FLORIDA PUBLIC SERVICE COMMISSION

Fletcher Building
101 East Gaines Street
Tallahassee, Florida 32399-0850

MEMORANDUM

January 29, 1990

TO : DIRECTOR OF RECORDS & REPORTING

FROM: DIVISION OF ELECTRIC & GAS (Slemkewicz, Merta, Revell, Romig, Ballinger, Harvey, Meeter, Shea)
DIVISION OF AUDITING & FINANCIAL ANALYSIS (Brand, Seery)
DIVISION OF LEGAL SERVICES (Brownless)

RE : DOCKET NO. 891345-EI - PETITION BY GULF POWER COMPANY FOR AN INCREASE IN RATES AND CHARGES.

AGENDA: FEBRUARY 6, 1990 - CONTROVERSIAL AGENDA

PANEL: FULL COMMISSION

CRITICAL DATES: FEBRUARY 13, 1990 - 60-DAY PERIOD ENDS

ISSUE AND RECOMMENDATION SUMMARY

ISSUE 1: Should the $26,295,000 permanent rate increase requested by Gulf Power Company (Gulf) be suspended pending final decision in this docket?

RECOMMENDATION: Staff recommends that the $26,295,000 permanent increase requested by the company be suspended pending a final decision in this docket.

ISSUE 2: Should average or year-end rate base be used in determining the need for interim relief?

RECOMMENDATION: A 13-month average rate base ended September 30, 1989 should be used. (ROMIG)

ISSUE 3: Gulf capitalized $1,964,394 ($6,937,131 System) in excess of the original cost capitalized by Georgia Power Company for its 25% share of Plant Scherer, Unit No. 3. Is this appropriate?

RECOMMENDATION: No. Plant in Service should be reduced by $1,964,394 ($6,937,131 System). Accumulated Depreciation should be reduced by $190,153 ($671,515 System) and Depreciation Expense should be reduced by $78,453 ($277,485 System). (REVELL)

ISSUE 4: As a result of its purchase of a portion of the common facilities at Plant Scherer, Gulf recorded an acquisition adjustment of $2,458,067 ($8,680,507 System). Is this appropriate?

RECOMMENDATION: No. Plant should be reduced by $2,458,067 ($8,680,507 System). Accumulated Depreciation and Amortization should be reduced by $108,402 ($382,817 System) and amortization expenses should be reduced by $72,155 ($255,211 System). (MERTA)

ISSUE 5: Should average rate base be reduced $182,141 ($186,548 System) to remove the capitalized cost of a Southern Company Services building, cancelled prior to construction?

RECOMMENDATION: Yes, average rate base should be reduced $182,141 ($186,548 System) to remove the costs associated with the cancelled Southern Company Services building. (MERTA)

ISSUE 6: Should rate base be reduced for a portion of the construction costs of the office buildings in Bonifay and Graceville?

RECOMMENDATION: Yes. Rate base should be reduced by $38,000 ($41,000 System). (MERTA)

ISSUE 7: Should Accumulated Depreciation be increased by $26,072 ($26,682 System) to correct errors in depreciation prior to 1988?

RECOMMENDATION: Yes. Accumulated Depreciation should be increased by $26,072 ($26,682 System). (REVELL)

ISSUE 8: Should Plant in Service be reduced by $21,635 ($22,158 System) to reverse AFUDC improperly capitalized beyond the in-service date of the Crist Warehouse and Naval Air Station substation upgrade?

RECOMMENDATION: Yes. Plant in Service should be reduced by $21,635 ($22,158 System). (REVELL)

ISSUE 9: Should the fuel inventory component of working capital be reduced?

RECOMMENDATION: Yes. The fuel component of working capital should be reduced by $5,627,682 on a jurisdictional basis ($6,335,310 system). (SHEA)

ISSUE 10: What is the appropriate amount of rate base to use in determining the revenue requirements for the interim test year?

