taxes	46
	c. Other Taxes	47

I. STATEMENT OF QUALIFICATION

Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.

A. My name is Dante Mugrace. My business address is 22 Brooks Avenue, Gaithersburg, MD 20877.

Q. WHAT IS YOUR PRESENT OCCUPATION?

A. I am a Senior Consultant with the Economic and Management Consulting Firm of PCMG and Associates, LLC. (PCMG). In my capacity as a Senior Consultant, I am responsible for evaluating and examining rate and rate related proceedings before various governmental entities, preparing expert testimony recommending revenue requirement, as well as, offering opinions on economic policy, policy issues and methodologies used to set a value on a utility's rate base and cost of service components of revenue requirement.

Q. PLEASE SUMMARIZE YOUR PROFESSIONAL EXPERIENCE.

A. PCMG is an association of experts in utility regulation and policy, economics, accounting and finance. PCMG's members have over 75 years collective experience providing assistance to counsel and expert testimony regarding the regulation of electric, gas, water and wastewater utilities that operate under local, state and federal jurisdictions. PCMG focuses on areas regarding revenue requirement, cost of service, rate design, cost of capital and rate of return. Prior to my association with PCMG, I was employed as a Senior Consultant with the consulting firm of Snavely King Majoros and Associates (SKM) from 2013 to 2015, in the same capacity as PCMG. Prior to SKM I was employed by the New Jersey Board of Public Utilities (NJBPU) from 1983 to my retirement in 2011. During my tenure at the NJBPU, I held various Accounting, Rate Analyst, Supervisory and Management Positions. My last position was Bureau Chief of Rates in the Agency's Water Division (Bureau Chief of Rates). I held this position for nearly 10 years. My resume is attached as DM-1.

Q. WHAT EXPERIENCE DO YOU HAVE IN THE AREA OF UTILITY RATE SETTING PROCEEDINGS AND OTHER UTILITY MATTERS?

A. In my capacity as Bureau Chief of Rates at NJBPU, I was responsible for overseeing the rate process regarding administrative, financial, and managerial functions of the Rates

Bureau. My primary duties were to ensure that the jurisdictional utilities had sufficient revenues to cover their operating expenses, the ability to earn a reasonable rate of return on plant investments, and to ensure that the provision of safe, adequate and proper service at reasonable rates was met. During my time at the NJBPU, I was involved in hundreds of rate and rate related proceedings. In my capacity as a Senior Consultant previously with SKM and now with PCMG, I have been and am currently involved in rate and rate related proceedings before the Commissions in the Commonwealth of Massachusetts and Pennsylvania, and the States of Maine, Maryland, New Jersey, New York, North Dakota, and Ohio. I was involved in the Generic Proceedings to Establish Parameters for the Next Generation Performance Based Rate Plans before the Alberta Utilities Commission. I was involved in transmission formula rate plans before the Federal Energy Regulatory Commission (FERC) regarding the PECO Energy Company on behalf of the Pennsylvania OCA and the Rockland Electric Company on behalf of the NJ Division of Rate Counsel.

Q. WHAT IS YOUR EDUCATIONAL BACKGROUND?

A. I hold a Master of Business Administration (MBA) degree with a concentration in Strategic Management from Pace University-Lubin School of Business in New York, New York. I hold a Master of Public Administration (MPA) degree from Kean University in Union, New Jersey. I hold a Bachelor of Science (BS) degree in Accounting from Saint Peter's University in Jersey City, New Jersey.

II. PURPOSE OF TESTIMONY

Q. ON WHOSE BEHALF ARE YOU TESTIFYING?

A. I am testifying on behalf of the Georgia Public Service Commission Public Interest Advocacy Staff ("PIA Staff" or "Staff").

Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY?

A. The purpose of my testimony is to review and make recommendations with respect to the Georgia Power Company's (GPC or Company) 2022 Rate Case's Operation and Maintenance (O&M) Expenses for the test year ending July 31, 2023 and for the three

Alternate Rate Plan (ARP) Years 2023, 2024 and 2025 with respect to just and reasonableness of the expenses and whether any of the expenses have been overestimated. My testimony addresses the Company's historical O&M Expenses that were used as a basis to set the test year O&M Expenses for the twelve months ending July 31, 2023. My testimony addresses the setting of the prospective O&M Expenses related to the Company's ARP for the periods 2023-2025.

III. CASE OVERVIEW AND STRUCTURE OF TESTIMONY- PIA STAFF RECOMMENDATIONS

Q. PLEASE PROVIDE A BRIEF OVERVIEW OF GPC'S RATE CASE FILING?

A. On June 24, 2022, GPC filed a base rate case proceeding with the Georgia Public Service Commission requesting recovery of a Levelized Revenue Deficiency applicable to traditional base rate tariffs of $738.661 million each year in 2023, 2024 and 2025. The Company is also requesting increases in Environmental Compliance Cost Recovery (ECCR), Demand Side Management (DSM) and Municipal Franchise Fee (MFF) tariffs' revenue requirements to be recovered from customers. The Company is proposing to recover an additional $312.245 million during the test year period ending July 31, 2023 and $426.415 million is proposed to be recovered during the 2023-2025 Levelized Adjustment periods ending December 31, 2023, December 31, 2024 and December 31, 2025 (Company Exhibit APA/SPA/ADH/MBR-1 Schedule 2 Traditional Base).

Q. DID THE COMPANY UPDATE ITS FILING SUBSEQUENT TO THE JUNE 24, 2022 FILING?

A. Yes. On August 22, 2023, the Company updated its filing which contained revenue requirement impacts from various items included in the Final Order approved by the Commission in the 2022 Integrated Resource Plan (IRP) and DSM Certification proceedings in Docket Nos. 44160 and 44161, respectively (August 22, 2022 petition).

Q. WHAT O&M EXPENSE ADJUSTMENTS ARE YOU RECOMMENDING?

A. Based upon the use of the Company's test year ending July 31, 2023, I have the following recommendations:

- My recommended O&M Expenses for the test year ending July 31, 2023 is $886 million which is $192 million lower than the Company's expense of $1,078 million.
- My recommended O&M Expenses for the rate year ending December 31, 2023 is $907 million which is $147 million lower than the Company's expense of $1,053 million.
- My recommended O&M Expenses for the rate year ending December 31, 2024 is $906 million which is $147 million lower than the Company's expense of $1,043 million.
- My recommended O&M Expenses for the rate year ending December 31, 2025 is $886 million which is $169 million lower than the Company's expense of $1,055 million.[1]
- I have accepted the Company's Production Expenses for the test year period and for each of the rate year periods (2023-2025) as indicated below:

Test Year	$3,303 million
Rate Year 2023	$3,242 million
Rate Year 2024	$3,147 million
Rate Year 2025	$3,272 million

Q. WHAT APPROACH DID YOU USE IN DETERMINING YOUR ADJUSTMENTS TO THE COMPANY'S O&M EXPENSES?

A. In developing my adjustments to certain of the Company's O&M Expenses, I determined whether the expenses were reasonable, prudent, known and measurable and realistic, and whether the Company should recover these expenses from ratepayers, and whether they were a necessary part of the Company's operations. I reviewed the Company's historical expense data, as well as the Company's forecasted data to determine my recommended O&M expense levels related to the Company's category of expenses for the test year and for each of the rate year periods. The more reliance on forecasted data the more subjectivity was used to determine the estimates proposed in the Company's rate year periods. My

[1] Any differences are due to rounding.

review and recommendation of the Company's O&M Expense levels reflects cost that are recurring over time. My approach incorporates whether expenses should be normalized or averaged out based upon prior historical data and/or whether expenses should be recovered consistently over the rate year periods. The ultimate goal in setting rates for service is to provide the ratepayers with safe and reliable service at reasonable rates with the Company being provided the opportunity to earn a reasonable rate of return on its funded plant investments, and to recovery all known and measurable expenses.

Q. WHAT DID THE COMPANY STATE REGARDING O&M EXPENSES?

A. Mr. Womack stated that despite inflation and increased labor and healthcare costs over the last three years, the Company has worked hard to hold O&M cost escalation below the rate of historical inflation, budgeting about $1.7 billion in 2023 compared to about $2.0 billion of O&M expenses in current rates (Womack testimony at 12). Included in the revenue requirement proposal are incremental inflation adjustments totaling $94 million and adjustments to its non-fuel O&M expenses that reflects a reduction of $163 million that are attributable to projected decreases in costs for employee benefits and effective cost management and reductions for outages and maintenance work on existing and retired coal units (Abramovitz, Adams, Houston and Robinson testimony (hereinafter as AAHR) at 18). The Company stated that storm damage expenses have been reduced from $213 million per year to $65 million per year which reflects the average annual storm damage costs incurred over the past ten years (AAHR testimony at 19).

Q. DO ANY OF THE COMPANY'S O&M EXPENSES INCLUDE COSTS RELATED TO SOUTHERN COMPANY AND SOUTHERN NUCLEAR OPERATING COMPANY?

A. Yes. Southern Company services (SCS) expenses include various engineering costs, system costs, terminal processing charges, miscellaneous computer charges and other general charges to Georgia Power Company (STF-LA-2-6 page 18). With respect to Southern Nuclear Operating Company (SNOC) the Company is allocated costs related to Incentive Compensation and restricted stock awards (STF-LA-2-78 TRADE SECRET and STF-LA-2-81).

IV. OPERATION AND MAINTENANCE EXPENSE (O&M) ISSUES SUMMARY[2]

Q. WHAT HAS THE COMPANY PROPOSED WITH RESPECT TO ITS TEST YEAR OPERATION AND MAINTENANCE EXPENSES FOR THE JULY 31, 2023 PERIOD AND FOR THE THREE YEAR ALTERNATE RATE PLAN DECEMBER 31, 2023, DECEMBER 31, 2024 AND DECEMBER 31, 2025?

A. As shown on Exhibit APA/SPA/ADH/MBR-1 Schedule 1, Supplemental, the Company proposed the following (retail) O&M Expenses for the years as indicated below:[3]

	Production ($ million)	All Other O&M ($ million)
Test Year	$3,303	$1,078
2023	$3,242	$1,053
2024	$3,147	$1,043
2025	$3,272	$1,055

Q. WHAT HAS THE COMPANY RECORDED AND BOOKED WITH RESPECT TO ITS OPERATION AND MAINTENANCE EXPENSES FOR THE CALENDAR YEARS 2018 THROUGH 2022?