RECOMMENDATION: As shown on Schedule 1, the appropriate amount of rate base after adjustments is $828,908,000. (HARVEY, ROMIG)

ISSUE 11: What is the appropriate return on equity and overall rate of return for purposes of determining the interim increase?

RECOMMENDATION: As shown on Schedule 2, a 13.0% Return on Equity and a 8.26% overall Rate of Return should be used for purposes of determining the interim increase. (SEERY)

ISSUE 12: What is the appropriate amount of O&M Expenses for the interim test year?

RECOMMENDATION: The appropriate amount of O&M Expense is $105,980,000 ($108,159,000 System).

ISSUE 13: What is the appropriate amount of Depreciation and Amortization Expense for the interim test year?

RECOMMENDATION: The appropriate amount of depreciation expense is $3,063,000, which includes an adjustment reducing expenses $150,000 related to the acquisition of Plant Scherer. (MERTA, REVELL)

ISSUE 14: What is the appropriate amount of current income tax expense for the interim test year?

RECOMMENDATION: The amount of current income tax expense is $17,628,000. (BRAND)

ISSUE 15: What is the appropriate amount of Net Operating Income for the determination of interim revenue requirements?

RECOMMENDATION: As shown on Schedule 3, the appropriate amount of N.O.I. after adjustments is $64,051,000. (ROMIG)

ISSUE 16: Should the company's petition, under Section 366.071, F.S., for $22,847,000 in interim increase in rates and charges be approved?

RECOMMENDATION: No. An interim increase of $7,207,000 should be granted. (ROMIG)

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ISSUE 1: Should the $26,295,000 permanent rate increase requested by Gulf Power Company be suspended pending final decision in this docket?

RECOMMENDATION: Staff recommends that the $26,295,000 permanen increase requested by the company be suspended pending a final decision in this docket. (ROMIG)

STAFF ANALYSIS: Gulf Power Company's current rates and charges were established in Docket No. 840086-EI, by Order No. 14030, dated January 25, 1985, based upon a projected 1984 test year and a 13-month average rate base ending December 31, 1984. In its order, the Commission established an average rate of return at 9.75%. This rate of return included a return on equity of 15.60% within a return on equity range of 14.60% to 16.60%.

On December 15, 1989, Gulf filed a petition requesting a permanent increase in its rates and charges of $26,295,000. This request is based on a projected 1990 test year.

The company's jurisdictional rate base for the 1990 test year is projected to be $923,562,000; and the jurisdictional net operating income is projected to be $60,910,000 using the rates currently in effect. The resulting adjusted jurisdictional rate of return on average rate base is projected to be 6.60%, while the return on common equity is projected to be 7.52% for the 1990 test year. In this case, the company requests that it be allowed an overall rate of return of 8.34% which equals its total cost of capital, assuming a 13.00% rate of return on common equity. The resulting revenue deficiency is $26,295,000 which is the amount of additional annual gross revenues requested by the company in this proceeding. The major portion of the requested permanent rate increase is related to the inclusion of the Plant Daniel and the Plant Scherer generating capacity.

Commission practice, especially where a projected test year has been involved, has been to completely suspend the permanent rate schedules in order to adequately and thoroughly examine the evidentiary basis for the new rates. Whether to grant interim rate relief has been determined on a separate basis from the decision to suspend the permanent rate schedules.

Inasmuch as Gulf's 1990 test year is projected, staff recommends that the Commission suspend the requested permanent rate schedules to give the staff and intervenors the necessary time to adequately investigate and analyze whether the request for permanent rate relief is supported by competent and substantial evidence.

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ISSUE 2: Should average or year-end rate base be used in determining the need for interim relief?

RECOMMENDATION: A 13-month average rate base ended September 30, 1989 should be used. (ROMIG)

STAFF ANALYSIS: The Commission by Order No. 14538 in Docket No. 850050-EI, Petition by Tampa Electric Company for interim relief stated the following regarding the use of year-end versus average rate base.