A. As identified in response to STF-PIA-7.1, the Company has recorded the following (retail) O&M Expenses for the years as indicated below:

	Production ($ million)	All Other O&M ($ million)
2018	$3,445	$999
2019	$3,278	$959
2020	$2,839	$1,036
2021	$3,648	$1,180
TME June 30, 2022[4]	$5,723	$1,283

[2] All expenses referred to in this testimony are in thousand dollars, unless otherwise noted.

[3] In STF-PCMG-3-4 the Company's adjustment from the June 24, 2022 filing to the Supplemental August 22, 2022 filing was as a result of the 2022 IRP Filing Order approved by the Commission in Docket No. 44160, along with errata items discovered and filed by the Company through data requests. Not all functional O&M expenses are impacted by the items addressed in the 2022 Base Rate Case Supplemental filing.

[4] The Company has not prepared the regulatory and wholesale adjustments for the twelve months ended June 30, 2022 (STF-PIA-7-1).

Q. WHAT INFORMATION HAVE YOU RELIED UPON IN THE DEVELOPMENT OF YOUR TESTIMONY?

A. I have relied on the Company's direct testimonies and related Exhibits referenced in the filing, and the responses to sets STF-PCMG, sets STF-PIA and sets STF-LA interrogatories.

1. Production Expenses

Q. WHAT HAS THE COMPANY PROPOSED WITH RESPECT TO ITS PRODUCTION EXPENSES FOR THE TEST YEAR PERIOD AND FOR THE RATE YEAR PERIODS?

A. As shown in response to STF-PCMG-1-7 and on Company Exhibit APA/SPA/ADH/MBR-1 Schedule 1, (Supplemental), the Company has proposed Production Expense of $3.303 billion in the test year period, $3.242 billion in the rate year period 2023, $3.147 billion in the rate year period 2024 and $3.272 billion in the rate year period 2025.

Q. WHAT ADJUSTMENTS DO YOU HAVE WITH RESPECT TO THE COMPANY'S PRODUCTION EXPENSES?

A. After a review, I do not have any adjustments with respect to the Company's Production Expenses.

2. Transmission Expenses

Q. WHAT HAS THE COMPANY PROPOSED WITH RESPECT TO TRANSMISSION EXPENSES IN THE TEST YEAR AND IN EACH OF THE RATE YEARS?

A. As shown on Company Schedule APA/SPA/ADH/MBR-1 Schedule 1[5] and in response to STF-PCMG-1-7, the Company proposed the following balances for related years shown:

	($ Millions)
Test Year	$139
2023	$118
2024	$122
2025	$129

[5] In its Supplemental Filing dated August 22, 2022, the Company did not make any adjustments to its Transmission Expenses for the test year and the rate year periods as shown.

Q. IN REVIEWING THE DOCUMENTS IN THE FILING AND EVIDENCE PROVIDED THROUGH DISCOVERY, WHAT IS YOUR RECOMMENDATION REGARDING THE COMPANY'S TRANSMISSION EXPENSES FOR EACH OF THE YEARS SHOWN ABOVE?

A. I am recommending averaging out the following Accounts for the Test Year period, and for each of the Rate Year periods 2023-2025):

	(In Thousands $$$)			
	TY 2023	RY 2023	RY 2024	RY 2025
Account 566	($1,942)			
Account 569	($2,187)			
Account 570	($1,282)	$767	($25)	($1,164)
Account 571	($5,268)	($4,945)	($3,193)	($2,748)

Q. PLEASE EXPLAIN YOUR APPROACH AND REASONING FOR EACH OF YOUR ADJUSTMENTS WITH RESPECT TO THE COMPANY'S TRANSMISSION EXPENSES FOR EACH OF THE YEARS SHOWN.

A. With respect to my averaging out of certain expenses in the Test Year 2023, I reviewed the Company's prior three years of actual data as shown in response to STF-PIA-7-1. I utilized the most recent three years of data (2019, 2020 and 2021) to perform my expense averaging. The Accounts listed above (under the Test Year period) revealed variations and fluctuations over the 2019-2021 periods. Expenses under Account 566 are related to miscellaneous transmission expenses and typically fluctuate from year to year depending on the nature of the work involved. Expenses under Account 569 are related to maintenance of structures including computer hardware, computer software, support services and regional transmission services. These costs have fluctuated during the 2019-2021 periods, and I believe are appropriate and reasonable to use as a basis for the projections. By averaging out these costs in the Test Year period, it smooths out any variations and provides for a steady recovery of incurred expenses over the life of the ARP. Expenses under Account 570 are related to maintenance of station equipment and storage equipment. These costs have fluctuated during the 2019-2021 periods, and I believe it is appropriate to average out these costs in the Test Year period, which smooth out any variations providing for a steady recovery of incurred expenses. In calculating my

adjustments, I removed the Labor costs that were included in each of these accounts as shown in response to STF-LA-2-72 and utilized the non-labor costs to average out these expenses for the 2019-2021 periods. Regarding Account 571, these expenses are related to Tree Trimming Expenses – Transmission Forestry (STF-LA-2-65). To calculate my adjustment to the Test Year period I averaged out the costs that were incurred in 2019-2021 and adjusted the sum of the average to the Company's proposed Test Year period balance of $28,596,000. Tree Trimming Expenses vary from year to year as the expenses show in response to STF-LA-2-65, and it is appropriate to average out these costs based upon actual historical balances during the 2019-2021 periods. My adjustments are shown on my Schedule DM-3.

Q. HOW DID YOU ADJUST THESE SAME EXPENSES FOR THE RATE YEARS 2023-2025?

A. In reviewing these expenses for the Rate Years 2023-2025, only two accounts varied considerably from the Test Year period to the Rate Year periods. These are Accounts are 570 and 571. I removed the labor portion that was included in Account 570 [6] and utilized the non-labor costs to average out this expense for the 2023-2025 periods. My reasoning for averaging out this expense is the same as indicated above for averaging out the expenses under the Test Year period. For Account 571, I took the average of Tree Trimming Expenses for the actual historical balances in 2020, 2021 and budgeted 2022 and adjusted the sum of the averages to the Company's proposed Rate Year 2023-2025 balances shown in response to SFT-LA-2-65. The balance in Account 570 shows an annual recovery of $20.296 million (which includes the Tree Trimming- Transmission Forestry expenses) for each of the Rate Years 2023-2025. My adjustments are shown on Schedule, DM-4, DM-5 and DM-6 for the Rate Year periods 2023, 2024 and 2025, respectively. A summary of my adjustments are as follows:

[6] The Company did not provide Contract Labor for 2019 (STF-LA-2-72) so I substituted 2020 for 2019. This is for all three year averages for certain accounts that I utilized a three-year average.

	Company Proposed ($ million)	Staff Recommended ($ million)	Reduction ($ million)
Test Year	$139	$128	$10.7
2023	$118	$114	$4.2
2024	$122	$119	$3.2
2025	$129	$125	$3.9

3. Distribution Expenses

Q. WHAT HAS THE COMPANY PROPOSED WITH RESPECT TO DISTRIBUTION EXPENSES IN THE TEST YEAR AND IN EACH OF THE RATE YEARS?

A. As shown on Company Schedule APA/SPA/ADH/MBR-1 Schedule 1 [7] and in response to STF-PCMG-1-7, the Company proposed the following Distribution Expense balances for the related years shown:

	($ Millions)
Test Year	$332
2023	$318
2024	$328
2025	$340

Q. IN REVIEWING THE DOCUMENTS IN THE FILING AND EVIDENCE PROVIDED THROUGH DISCOVERY, WHAT IS YOUR RECOMMENDATION REGARDING THE COMPANY'S DISTRIBUTION EXPENSES FOR EACH OF THE YEARS SHOWN ABOVE?

A. I am recommending averaging out the following Accounts for the Test Year Period, and for each of the Rate Year periods 2023-2025):

[7] In its Supplemental Filing dated August 22, 2022, the Company did not make any adjustments to its Distribution Expenses for the test year and the rate year periods as shown.

	(In Thousands $$$)			
	TY 2023	RY 2023	RY 2024	RY 2025
Account 581	$876			
Account 583	$540			
Account 584	($821)			
Account 586	($885)	$1,248	$230	($1,504)
Account 587	$91			
Account 588	$591			
Account 591	$592			
Account 592	($1,977)			
Account 593	($19,527)	$2,630	$29	($4,183)
Account 594	($1,590)		($587)	($1,453)
Account 596	($1,484)			

Q. PLEASE EXPLAIN EACH OF YOUR ADJUSTMENTS WITH RESPECT TO THE COMPANY'S DISTRIBUTION EXPENSES FOR EACH OF THE YEARS SHOWN.

A. With respect to my averaging out of certain expenses in the Test Year 2023, I reviewed the Company's prior three years of actual data as shown in response to STF-PIA-7-1. I utilized the most recent three years of data (2019, 2020 and 2021) to perform my expense averaging. The Accounts listed above under the Test Year period, revealed variations and fluctuations over the 2019-2021 periods. Expenses under Account 581 relate to expenses for load dispatching operations pertaining to the distribution of electricity. These fluctuations occur depending on the year to year activities and any construction going on including emergency purposes. Expenses under Account 583 and 584 relate to overhead line expenses and underground line expenses and do vary from year to year depending upon the annual activities for overhead and underground distribution lines and stations. Expenses under Account 586 relate to meter expenses and do vary from year to year depending upon the installation, relocations, inspections, testing and other various supplies and materials. Expenses under Account 587 relate to customer installation expenses and do vary from year to year depending upon inspection of premises, investigations, locations

and installations of fuses, as well as testing and adjusting fixtures on customers' properties. Expenses under Account 588 relate to miscellaneous distribution expenses, include general materials and supplies not provided elsewhere and tend to fluctuate from year to year. Expenses under Account 591 include structure maintenance and tend to vary from year to year. Expenses under Account 592 relate to station equipment maintenance and also tend to vary from year to year depending on the activities incurred and needed to maintain electrical structures. Regarding Account 593, these costs relate to Tree Trimming expenses – Distribution Forestry (STF-LA-2-65) Tree Trimming Expenses tend to vary from year to year as the expenses show in response to STF-LA-2-65, and it is appropriate to average out these costs based upon actual historical balances during the 2019-2021 periods. Company actual costs for the 2019-2021 periods show varying fluctuations from $44.289 million in 2019, $37.548 million in 2020 and $73.656 million in 2021. The Company proposed a balance of $71.358 million for the Test Year period. Given the past actual and historical balances, it is appropriate to average out these costs providing for a steady and consistent recovery over the life of the ARP. These costs have fluctuated during the 2019-2021 periods, and I believe it is an appropriate and reasonable to use them as a basis for the projections. I removed the Labor costs that were included in each of these accounts as shown in response to STF-LA-2-72 and utilized the non-labor costs to average out these expenses for the 2019-2021 periods. My adjustments are shown on my Schedule DM-3.