> The company has relied upon a test period ending February 28, 1985, using year-end rate base, capital structure and capital costs. The staff has recommended that we rely upon average rate base, capital structure and capital costs, citing problems inherent in the use of year-end rate base in this case.
>
> In Order No. 11964 we announced our standard for the use of year-end rate base. There, we stated that we would allow year-end rate base "where there has been extraordinary growth or other circumstances to warrant such treatment." Although addition of the company's Big Bend Unit Four to Plant-in-Service is a significant year-end event, we believe that there are problems with a year-end calculation in this case and that use of average rate base, along with proforma adjustments, is a better alternative.
>
> It is not proper to use year-end rate base without recognizing related revenues and expenses. Accordingly, the company made a proforma adjustment for revenues and expenses associated with Big Bend Four. This illustrates the need to make significant adjustments to the year-end data in this case. Further, additional adjustments should be made to reflect year-end revenues and expenses. However, we believe that these are less reliable than an average calculation. for these reasons, we believe that we should rely upon average rate base with proforma adjustments for Big Bend Four investment, expenses and revenues.

In re: Petition of Tampa Electric Company for Authority to increase its rates and charges, Docket No. 850050-EI, Order No. 14538, issued on July 8, 1985.

In this case Gulf has requested the use of a year-end rate base in calculating its request for interim rate relief. The most significant factor behind the need for rate relief is the increase in its rate base used in serving its jurisdictional customers. Between July 1, 1988 and February 1, 1989 Gulf has committed over 500 megawatts (MW) of additional generating capacity at Plants Daniel and Scherer to territorial service which was previously sold under Unit Power Sales contracts.

Gulf states that interim rates are necessary to assure the financial viability of the utility. With its increased jurisdictional investment, Gulf's "actual experience in 1989 demonstrates a precipitous drop in the company's return and the serious financial distress the company has endured in 1989 and continues to face for 1990 if it is not granted immediate rate relief."

Based on Gulf's Surveillance Reports the company's overall return has, in fact, increased from September through November. Gulf's September average and year-end returns were 6.99% and 6.58%, respectively, increasing to 7.30% and 6.99% in November. Staff expects the returns to further increase in December, 1989 after the unprecedented cold weather experienced in December. Although no specific adjustment is proposed by staff to increase revenues, this increase in revenues will have a positive impact on the company's return during the pendency of the permanent rate case. In staff's opinion, the company will not experience "financial distress" during the interim period to the extent that a year-end rate base should be used.

Gulf did not make adjustments to recognize revenues and expenses associated with the increased investment recorded in February, 1989. Thus, in staff's opinion the company has not demonstrated that other circumstances exist to warrant the use of a year-end rate base. Following Commission precedent established in Order No. 14538, then, Gulf should not be allowed to use a year-end rate base but should use a 13-month average rate base ending September 30, 1989.

ISSUE 3: Gulf capitalized $1,964,394 ($6,937,131 System) in excess of the original cost capitalized by Georgia Power Company for its 25% share of Plant Scherer, Unit No. 3. Is this appropriate?

RECOMMENDATION: No. Plant in Service should be reduced by $1,964,394 ($6,937,131 System). Accumulated Depreciation should be reduced by $190,153 ($671,515 System) and Depreciation Expense should be reduced by $78,453 ($277,485 System). (REVELL)