Q. HOW DID YOU ADJUST THESE SAME EXPENSES FOR THE RATE YEARS 2023-2025?

A. In reviewing these expenses for the Rate Years 2023-2025, only two accounts varied considerably from the Test Year period to the Rate Year period 2023 and three accounts for the Rate Year periods 2024 and 2025. These are Accounts 586 and 593 in Rate Year 2023, and Accounts 586, 593 and 594 for Rate Years 2024 and 2025. I removed the labor portion that was included in these Accounts and utilized the non-labor costs to average out this expense for the 2023-2025 periods. My reasoning for averaging out this expense is the same as indicated above for averaging out the expenses under the Test Year period. For Account 593, I reviewed the activities from the 2029-2021 and compared actual balances to the Company's projected balances for 2022, the Test Year period 2023 and the projections for 2023-2025 Rate Year periods.

I took the average of Tree Trimming Expenses – Distribution Forestry for the actual historical balances in 2020, 2021 and budgeted 2022 and adjusted the sum of the averages to the Company's proposed Rate Year 2023-2025 balances shown in response to SFT-LA-2-65. The Company's Distribution Forestry expenses were $97.237 million for the 12-months ending May 31, 2022 and $99.040 million for the calendar year 2022. The Company budgeted $52.016 million, $54.603 million and $57.320 million for the Rate Years 2023-2025, respectively. I averaged out these expenses arriving at a yearly recovery of $54.646 million beginning in the Rate Year 2023 and through the Rate Year 2025, providing for a consistent and stable expense recovery. The balance in Account 593 shows an annual recovery of $120.260 million (which includes the Tree Trimming- Distribution Forestry expenses) for each of the Rate Years 2023-2025. My adjustments are shown on Schedule, DM-4, DM-5 and DM-6 for the Rate Year periods 2023, 2024 and 2025, respectively. A summary of my adjustments are as follows:

	Company Proposed ($ Millions)	Staff Recommended ($ Millions)	Reduction ($ Millions)
Test Year	$332.091	$308.497	($23.593)
2023	$318.294	$323.698	$5.402
2024	$327.694	$327.366	($.308)
2025	$339.616	$332.475	($7.140)

4. Customer Accounting

Q. WHAT HAS THE COMPANY PROPOSED WITH RESPECT TO CUSTOMER ACCOUNT EXPENSES IN THE TEST YEAR AND IN EACH OF THE RATE YEARS?

A. As shown on Company Schedule APA/SPA/ADH/MBR-1 Schedule 1[8] and in response to STF-PCMG-1-7, the Company proposed the following balances for related years shown:

	($ Millions)
Test Year	$181.949
2023	$188.178
2024	$195.468
2025	$199.520

[8] In its Supplemental Filing dated August 22, 2022, the Company did not make any adjustments to its Customer Accounting Expenses for the test year and the rate year periods as shown.

Q. DID YOU NOTICE ANY MAJOR INCREASES IN PRIOR YEARS 2019-2021 AND FOR THE TEST YEAR, AND FOR EACH OF THE RATE YEARS 2023-2025 RELATED TO ANY OF THE CUSTOMER ACCOUNTING EXPENSES?

A. Yes. In Accounts 902 (Meter Reading), and 903 (Customer Records and Collection), these expenses increased from a balance of $5.422 million (Account 902) in 2019 to $26.146 million in 2021; and for Account 903 from a balance of $90.235 million to $102.493 million in 2021. For the Test Year 2023, Account 902 increased to $30.296 million and leveled off to $30.789 million for 2025. For the Test Year 2023, Account 903 increases to $127.255 million and increased further to $142.368 million for 2025.

Q. WHAT WERE THE REASONS THE COMPANY PROVIDED FOR THESE INCREASES IN THE CUSTOMER ACCOUNTING EXPENSES?

A. In response to STF-PIA-9-3, the Company stated that the increase in this category is primarily due to the Customer Information System (CIS) project of $15.1 million; labor costs of $5.8 million; incremental inflation of $4.6 million; customer payment transaction fees of $4.6 million; Southern Linc of $2.6 million; corporate IT billing of $2.5 million; customer billing administration of $2.2 million, Advanced Metering Infrastructure (AMI) tower lease budget of $1.5 million; and Customer Service System (CSS) of $1.4 million. In response to STF-PIA-9-4, the Company stated that these drivers were the reason for the increase in this category. The Company stated that its CIS is dated (1998) and need to be replaced, given the importance of investing in technology, applications and equipment that allow the Company to provide the best level of service to its customers. The Company stated that it delayed the implementation of a new CIS for as long as possible (STF-PIA-9-5) but Georgia Power, along with other Southern Company electric operating companies are the last major utilities utilizing the current platform and it is becoming increasingly challenging to support as the resources available to support the current system are diminishing. With respect to Transaction Fees, the Company's updated platform will allow multiply payment options to the increasing number of customers who choose to utilize these options (PayPal, Venmo, Amazon Pay, Apple Pay, Google Pay), as well as payment card autopay.

Q. IN REVIEWING THE DOCUMENTS IN THE FILING AND EVIDENCE PROVIDED THROUGH DISCOVERY, WHAT IS YOUR RECOMMENDATION REGARDING THE COMPANY'S CUSTOMER ACCOUNTING EXPENSES FOR EACH OF THE YEARS SHOWN ABOVE?

A. Given that the Company's current CIS has not been replaced in over 20 years, and the fact that current support services are dwindling as resources to support the current CIS system are currently diminishing, I am accepting the Company's invested costs of $40 million which will continue over the ARP needed to upgrade and enhance its Customer Accounting System through the Test Year and the Rate Year periods, however, I am recommending averaging out these costs over the life of the ARP (Rate Years 2023-2025). In response to STF-PIA-9-3, the Company stated that the amount reflected with respect to the update to its CIS system are average increases or decreases over the three year (2023-2025) period. Therefore, a three-year average would reflect incremental adjustments over the Test Year period and provide for a gradual recovery of costs over the life of the ARP. In calculating my three-year average, I removed the labor portion that was included in this Account and utilized the non-labor costs to average out this expense for the 2023-2025 periods (STF-LA-2-72). What I am also recommending is that the Company should provide the implementation dates, actual costs by project (STF-PIA-9-3) and other relevant information and cost components, so that the Commission can track and verify that the costs the Company has included in this filing have actually been expensed and costs components have been implemented, with any differences identified in a separate filing. A summary of my adjustments with respect to the Company's CIS System which is included in Account 903 are as follows:

	Company Proposed ($ Millions)	Staff Recommended ($ Millions)	Reduction ($ Millions)
Test Year	$127.255	$127.255	$0
2023	$132.824	$134.127	$1.303
2024	$139.236	$134.127	($5.109)
2025	$142.368	$134.127	($8.241)

Q. PLEASE EXPLAIN YOUR ADJUSTMENT WITH RESPECT TO THE COMPANY'S CUSTOMER ACCOUNTING EXPENSES – UNCOLLECTIBLE ACCOUNTS FOR THE TEST YEAR 2023.

A. With respect to Uncollectible Accounts, I averaged out these costs for the 2019-2021 period to set a balance for the Test Year 2023. This reduces the Company's Uncollectible Accounts balance by $16,000. Uncollectible Accounts expenses fluctuate from year to year depending on the number of customers unable to pay their utility bill, as well as other reasons beyond the Company's control. This adjustment is shown on my Schedule DM-3.

Q. DOES THE COMPANY SELL ANY OF ITS UNCOLLECTIBLE ACCOUNTS, BAD DEBTS OR WRITTEN-OFF AMOUNT TO THIRD PARTY DEBT COLLECTORS OR TO ITS AFFILIATES?

A. No. As indicated in response to STF-PIA-11-2, the Company did not sell any of its uncollectible accounts, bad-debt, or written off amounts to third party debt collectors or to affiliates.

Q. DID YOU MAKE ANY ADJUSTMENTS TO THE COMPANY'S UNCOLLECTIBLE ACCOUNTS EXPENSE FOR THE RATE YEARS 2023-2024?

A. No. I am accepting the Company's balance of Uncollectible Accounts Expense for the Rate Years 2023-2025.

Q. WHAT ARE YOUR OVERALL ADJUSTMENTS TO THE COMPANY'S CUSTOMER ACCOUNTING EXPENSES?

A. My overall adjustments are as follows:

	Company Proposed ($ Millions)	Staff Recommended ($ Millions)	Reduction ($ Millions)
Test Year	$181.948	$181.932	($.016)
2023	$188.177	$189.480	$1.303
2024	$195.467	$190.358	($5.109)
2025	$199.520	$191.279	($8.241)

5. Customer Service & Information

Q. WHAT HAS THE COMPANY PROPOSE WITH RESPECT TO ITS CUSTOMER SERVICE AND INFORMATION EXPENSES?

A. As shown on Company Schedule APA/SPA/ADH/MBR-1 Schedule 1 (Supplemental) and in response to STF-PCMG-1-7, the Company proposed the following expenses for related years shown:

	($ Millions)
Test Year	$135.075
2023	$137.246
2024	$138.578
2025	$138.418

Q. WHAT WAS THE COMPANY'S CUSTOMER SERVICE AND INFORMATION EXPENSE FOR 2017 - 2021?

A. Customer service and information expense ranged from $79 million to $100 million per year with an average of $91 million per year over the five year period 2017 through 2021.

Q. WHY HAS CUSTOMER SERVICE AND INFORMATION EXPENSE INCREASED BY $46 MILLION PER YEAR OR 50 PERCENT?

A. The Company has included $23 million, $17 million, $18 million and $19 million of regulatory adjustment related to DSM tariff additional sum for the test year, 2023, 2024 and 2025, respectively. The remainder of the increase is from the expansion of existing cost from an average $91 million per year 2017 thought 2021 to $112 million, $120 million, $121 million and $119 million in test year, 2023, 2024 and 2025, respectively.

Q. DID THE COMPANY PROVIDE AN EXPLAINATION FOR THE LARGE INCREASE IN EXISTING CUSTOMER SERVICE AND INFORMATION EXPENSE FROM $91 MILLION PER YEAR TO $120 MILLION PER YEAR?

A. Yes. With respect to data responses to STF-PCMG-3-1, the Company stated that the increase in this account is due to the DSM program expenses in the 2022 Base Rate Case Supplemental filing being recorded in FERC Account 908 and the regulatory adjustment associated with the DSM tariff additional sum, as approved by the Commission in the 2022 DSM Certification Docket No. 44161. In response to STF-PIA 9-8, the Company stated that the increase was due to the DSM returning to full activities in the test period when the pandemic greatly reduced DSM program activities.

Q. WHAT IS STAFF'S RECOMMENDATION?

A. Staff believes that some increase in existing customer service and information expense is warranted but not 33 percent without support from the Company. Staff recommends that existing customer service and information expense grow by five percent per year and regulatory adjustment related to DSM tariff additional sum be recovered.

	Company Proposal ($ millions)	Staff Recommendation ($ millions)	Reduction ($ millions)
Test Year	$135	$118	$17
2023	$137	$117	$20
2024	$139	$123	$16
2025	$138	$129	$9

6. Marketing Expenses

Q. WHAT HAS THE COMPANY PROPOSED WITH RESPECT TO ITS MARKETING EXPENSES?

A. As shown on Company Schedule APA/SPA/ADH/MBR-1 Schedule 1[9] and in response to STF-PCMG-1-7, the Company proposed the following balances for related years shown:

	($ Millions)
Test Year	$32.355
2023	$32.578
2024	$33.510
2025	$34.996

Q. IN REVIEWING THE DOCUMENTS IN THE FILING AND EVIDENCE PROVIDED THROUGH DISCOVERY, WHAT IS YOUR RECOMMENDATION REGARDING THE COMPANY'S MARKETING EXPENSES FOR EACH OF THE YEARS SHOWN ABOVE?

A. I am recommending that the following costs associated with Innovation Center for the Test Year 2023 and for each of the Rate Years 2023-2025 be removed for ratemaking purposes:

[9] In its Supplemental Filing dated August 22, 2022, the Company did not make any adjustments to its Marketing Expenses for the test year and the rate year periods as shown.

Test Year 2023	$1,187,079
Rate Year 2023	$1,215,019
Rate Year 2024	$1,217,717
Rate Year 2025	$1,219,983

In response to STF-PCMG-2-21, the Company identified that Innovation Center costs support evolving and emerging technologies and business practices for the energy and utility industry. These costs bring together internal and external stakeholders to exchange ideas on the evolving technology landscape to help the Company continue to achieve its objectives around reliability, affordability, sustainability, and customer engagement. However, I believe these costs are akin to research and development costs in that these costs are aimed at discovering new knowledge or bring about a significant improvement with the hope that it would be useful in developing a new service or product that might benefit customers. These types of costs incorporate conceptual ideas, designs and testing of alternative similar to prototypes and pilot programs. I believe these types of costs are not known and measurable, as they may not come to fruition or realization in the provision of utility service. These types of costs may not achieve any objective with respect to reliability, affordability, sustainability or customer engagement. The Company has not provided any indication that these types of costs benefit customers. My recommendation is shown on my Schedule DM-3 for the Test Year Period 2023 ($1.187 million), and Schedule DM-4, ($1.215 million) DM-5 ($1.217 million) and DM-6 ($1.219 million) for each of the Rate Years 2023-2025, respectively. My overall summary is as follows:

	Company Proposed ($ Millions)	Staff Recommended ($ Millions)	Reduction ($ Millions)
Test Year	$32.355	$31.168	($1.187)
2023	$32.578	$31.363	($1.215)
2024	$33.510	$32.294	($1.217)
2025	$34.996	$33.776	($1.219)

7. Administrative & General Expenses

Q. WHAT HAS THE COMPANY PROPOSED WIH RESPECT TO ITS ADMINISTRATIVE AND GENERAL EXPENSES?

A. As shown on Company Schedule APA/SPA/ADH/MBR-1 Schedule 1[10] and in response to STF-PCMG-1-7, the Company proposed the following balances for related years shown:

	($ Millions)
Test Year	$258.335
2023	$258.747
2024	$225.063
2025	$213.912

Q. IN REVIEWING THE DOCUMENTS IN THE FILING AND EVIDENCE PROVIDED THROUGH DISCOVERY, WHAT ARE YOUR ADJUSTMENTS AND WHAT ARE YOUR RECOMMENDATIONS REGARDING THE COMPANY'S ADMINISTRATIVE AND GENERAL EXPENSES?

A. In reviewing the documents in the filing, and the evidence provided through discovery, I have several adjustments to the Company's Administrative and General (A&G) expenses for the Test Year period 2023, and for each of the Rate Year periods 2023-2025). My recommendations are included in the each of the items addressed below.

Q. PLEASE EXPLAIN EACH OF YOUR ADJUSTMENTS WITH RESPECT TO THE COMPANY'S A&G EXPENSES FOR EACH OF THE YEARS SHOWN.

a. Employee Retention Costs

Q. WHAT HAS THE COMPANY INCLUDED WITH RESPECT TO EMPLOYEE RETENTION COSTS?

A. In response to STF-PCMG-2-20 and STF-LA-2-94, the Company proposed costs related to Employee Retention. In response to STF-PCMG-2-20, the Company stated that these costs cannot be identified to certain FERC Accounts to which the costs are recorded. I have made adjustment to these expenses in Account 920 – Administrative and General Salaries. The Company has included the following costs related to Employee Retention: **(BEGIN TRADE SECRET)**

[10] In its Supplemental Filing dated August 22, 2022, the Company did not make any adjustments to its Administrative & General Expenses for the test year and the rate year periods as shown.

[redacted]

[redacted] **(END TRADE SECRET)**

Q. WHAT IS YOUR RECOMMENDATION RELATED TO THESE COSTS INCLUDED IN THE COMPANY'S EXPENSES?

A. I am of the opinion that these costs should not be recovered from ratepayers but rather recovered from the Company (shareholders). But for the response noted above, the Company has not provided any further need or reasoning to include these costs in expenses. In response to STF-LA-2-94 **(BEGIN TRADE SECRET)** [redacted] **(END TRADE SECRET).** Ratepayers should not be required to pay for costs related to retention agreements if there is no showing of benefits accrued to them. Therefore, I am recommending that these costs not be recovered from ratepayers. My adjustments are shown on my Schedules DM-3 (Test Year period) and on Schedules DM-4, DM-5 and DM-6, Account 920 – Administrative and General Expenses.

b. **<u>Office Supplies and Expenses</u>** Account 921.

Q. WHAT HAS THE COMPANY PROPOSED WITH RESPECT TO OFFICE SUPPLIES AND EXPENSES UNDER ITS TEST YEAR PERIOD AND FOR EACH OF THE RATE YEARS 2023-2025?

A. In response to STF-PCMG-2-9, the Company proposed to include and recover the following balances related to Office Supplies and Expenses:

	<u>($ Millions)</u>
Test Year	$19.980
2023	$20.387
2024	$21.222
2025	$21.913

Q. WHAT ADJUSTMENTS DO YOU HAVE WITH RESPECT TO THE COMPANY'S BALANCES FOR ITS OFFICE SUPPLIES AND EXPENSES FOR EACH OF THE PERIODS INDICATED ABOVE?

A. I am recommending averaging out the expenses for Office Supplies and Expenses in the Test Year period and accepting the balances in the Rate Year periods 2023-2025. In reviewing the Office Supplies and Expense balances for the historical years 2019-2021, I found variability and fluctuations starting from a balance in 2019 of $20.390 million, $13.546 million in 2020, and $16.747 million in 2021. (STF-PIA-7-1). In determining the three year average balances for these periods, I removed the labor portion in Account 921 as shown in response to STF-LA-2-72, so my average represents only non-labor adjustments. This results is a reduction of $3.124 million from the Company's balance (less Labor) of $13.231 million. I believe it is appropriate to average out these costs under the Test Year period because historical actual prior costs show a trend of fluctuations from year to year depending on the overall general administrative and general department operations, and other functional organizational expenses within the Company. My adjustment is shown on my Schedule DM-3 Account 921. With respect to the Rate Year periods 2023-2025, I reviewed the Company's balances and did not find such variability and fluctuations as I did under the historical years. The variability across the Rate Year periods were minimal and did not result in the need to average out the costs. Given the lack of variability I am recommending accepting the Company's balances for its Office Supplies and Expenses for the Rate Year periods 2023-2025. My adjustments are shown on my Schedule DM-4 Account 921, and Schedules DM-5 and DM-6 Account 921.

c. <u>Outside Services Employed</u> Account 923.

Q. WHAT HAS THE COMPANY PROPOSED WITH RESPECT TO ITS OUTSIDE SERVICES EXPENSES?

A. As shown in response to STF-PCMG-2-10, the Company proposed to include and recovery the following balances related to Outside Services Employed:

	($ Millions)
Test Year	$90.109
2023	$90.771
2024	$91.462
2025	$92.869

Q. WHAT ADJUSTMENTS DO YOU HAVE WITH RESPECT TO THE COMPANY'S BALANCES FOR ITS OUTSIDE SERVICES EMPLOYED EXPENSES FOR EACH OF THE PERIODS INDICATED ABOVE?

A. I am recommending averaging out the expenses for Outside Services in the Test Year period, and in each of the Rate Year periods 2023-2025. In reviewing the Outside Services balances for the historical years 2019-2021, I found variability and fluctuations starting from a balance in 2019 of $73.812 million, $77.138 million in 2020 and $82.707 million in 2021 (STF-PIA-7-1). In determining the three-year average balances for these periods, I removed the labor portion in Account 923 as shown in response to STF-LA-2-72, so my average represents only non-labor adjustments. This results in a reduction of $7.090 million from the Company's balance (less Labor) of $71.339 million. ($64.249 million (three-year average of non-labor expenses) less $71.339 million (three-year average of non-labor expenses). I believe it is appropriate to average out these costs under the Test Year period because historical actual prior costs related to Outside Services Employed shows a trend of fluctuations from year to year depending on the overall use of contracted services related to the number of engagements for consultants, professional services (accountants, auditors, actuaries, appraisers, attorneys, engineers and other professionals employed). These costs vary from year to year depending on the overall administrative and general purpose costs of the Company and the nature of the services performed from year to year. My adjustment is shown on my Schedule DM-3 Account 923. With respect to the Rate Year periods 2023-2025, I reviewed the Company's balances and found the same variability and fluctuations as I did under the historical years. I am recommending an adjustment of $940,000 for Rate Year 2023, $2.319 million for Rate Year 2024 and ($3.258) million for Rate Year 2025. My adjustments are shown on my Schedule DM-4 Account 923, and Schedules DM-5 and DM-6 Account 923.

d. <u>Property Insurance</u> Account 924.

Q. WHAT HAS THE COMPANY PROPOSED WITH RESPECT TO PROPERTY INSURANCE?

A. As shown in response to STF-LA-2-69 and in response to STF-PCMG-1-7, the Company proposed the following balances related to Property Insurance: (Account 924).

	($ Millions)
Test Year	$149.776
2023	$85.362
2024	$85.447
2025	$85.470

Q. WHAT WERE THE REASONS FOR THE DECREASE IN THE COMPANY'S PROPERTY INSURANCE FROM $149.776 MILLION IN THE TEST YEAR AND APPROXIMATELY $85 MILLION IN THE RATE YEARS?

A. As stated in response to STF-LA-69, the Company stated that the decrease in Property Insurance is due to insurance market conditions, adverse claim experience, joint owner allocation ratios, and Nuclear Primary Property Insurance (NEIL) distributions that off-set premium payments. Other changes relate to annual accruals approved by the Commission through base rate proceedings. The largest adjustment is related to the Natural Disaster Reserve- Distribution, which the balance went from $203.551 million in 2020 to $119.221 million in the Test Year 2023. In the Rate Years 2023-2025, the Property Expense related to this account is projected to be approximately $59 million.

Q. WHAT ADJUSTMENTS DO YOU HAVE WITH RESPECT TO THE COMPANY'S PROPERTY INSURANCE?

A. After a review of the documents related to Property Insurance, I do not have any adjustments in the Test Year 2023 and for the Rate Years 2023-2025. The decline in Property Insurance reflects the most recent experience and it appears that prior Property Insurance balances are not expected to recur prospectively. As shown in response to STF-LA-2-69, the Company's Property Insurance is expected to be $239.729 million at the end of 2022 and taper off in the Rate Year 2023 at $85.362 million and maintain that balance through the Rate Years 2024 and 2025. Therefore, I am accepting the Company's Property

Insurance balances for the Test Year period and for each of the Rate Years periods 2023-2025. This is reflected on my Schedules DM-3, DM-4, DM-5 and DM-6 Account 924.

e. Injury and Damages Account 925

Q. WHAT HAS THE COMPANY PROPOSED WITH RESPECT TO INJURY AND DAMAGES?

A. As shown in response to STF-LA-2-70, the Company proposed the following balances related to Injury and Damages:

	($ Millions)
Test Year	$26.786
2023	$27.235
2024	$29.142
2025	$29.394

Q. HOW DID THE COMPANY DEVELOP ITS COSTS RELATED TO INJURY AND DAMAGES?

A. As indicated in response to STF-LA-2-70, the Company assessed the need for an accrual for probable and reasonable estimated losses related to Injury and Damages (I&D), claims, and litigation monthly. The costs in Account 925 (I&D) includes workers compensation, safety and health, claims, and the costs of various liability insurance coverages. The Test period expenditures are based upon historical trend, analysis of current cases/outside litigation and other pertinent information known during the budget preparation. None of the costs included in the Test Year and Rate Years are considered extraordinary or non-recurring and are representative of normal business activities.

Q. WHAT ARE YOUR RECOMMENDATIONS AND REASONINGS WITH RESPECT TO YOUR ADJUSTMENTS RELATED TO INJURY AND DAMAGES?

A. I am recommending averaging out the expenses for I&D in the Test Year period and in each of the Rate Year periods 2023-2025. In reviewing the I&D balances for the historical years 2019-2021, I found variability and fluctuations starting from a balance in 2019 of $21.963 million, $19.915 million in 2020, and $33.470 million in 2021(STF-LA-2-70). In determining the three-year average balances for these periods, I removed the labor portion in Account 925 as shown in response to STF-LA-2-72, so my average represents only non-

labor adjustments. This results in a reduction of $1.640 million from the Company's balance (less Labor) of $26.786 million. ($26.786 million less $25.146 million). I believe it is appropriate to average out these costs under the Test Year period because historical actual prior costs related to I&D show a trend of fluctuations from year to year depending on the damage claims incurred, litigation claims, the costs of various liability insurance coverage, and other various claims shown on STF-LA-2-70. These costs vary from year to year depending on the overall clams, injuries, claims of others, compensation payments and the cost of safety, accident prevention and occupational injuries. My adjustment is shown on my Schedule DM-3 Account 925. With respect to the Rate Year periods 2023-2025, I reviewed the Company's balances and found the same variability and fluctuations as I did under the historical years. I am recommending an adjustment of $622,000 for Rate Year 2023, ($1.285) million for Rate Year 2024 and ($1.537) million for Rate Year 2025. My adjustments are shown on my Schedule DM-4 Account 925, and Schedules DM-5 and DM-6 Account 923.

f. <u>Employee Pension and Benefits</u> Account 926

Q. WHAT HAS THE COMPANY PROPOSED WITH RESPECT TO ITS EMPLOYEE PENSION AND BENEFITS?

A. As shown in response to STF-LA-2-71, the Company proposed the following balances related to its Employee Pension and Benefits:

	<u>($ Millions)</u>
Test Year	($62.054)
2023	($62.456)
2024	($101.017)
2025	($123.295)

Q. HOW DID THE COMPANY DEVELOP ITS BALANCES RELATED TO EMPLOYEE PENSIONS AND BENEFITS FOR THE TEST YEAR AND FOR EACH OF THE RATE YEARS?

A. As stated in response to STF-LA-2-71, the Company's test year expenses and projections are derived from a combination of departmental and Southern Company Services-provided data. These costs are based upon historical trending of previously incurred expenses and

for major component costs associated with pension and benefits programs based upon projections from Aon Hewitt. The Company stated that the costs for these periods do not include any extraordinary or non-recurring expenses and are representative of normal business activities.

Q. WHAT HAS THE COMPANY STATED REGARDING THE NEGATIVE BALANCES RELATED TO EMPLOYEE BENEFITS?

A. As indicated in response to STF-PCMG-2-1, the Company stated that the decreases in this account were largely driven by a reduction in non-service pension costs primarily due to actual and projected asset gains resulting from expected strong market performance. The Company is experiencing changes in asset return, which are expected to cause an adverse impact on non-service pension costs and increase pension expenses in account 926.

Q. WHAT IS YOUR RECOMMENDATION WITH RESPECT TO THE CONTINUALLY DECLINING BALANCES IN THE COMPANY'S EMPLOYEE PENSION AND BENEFITS?

A. Given the continued declining balances related to the Company's asset gains, lower pension costs, post-retirement costs and lower group insurance, I am accepting the Company's balances in the Test Year and for each of the Rate Years. Since 2020, the Company has realized a decline in this account from a positive balance of $18.980 million, to a negative balance of $7.159 million in 2021, and a negative balance as of the twelve months ending 5/31/2022 of $21.406 million.

Q. WHAT DID THE COMPANY PROPOSE WITH RESPECT TO SERP AND SERP-NON-SERVICE COSTS, SERVICE AWARDS AND RECREATION?

A. In response to STF-LA-2-71 the Company proposed the following costs related to SERP Expenses, Service Awards and Recreation:

	Test Year	2023	2024	2025
SERP	$2,750,000	$2,700,000	$2,820,000	$2,930,000
Non SERP	$10,091,000	$9,970,000	$9,550,000	$9,140,000
Service Awards	$807,000	$818,000	$836,000	$856,000
Recreation	$10,000	$10,000	$10,000	$10,000
Total	**$13,658,000**	**$13,498,000**	**$13,216,000**	**$12,936,000**

As shown in response to STF-PCMG-2-12, the Company stated that the SERP and SERP-Non-Service Costs are related to Southern Company SERP and Supplemental Benefits Plan (SBP-Pension) which are non-qualified pension benefits for senior management level employees and represent the increase in the projected benefit obligation resulting from an additional year of service provided by the eligible employee. The SERP-Non-Service Costs are related to the non-service cost portion of SERP and SBP-Pension and represents interest costs, amortization or prior service costs, and any gains or losses from prior years. With respect to the Service Awards costs, the Company stated these represent awards provided to employees based upon various years of service. With respect to Recreation the Company stated that these costs represent miscellaneous meals and travel expenses. The Company stated that these costs were inadvertently budgeted to Employee Pension and Benefits account 926 and should have been budgeted to Office Supplies and Expenses account 921.

Q. WHAT ADJUSTMENT DO YOU HAVE RELATED TO THE COMPANY'S VARIOUS SERP EXPENSES?

A. With respect to SERP and SERP-Non-Service Costs, I am recommending removing these costs from the Test Year period and for each of the Rate Year periods 2023-2025. I believe these types of costs do not benefit ratepayers in the provision of safe and reliable utility service, but rather benefit top executives by rewarding them to be retained by the Company. These types of SERP and related SERP costs are based upon certain agreements to obtain a certain amount of retirement income based upon various eligibility conditions that must be met. SERP costs are used by companies seeking to incentivize key executives in staying with the company. Further, SERP and SERP related costs benefit the Company in that the Company gets the tax benefit because it pays the premiums on the insurance, and even if

the employee quits or passes away, the Company still has access to the insurance cash value and is a beneficiary of the payout. Given this scenario, I see no benefits going to ratepayers and therefore recommend these costs be removed from the Employee Pension and Benefits balance in the Test Year and in each of the Rate Years 2023-2025.

Q. WHAT ADJUSTMENTS DO YOU HAVE WITH RESPECT TO SERVICE AWARDS AND FOR RECREATION COSTS?

A. I am recommending removing these costs from the Company's Test Year period and for each of the Rate Year periods 2023-2025. For the Service Award costs, these costs represent premature anticipated costs in the event an employee reaches a certain number of years of service and are not a known and measurable cost. In the past, the Company has booked $331,000 in 2020, $535,000 in 2021 and $115,000 for the twelve months ending 5/31/2022. In the Test Year the Company is proposing to recover $807,000 and $818,000, $836,000 and $856,000 in the Rate Years 2023-2025, respectively. The Company has not provided any further information as to whether or not employees attained another year of service or whether any criteria was needed to be met in order to receive the bonus. Given this lack of information, I am recommending these costs be removed from the Company's Employee Pension and Benefits account. With respect to Recreation costs, the Company has not booked any costs in 2020, 2021 or for the 12 months ending 5/31/2022. The Company began booking these Recreation costs in the Test Year and for each of the Rate Years 2023-2025 (STF-LA-2-71). The Company has not provided any further reasoning in recovering these costs but for representing it for meals and travel expenses (STF-PCMG-2-12). I do not see these costs as benefitting ratepayers, in that the Company's response does not fully explain the need for these costs (utility services related, customer services related, regulatory related etc.). Therefore, I am recommending these costs be removed from the Company's Employee Pension and Benefits account 926.[11]

[11] I am including this adjustment in Account 926, as the Company has not updated this inadvertent adjustment in its schedules.

g. Miscellaneous General /General Advertising Account 930.

Q. WHAT HAS THE COMPANY PROPOSED WITH RESPECT TO ITS MISCELLANEOUS GENERAL/GENERAL ADVERTISING EXPENSES?

A. As shown on STF-PCMG-1-7 the Company proposed the following Miscellaneous / General Advertising Expenses (In Thousands $$$):

Test Year	2023	2024	2025
$28.109	$27.808	$26.493	$25.385

Q. WHAT ADJUSTMENTS DO YOU HAVE WITH RESPECT TO THE COMPANY'S MISCELLANEOUS GENERAL/GENERAL ADVERTISING?

A. I reviewed the responses to STF- LA-2-57 and STF-LA-2-58, I am recommending removing the following expenses from the Company's Miscellaneous General / General Advertising Expenses (In Thousands $$$):

STF-LA-57	Test Year	2023	2024	2025
Misc. Gen. Exp	$.691	$.702	$.719	$.737
Assoc. Dues	$1.442	$1.459	$1.515	$1.576
Community Svc.	$.093	$.094	$.097	$.098
Total	$2.226	$2.255	$2.331	$2.411
STF-LA-58	Test Year	2023	2024	2025
Add'l Misc. Gen. Exp	$2.656	$2.807	$.828	$0
Experimental	$1.053	$1.060	$1.077	$0
Grand Total	$5.935	$6.122	$4.236	$2.411

Q. WHY ARE YOU RECOMMENDING REMOVING THESE COSTS?

A. I am recommending these costs be removed from the Company's Miscellaneous General /General Advertising because these costs do not benefit ratepayers in the provision of safe and adequate utility service. These costs are directly related to membership fees, state and county chambers of commerce, various civic and community organizations, and other community related development, economic development and other business issues. With

respect to Experimental costs these are related to general research, experimentation and other development work that is not assigned to a specific function on anticipated research administration activities such as strategic research and development, planning and budget (STF-LA-2-58). I believe these types of costs do not benefit ratepayers because they relate to costs that should be borne by local, municipal, and state organizations or the shareholders of the Company. These types of costs are not the sort of expenditures that ratepayers should pay as they are not related to the core business of providing utility service nor are they related to assisting customers in retaining access to utility service. The Company has not provided any evidence to support ratepayer benefits. Further, ratepayers do not have a say as to which entities these costs are paid to, nor do these entities provide any customer with utility service benefits. With respect to Experimental costs, the Company has not provided any results nor has the Company provided whether any research has come to fruition or has been proven useful in the provision of utility service. These types of costs are uncertain in nature. Ratepayers should be responsible for costs that relate to providing utility service that are known and measurable and prudent. These costs provide neither. My recommendation is shown on my Schedule DM-3 Test Year 2023 Account 930, and on Schedules DM-4, DM-5 and DM-6, Account 930 for the Rate Years 2023, 2024 and 2025, respectively.

h. **Maintenance of General Plant** Account 935.

Q. WHAT HAS THE COMPANY PROPOSED WITH RESPECT TO ITS MAINTENANCE OF GENERAL PLANT?

A. The Company proposed the following balances related to Maintenance of General Plant: (In Thousands $$$)

Test Year	2023	2024	2025
$20.631	$22.480	$22.869	$23.172

Q. WHAT ADJUSTMENTS DO YOU HAVE REGARDING THE COMPANY'S MAINTENANCE OF GENERAL PLANT?

A. I am recommending averaging out the expenses under the Test Year period utilizing the expenses in the 2019, 2020 and 2021 periods. I am accepting the Company's expenses

under the Rate Year 2023-2025 periods. In averaging out the expenses to set the Test Year period, I removed the labor portion in Account 935 as shown in response to STF-LA-2-72, so my average represents on non-labor adjustments. The result is a reduction of $1.821 million from the Company's balance (less Labor) of $8.654 million. I believe it is appropriate to average out these costs under the Test Year period because prior costs have fluctuated from year to year depending on the overall maintenance of expense items within Account 935 (materials, office furniture and equipment, miscellaneous equipment, general equipment etc.). The use of a three year average is a reasonable and appropriate approach to use as a basis for projections as it takes into consideration actual historical costs/balances and provides for a stable recurring recovery for costs going forward. With respect to the Rate Years expenses 2023-2025, the fluctuations and variability were minimal, and did not result in the need to average out costs prospectively. My adjustments are shown on my Schedule DM-3 Account 935, and Schedules DM-4, DM-5 and DM-6. My overall summary of adjustments related to A&G Expenses are shown below:

	Company Proposed ($ Millions)	Staff Recommended ($ Millions)	Reduction ($ Millions)
Test Year	$258.335	$224.813	($33.522)
2023	$258.747	$240.504	($18.243)
2024	$225.063	$208.561	($16.502)
2025	$213.911	$193.743	($20.168)

8. Inflation Adjustments

Q. WHAT DID THE COMPANY PROPOSE RELATED TO THE IMPACT ON INFLATION?

A. Company witness Womack stated that the recent levels of significant inflation are impacting the Company. This is due to the unprecedented economic environment, resulting in high uncertainty and increasing costs of goods and services, challenges related to geopolitical tensions, stressed supply chains, and historically high inflation and tight labor markets all exacerbated by a rising interest rate environment that resulted in a tightening federal monetary policy (Womack testimony at 10-11). Mr. Womack stated that the current significant level of inflation, fueled by national and local economic forces, impacts the cost

to serve customers and must be appropriately reflected in the Company's rates (Womack testimony at 11). In AAHR at 18, Company witnesses stated that the incremental inflation resulted in an increase of about $94 million in the Company's revenue requirement.

Q. HOW DID THE COMPANY DEVELOP ITS ADJUSTMENT RELATED TO INFLATION?

A. As indicated in response to STF-LA-2-10, the Company does not create a budget by applying an inflation rate to all the actual or historic year expense. Expenses are reviewed and based upon known increases or decreases the budget amounts are adjusted accordingly. Based upon the type of expenditure, inflation rates may be applied to derive projected expenses. The budget guidelines and assumptions for the 2022 budget process include escalation rates for both labor and non-labor costs. The labor escalation rates are based upon data supplied by the Employment Cost Index (ECI) Private Sector Wage and Salaries and non-labor escalation rates are derived from the Bureau of Economic Analysis Gross Domestic product (GDP) index values as of April 2022. The Company provided the following cost indexes for the ECI and for the GDP:

	ECI	GDP
2022	5.8%	5.8%
2023	5.4%	2.9%
2024	4.5%	2.4%
2025	4.2%	2.3%

Q. WHAT IS YOUR RESPONSE TO THE COMPANY'S PROPOSAL RELATED TO INFLATION ADJUSTMENTS?

A. In response to STF-PCMG-1-5, the Company provided a breakdown of its proposed Inflation adjustment of $94 million by FERC Account No. and by the test year and rate year periods. While not specifically showing the $94 million, the Company provided the incremental inflation adjustments for each of the O&M Expense categories for the time periods in the test year and the rate years (STF-PCMG-2-2). The Company stated that the overall $94 million also includes inflation costs related to capital investments in addition to the operation and maintenance expense adjustments (STF-PCMG-2-3).

	Overall ($ Millions)	Production ($ Millions)	All Other O&M ($ Millions)
Test Year	$58.543	$19.968	$38.574
2023	$67.083	$22.178	$44.905
2024	$75.185	$23.845	$51.340
2025	$80.193	$24.351	$55.841

In response to STF-PCMG-2-3, the Company stated that the $94 million is attributable to both -- capital investment and in addition to operations and maintenance expenses.

Q. WHAT ADJUSTMENTS DO YOU HAVE WITH RESPECT TO THE COMPANY'S INFLATION ADJUSTMENT IN THE AMOUNT OF $94 MILLION?

A. I am accepting the ECI index for labor wage increases, as there is no other way to calculate the adjustment of wages but for cost of living adjustments and bargaining unit agreements. With respect to O&M Inflation, I am accepting the cost adjustments related to Production expenses as these costs adjustments result in a >1.00% increase with respect to the overall Production expenses in the Test Year and in each of the Rate Years 2023-2025. Given that energy costs have been particularly high I have no issues with these expenses in what the Company has proposed. With respect to the remaining expenses All Other O&M expenses, I did an analysis which computed the Company's proposed Inflation Adjustments for All Other O&M Expenses in relation to the Test Year and Rate Years Inflation Adjustments as shown above. The results are shown in the following:

	(In Thousands $$$) Co. All Other O&M	% Increase	GDP%[12]	Difference
Test Year	$1,078,429	3.577%	4.35%	.773%
2023	$1,053,069	4.264%	2.90%	-1.34%
2024	$1,042,622	4.924%	2.40%	-2.524%
2025	$1,055,311	5.291%	2.20%	-3.091%

As shown above, the expense adjustment related to Inflation in the Test Year are below the GDP of 4.35%. However, the expense adjustments related to Inflation in the Rate Years 2023-2025 are higher than the GDP in these years. I am recommending adjusting the

[12] The GDP % is computed by the average of the 2022 % of 5.80% and the 2023 % of 2.90% or 4.35%.

inflation by limiting the incremental costs beyond 2023 to 2.90%, 2.40% and 2.20% for Rate Year 2023, 2024 and 2025, respectively (STF-LA-2-10), as these costs cannot completely be known and measurable in a future period.

Q. PLEASE EXPLAIN YOUR OVERALL REASONING RELATED TO THE COMPANY'S PROPOSED INFLATION ADJUSTMENTS AS IT PERTAINS TO THE SETTING OF RATES.

A. It is my opinion that the use of inflation rates and factors to set rates for service in ratemaking are not a known and measurable cost, in that these types of cost increases do not reflect the actual costs the Company will incur, but rather estimates with no foundational reasoning. These types of costs are essentially broad economic adjustments that do not particularly address any one individual expense category. Inflation adjustments are overall blanket type adjustments that are applied to all goods and services that may or may not be related to costs incurred by the Company, especially if the GDP is used, which is a broad basket of consumer goods and services such as housing, clothing, food, etc. While such inflation costs adjustments are typically used to develop economic data, they should not be used for ratemaking purposes in most cases. In this case, under the Company's ARP, inflation may not stay elevated during the term of the 3-year rate plan. I believe that the Company's inflation adjustment forecast is too high, and it may result in rates being set too high for utility service. Given this situation, I am recommending lowering the Company's proposed Inflation Adjustments in the Rate Years as follows:

		Recommended O&M Expense Level (In Thousands $$$)			
		Test Year	2023	2024	2025
		$996,396	$1,009,270	$997,109	$999,562
	GDP	4.35%	2.90%	2.40%	2.20%
Adjustment		$43,343	$29,269	$23,930	$21,990
Co. Proposed		$38,574	$44,905	$51,340	$55,841
Difference		$4,769	($15,543)	($27,378)	($33,717)

Based upon the above analysis, I am recommending no adjustment to Inflation in the Test Year, but adjustments to the Rate Years 2023-2025, of ($15,636), ($27,409) and ($33,851),

respectively. My adjustments are summarized below and are shown on my Schedule DM-2.

	Test Year	2023	2024	2025
Co. Proposed	$38,574	$44,905	$51,340	$55,841
Staff Recommend	$38,574	$29,269	$23,930	$21,990
Reduction	$0	($15,543)	($27,378)	($33,717)

9. Contract Labor

Q. WHAT HAS THE COMPANY IDENTIFIED WITH RESPECT TO LABOR COSTS FOR THE TEST YEAR AND FOR EACH OF THE RATE YEAR PERIODS?

A. As shown on STF-LA-2-72, the Company has proposed the following levels of Contract Labor:

	($ Millions)
Test Year	$428.468 [13]
2023	$387.339
2024	$373.920
2025	$363.444

Q. WHAT WERE THE REASONS GIVEN BY THE COMPANY REGARDING THE VARIATIONS OF CONTRACT LABOR FROM THE TEST YEAR PERIOD THROUGH THE RATE YEARS 2023-2025?

A. As more specifically addressed in response to STF-LA-2-72, the Company stated the reasons for the variations of Contract Labor were due to outages schedules, maintenance activities, permanent reduction in maintenance expense on steam production, variations in yearly spending in both asset and vegetation management driven by workload and economic conditions, participation levels in DSM programs, DSM program evaluation, and growth in electric transportation programs, facility management, legal spend, rate case costs and advertising. In response to STF-LA-2-73, the Company stated that the decrease in employee headcount from prior years are the result from attrition, turnover and cost

[13] A more detailed breakdown is shown on STF-LA-2-72 Attachment.

containment initiatives by the Company. The Company stated that it continues to review business processes to enhance customer experience as well as focus on efficiency. The actual headcount has been reduced by about 438 employees since 2019. In response to STF-PCMG-2-13, the Company further stated that the decrease in projected contract labor O&M from $448.492 million in 2022 to $363.444 million in 2025, was largely due by decreases in contract labor related to steam generation, transmission, and distribution functions. The projected decrease in steam generation contract was driven by lower outage spend in 2024 and 2025 as well as projected steam unit retirements. The reduction in distribution contract labor was driven by lower vegetation management spend and the completion of the distribution backlog in 2022. The projected decrease in transmission contract labor was driven by lower asset management spend due to current and forecasted economic conditions.

Q. WHAT ADJUSTMENTS DO YOU HAVE WITH RESPECT TO THE COMPANY'S CONTRACT LABOR COSTS FOR THE TEST YEAR AND FOR EACH OF THE RATE YEAR PERIODS?

A. After reviewing the responses to the discovery and the Company's labor escalation rates as identified in STF-LA-10, I am accepting the Company's adjustments related to salaries and wages in the Test Year and for each of the Rate Years (2023-2025). My adjustments are related to the Company's (a) Overtime Expenses; (b) Incentive Compensation- Long Term Performance Pay Program (LTPP); (c) Incentive Compensation – Performance Pay Program (PPP); (d) Incentive Compensation – Stock Based Compensation and: (e) Vacancy Rate Ratio- Employee Headcount. I will explain each of my adjustments below.

a. <u>Overtime (See LA-2-75)</u>

Q. WHAT HAS THE COMPANY PROPOSED WITH RESPECT TO OVERTIME EXPENSES FOR THE TEST YEAR PERIOD AND FOR EACH OF THE RATE YEAR PERIODS?

A. As shown in response to STF-LA-2-75, the Company projected Overtime O&M Expenses as follows:

		Different
Test Year	$20,680,981	
2023	$20,629,677	($51,304) or .2%
2024	$21,199,176	$569,499 or 2.76%
2025	$21,389,942	$190,766 or .9%

Q. WHAT ADJUSTMENTS DO YOU HAVE?

A. I am recommending averaging out the Overtime Costs to set the Test Year period 2023 and accepting the Overtime costs for the Rate Years (2023-2025). In reviewing the Overtime Costs in STF-LA-2-75, the Company had overtime expenses of $19.013 million in 2020, $25.857 million in 2021 and $21.029 million in 2022. Averaging out these costs results in a normalized level of $21.966 million in the Test Year. This results in an increase of $1.286 million from the Company's Overtime Costs in the Test Year of $20.680 million. Prior Overtime costs has fluctuated from a low of $19.013 million in 2020 to a high of $31.685 million as of the twelve months ended 5/31/2022. My adjustment is shown on my Schedule DM-11.

b. Incentive Compensation Performance Pay Program (PPP)

Q. WHAT HAS THE COMPANY PROPOSED WITH RESPECT TO ITS PPP?

A. As shown on Confidential response to STF-LA-2-81, the Company included the following PPP in its filing, specifically in its Operating Expenses for Georgia Power Company, allocated from Southern Company Services and allocated from Southern Nuclear Company(a full breakdown is shown in response to STF-LA-2-81):

	(In Millions) PPL
Test Year	$115.336
2023	$119.171
2024	$89.427
2025	$128.286

Q. PLEASE DESCRIBE THE COMPANY'S PEFORMANCE PAY PROGRAM (PPP)

A. As more fully described in the response to STF-LA-2-78 Attachment A **(BEGIN TRADE SECRET** [redacted] **(END TRADE SECRET).**

Q. HOW ARE PERFORMANCE GOALS WEIGHED?

A. As identified in response to STF-LA-2-79, the Company has weighed the components of the overall program by one-third operational goals,[14] one-third business unit financial goals (net income for Georgia Power) and one-third earnings per share.

Q. DID YOU ASK THE COMPANY WHAT THE ACTUAL RESULTS OF THE COMPANY'S PPP WERE IN PRIOR YEARS?

A. Yes, in response to STF-PCMG-2-18, I asked the Company to provide the actual results of the Company's PPP for the years 2017-2021 and for the expected year 2022, including the dollar amount associated with each program component and the dates of payouts.

Q. WHAT WERE THE RESULTS OF THE COMPANY'S PPP FOR THOSE YEARS?

A. The Company stated that results for the 2017-2021 years were in excess of 100% of the Performance Goal factors(STF-LA-2-79). These included assumptions for directly incurred – GPC, allocated from SCS to GPC and allocated from SNC to GPC. The 2022 actual results will not be available until the year is complete. The PPP is funded at the total performance level and, therefore, the dollar amount associated with each program component are not available.

Q. WHAT IS YOUR RECOMMENDATION?

A. Based upon the criteria of the PPP which allocates one-third of the overall annual Performance Based Compensation by operational goals, business unit financial goals and

[14] Operational Goals refer to Safety, Customer Satisfaction, Generation Reliability, Plant Vogtle Unit 3 & 4, Project Assessment, Transmission Reliability, Distribution Reliability and Culture.

earnings per share, I am recommending that only the operational goals be allowed in the O&M Expenses.

(BEGIN TRADE SECRET)

[redacted]

(END TRADE SECRET)

Q. PLEASE EXPLAIN YOUR ADJUSTMENTS.

A. I am recommending that the Company not recover PPP compensation related to financial goals (Net Income for Georgia Power) and for earnings per share, but only for operational goals that related to ratepayer benefits in the area of safety, culture, customer satisfaction, major projects, availability, reliability and such goals that benefits the provision of safe and reliable utility service to customers (STF-LA-2-78 Attachment B page 6). I do not believe that incentive compensation related to increasing net income and financial performance goals that affect the Company's, SCS's and SNC's earnings per share should be afforded recovery from ratepayers. These types of incentive costs benefit the Shareholders of the Company, and of SCS and SNC, and do not directly benefit the ratepayers in the area of safe and reliable utility service[15]. My recommendation is shown on my Schedule DM-11 Performance Pay Plan.

c. <u>Vacancy Rate Ratio Adjustment</u> (Employee Headcount)

Q. HAS THE COMPANY PROPOSED A VACANCY RATE RATIO IN ITS DEVELOPMENT OF ITS TEST YEAR EXPENSES OR IN EACH OF ITS RATE YEAR EXPENSES 2023-2025?

[15] In response to STF-LA-2-78 Attachment B page 6, refers to Appendix C related to Financial and Operational Goals. Although it has not been specifically identified, page 15 of 15 appears to be Appendix C.

A. No, not of which I am aware.

Q. WHAT HAS THE COMPANY PROVIDED WITH RESPECT TO ITS VACANCY RATIO RATE FROM 2017 THROUGH 2021?

A. As shown in response to STF-PCMG-2-14, the Company calculated a vacancy ratio rate of 10% in 2017, 6% in 2018, 6% in 2019, 9% in 2020 and 10% in 2021.

Q. WHAT HAS BEEN THE EMPLOYEE LEVEL OR EMPLOYEE HEADCOUNT FROM 2016 THROUGH THE RATE YEAR 2025?

A. As shown in response to STF-LA-2-73, the Company had the following Employee Headcount for the years in question:

Number of Employees	Year	Difference
7,527	2016	
6,986	2017	(541) or 7.18%
6,967	2018	(20) or .28%
6,984	2019	17 or .24%
6,835	2020	(149) or 2.13%
6,583	2021	(252) 3.68%
7,016	2022	433 or 6.57%[16]
7,016	2023	
7,016	2024	
7,016	2025	

Q. WHAT WERE THE REASONS THAT THE COMPANY CLAIMED TO EXPLAIN THE YEAR TO YEAR VARIANCES?

A. In response to STF-LA-2-73, the Company stated that the decrease in headcount from 2016 through 2021 was primarily due to attrition, turnover and cost containment initiatives by the Company. The Company has continued to review business processes to enhance customer experience as well as focus on efficiency. The actual headcount has been reduced by about 438 employees since 2019.

Q. HAS THE COMPANY EXPLAINED THE NEED TO HIRE APPROXIMATELY 470 EMPLOYEES FROM THE MAY 2022 ACTUAL HEADCOUNT TO THE TEST YEAR AND RATE YEAR PERIODS?

[16] Actual Headcount as of May 2022 was 6,546 (STF-LA-2-73).

A. In response to STF-PCMG-2-15, the Company stated that its staffing level at any point in time is dynamic and will fluctuate as hiring and attrition are a part of normal business operations. Therefore, vacancies will occur throughout the rate year periods as part of normal business and will fluctuate accordingly. The hiring and attrition process will also vary based upon the needs of the business at that time. Because of the normal inflows and outflows of headcount throughout the year, it is difficult to project or develop a schedule of expected hirings. During the interim when vacancies are not filled, labor cost continues to be incurred as the work is performed by overtime from existing workforce and contract labor.

Q. WHAT IS YOUR RECOMMENDATION?

A. For the Test Year, I am recommending a vacancy ratio rate based upon the prior three years of historical data (2019, 2020 and 2021). Averaging out the vacancy ratios for these periods results in an average vacancy ratio rate of 8.33%. (6%+9+10%)/3.

Q. PLEASE EXPLAIN YOUR REASONING FOR A VACANCY RATE RATIO ADJUSTMENT.

A. As stated in response to STF-PMCG-2-14, the Company stated that vacancies occur throughout the year and will fluctuate from month to month. Attrition rates are on the rise and replacing positions externally has been challenging with the current competitive labor market. The Company's historical vacancy rate ratio trend provides a good indicator of what is to be expected going forward, given the current labor market and based upon the Company's staffing plans and individual business unit work plans. Given that the Company experiences vacancies throughout the year, it is appropriate to take these vacancies into consideration when setting labor costs. These vacancies are due to a number of factors -- employee stability, voluntary and involuntary leave by employees, increased / decreased work load, shifting of employees from one affiliated entity to another (business unit staffing), difficulty to fill vacancies due to the challenge of attracting and retaining employees and overall business strategy. Using the Company's projected Contract Labor of $428,467,945 minus my recommended reduction related to Performance Pay Incentive Compensation booked in the Test Year, my net Contract Labor for purposes of calculating my vacancy rate ratio is $322,291,871. Using my average vacancy rate ratio of 8.33%, I

compute an adjustment of $29,286,360 for the Test Year period. This is shown on my Schedule DM-11.

Q. WHAT ADJUSTMENTS ARE YOUR RECOMMENDING RELATED TO THE COMPANY'S PROPOSED ADDITIONAL EMPLOYEES OF 470?

A. I am recommending phasing these employees over the Company's three-year rate plan (2023-2025). Using the Company's proposed additional 470 employees and dividing that by the Company's current employee staff level of 6,546 as of May 2022, this results in a ratio of 7.18%. Dividing the 7.18% over the three-year rate plan an annual rate of 2.39% is computed. I then reduced the employee additions in the Rate Year 2023 by taking the Company's proposed Contract Labor in 2023 of $387,339,165 (minus my recommended adjustments related to Performance Pay - Incentive Compensation) and multiplying that amount by two-thirds of the overall 470 additional employees (2.39% times 2= 4.786%) to arrive at an adjustment of $14,737,684 for the Rate Year 2023. For the Rate Year 2024 I reduced the employee additions by taking the Company's proposed Contract Labor of $373,920,349 and multiplying that amount by one-third or 2.39% or $7,522,258. Finally, in the Rate Year 2025, I assumed that the Company will have hired the remaining one-third of the employees, so there will be no reduction in the employee additions. My adjustments are shown on my Schedule DM-11 Additional Employees. Below is a summary of my recommended employee head count:

Number of Employees	Year	Difference	Head count Staff Recommended	
7,527	2016			
6,986	2017	(541) or 7.18%		
6,967	2018	(20) or .28%		
6,984	2019	17 or .24%		
6,835	2020	(149) or 2.13%		
6,583	2021	(252) 3.68%		
7,016	2022	433 or 6.57%[17]		
7,016	2023		6,702	(314)
7,016	2024		6,860	(156)
7,016	2025		7,016	0

[17] Actual Headcount as of May 2022 was 6,546 (STF-LA-2-73).

10. Rate Case Expenses

Q. WHAT HAS THE COMPANY PROPOSED WITH RESPECT TO RATE CASE EXPENSES AND EXPENSES ASSOCIATED WITH COSTS RELATED TO STAFF CONSULTANTS?

A. As shown in response to STF-LA-67, the Company provided for a total rate case expenses of $4.682 million. The Company stated that all rate case expenses for the test year are projected to be expensed in 2022. In addition to $4.682 million of budgeted rate case expenses, the Company included $785,405 as a regulatory adjustment for costs paid by the Company for GPSC Staff Consultants as defined in the Procedural Scheduling Order and are expensed as incurred by the Company. In response to STF-LA-2-67, the Company provided a breakdown of these costs:

A&G Labor (FERC 920)	$ 801,000
Print, Postage, Meals/Travel & Office Supplies (FERC 921)	$ 95,000
Outside Legal Counsel (FERC 923)	$2,500,000
Consulting Fees (FERC 928)	$1,286,000
Total	**$4,286,000**

Q. DO YOU AGREE THAT THE COMPANY SHOULD EXPENSE ALL OF ITS RATE CASE COSTS IN 2022?

A. Yes. By expensing rate case cost in 2022 will avoid any impact on customers' bills in 2022 or future years (2023 – 2025).

Q. WHAT REASONS DID THE COMPANY PROVIDE TO EXPENSES THESE COSTS IN 2022?

A. In response to STF-PCMG-2-11, the Company stated that it is not proposing to defer and amortize the 2022 rate case expenses. The total amount of $4.682 million are projected to be incurred in the 2022 calendar year and will be expensed as incurred.

Q. WHAT IS YOUR RECOMMENDATION REGARDING RECOVERY OF RATE CASE EXPENSES AND RECOVERY OF EXPENSES FOR COSTS PAID BY THE COMPANY FOR COMMISSION CONSULTANTS?

A. I am accepting the Company's balance to rate case expenses with the proposal of expensing them in 2022.

11. Taxes Other Than Income

Q. WHAT HAS THE COMPANY PROPOSED WITH RESPECT TO ITS PROPERTY TAXES?

A. As shown on Exhibit APA/SPA/ADH/MBR-1 Schedule 1 Total Company Supplemental, the Company has proposed the following balances of Taxes Other Than Income Taxes:

		Difference
Test Year 7/31/2023	$306.198 million	
Rate Year 2023	$312.588 million	$6.389 million
Rate Year 2024	$338.778 million	$26.190 million
Rate Year 2025	$362.821 million	$24.043 million

Q. WHAT IS INCLUDED IN THE COMPANY'S TAXES OTHER THAN INCOME TAXES CATEGORY?

A. Included in the Company's Taxes Other Than Income are Real and Personal Property Taxes, Payroll Taxes, and Other Taxes such as State of Georgia Taxes, State of Alabama Taxes and Other Taxes not identified (STF-PCMG-1-13).

Q. WHAT REASONS DID THE COMPANY PROVIDE REGARDING THE DIFFERENCES BETWEEN THIS ACCOUNT IN THE TEST YEARS AND DURING THE RATE YEARS?

A. In response to STF-LA-2-42, the Company stated that the projected year-to-year major differences are increases to assessment values resulting in increased real and personal property taxes, as well as variances to the municipal franchise fees and fluctuations in payroll taxes in future years. In response to STF LA-2-43, the Company indicated there were no property tax valuation true-ups for the forecasted test year period and for the rate year periods 2023-2025.

a. Property Taxes

Q. DID THE COMPANY PROVIDE A BREAKDOWN OF ITS PROPERTY TAXES FOR THE TEST YEAR PERIOD AND FOR EACH OF THE RATE YEAR PERIODS?

A. Yes. In response to STF-PCMG-1-13, the Company provided a breakdown of its Property Taxes for the test year period and for each of the rate year periods. Below is a breakdown:

	($ Millions)	Difference
Test Year	$278.4	
2023	$285.2	$6.7
2024	$310.6	$25.5
2025	$333.8	$23.1

Q. WHAT WERE THE REASONS THE COMPANY STATED FOR THE NEED TO PAY FOR PROPERTY TAXES IN OTHER STATE JURISDICTIONS?

A. In response to STF-PCMG-2-6, the Company stated that the need to pay for property taxes in other State jurisdictions is that the Company owns operating property located in Alabama, Mississippi and South Carolina which includes stored gas, hydro and solar generation sites, transmission lines, substations and general equipment that supports the Company's electric operations in Georgia. The Company pays real and personal property taxes in these States.

Q. WHAT ADJUSTMENTS DO YOU HAVE?

A. I reviewed the Company's balances with respect to its UPIS balances for the Test Year and for each of the Rate Years and am recommending the use of the following ratio percentages to calculate the property taxes.

	($ thousands) UPIS Balance	($ thousands) Property Taxes	Ratio
Test Year	$42,412,823	$278,454	.657%
2023	$43,460,812	$285,190	.656%
2024	$46,296,211	$310,649	.671%
2025	$48,852,298	$333,789	.683%

My calculations related to the Property Tax ratios are shown on my Schedule DM-7, DM-8, DM-9 and DM-10.

b. Payroll Taxes

Q. WHAT HAS THE COMPANY PROPOSED WITH RESPECT TO ITS PAYROLL TAXES?

A. As stated in response to STF-PCMG-1-13, the Company proposed the following Payroll Taxes expense for the years as indicated below:

	($ Millions)	Difference
Test Year	$29.958	
2023	$29.657	($.301)
2024	$30.169	$.512
2025	$31.114	($.945

Q. WHAT ADJUSTMENTS DO YOU HAVE WITH RESPECT TO THE COMPANY'S PAYROLL TAXES?

A. My adjustments are related to my overall Contract Labor adjustments shown on my Schedule DM-11. Using my recommended balances in the Test Year and for each of the Rate Years 2023-2025 and the Payroll Tax Ratios for each of these years, I've calculated my Payroll Taxes as follows, which includes a comparison to the Company's proposed expense:

	Company Proposed In Millions)	Staff Recommended ($ Million)	Difference ($ Millions)
Test Year	$29.9	$22.5	($7.4)
2023	$29.6	$22.4	($7.2)
2024	$30.1	$24.7	($5.4)
2025	$31.1	$23.7	($7.3)

c. Other Taxes [18]

Q. WHAT HAS THE COMPANY PROPOSED WITH RESPECT TO OTHER TAXES?

A. As shown on STF-PCMG-1-13, the Company proposed a balance of Other Taxes in the amount of $21 million for the test year period and for each of the rate year periods (2023-2025).

Q. DO YOU HAVE ANY ADJUSTMENTS?

A. No. I am accepting these Other Taxes expense unless any other additional information arises.

[18] With respect to the State of Georgia Taxes and the State of Alabama Taxes shown in response to STF-PCMG-1-13, I do not have any adjustments related to these expenses.

Q. DOES THIS CONCLUDE YOUR DIRECT TESTIMONY?

A. Yes, it does. I reserve the right to update my testimony in the event subsequent information becomes available that may affect my recommended adjustments in this proceeding.