STAFF ANALYSIS: In 1984, Gulf Power purchased a 25% interest in Plant Scherer Unit No. 3 from Georgia Power, an affiliated company. The unit was under construction at the time of purchase. The purchase price was $1,964,394 ($6,937,131 System) in excess of the costs recorded on the books of Georgia Power. In determining the purchase price, Georgia Power used the amount in Account 107 (Construction Work in Progress) less the AFUDC accrual, plus state income taxes on the sale and a carrying charge based on its incremental debt and equity costs. The difference of $1,964,394 ($6,937,131 System) represents an amount in excess of actual construction cost of the generating unit. The excess costs paid by Gulf Power were noted as Audit Exception No. 4 in the FPSC audit conducted as a result of the rate case filed by Gulf in late 1988 and withdrawn in June, 1989. The FPSC and FERC staff made known its concern regarding a purchase price exceeding the original costs of Georgia Power Company, an affiliate. Gulf has renegotiated the purchase price resulting in a refund of $6,937,131. The company adjusted its books in December, 1989 to reflect the refund in the negotiated purchase price. Since the adjustment was made subsequent to the interim test year, it is appropriate to reduce

Plant-in-service by $1,964,394 ($6,937,131 System), for the Acquisition of 25% of Scherer Unit No. 3, reduce accumulated depreciation by $190,153 ($671,515 System) and reduce depreciation expense by $78,453 ($277,485 System).

Even though Gulf renegotiated the purchase price, resulting in a refund, staff will examine this adjusted purchase price to determine its reasonableness.

ISSUE 4: As a result of its purchase of a portion of the common facilities at Plant Scherer, Gulf recorded an acquisition adjustment of $2,458,067 ($8,680,507 System). Is this appropriate?

RECOMMENDATION: No. Plant should be reduced by $2,458,067 ($8,680,507 System), Accumulated Depreciation and Amortization should be reduced by $108,402 ($382,817 System) and amortization expenses should be reduced by $72,155 ($255,211 System). (MERTA)

STAFF ANALYSIS: In 1987, the company purchased a portion of the common facilities at Plant Scherer from the City of Dalton and Oglethorpe Power Corporation. The company recorded an acquisition adjustment as a result of the purchase. The company recorded the amortization of the acquisition adjustment by charges to Account 406, Amortization of Electric Plant Acquisition Adjustments. (Above-the-Line)

Commission policy requires that a utility seek Commission approval of the accounting treatment for an acquisition adjustment. If the Commission determines the acquisition adjustment is unreasonable or imprudent, it may disallow recovery in rate base and expenses and require below-the-line treatment. The company has not requested Commission approval of its accounting treatment.

The Federal Energy Regulatory Commission (FERC) addressed the accounting for the acquisition adjustment in its draft audit report and recommended that the company:

> revise accounting procedures to ensure that the amortization of the Plant Scherer acquisition adjustment be recorded below-the-line in Account 425.

On November 2, 1988, the company received a response letter from the FERC's Chief Accountant on the proposed journal entries related to the acquisition. The Chief Accountant ordered the company to amortize the acquisition adjustment to Account 425, Miscellaneous Amortization, a below-the-line account. The Chief Accountant indicated that the company could resubmit its request to amortize the acquisition adjustment to Account 406 if it was granted above-the-line treatment by the Florida Commission.

According to the instructions for Account 406, Amortization of Electric Plant Acquisition Adjustments, as found in the Uniform System of Accounts:

> This account shall be debited or credited, as the case may be, with amounts includible in operating expenses, pursuant to approval or order of the Commission. ... (Emphasis supplied)

Since approval for including this acquisition adjustment in rates has not been formally requested or given by the Commission and in fact specifically denied to date by the FERC, staff recommends reducing rate base by $1,592,045 ($8,680,507 System), reducing Accumulated Depreciation and Amortization by $23,428 ($127,605 System) and reducing expenses by $46,857 ($255,211 System).

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ISSUE 5: Should average rate base be reduced $182,141 ($186,548 System) to remove the capitalized cost of a Southern Company Services building, cancelled prior to construction?

RECOMMENDATION: Yes, average rate base should be reduced $182,141 ($186,548 System) to remove the costs associated with the cancelled Southern Company Services building. (MERTA)

STAFF ANALYSIS: In 1984 Southern Company Services cancelled the construction of a building, the costs of which were allocated to all the system operating companies. A total of $715,752 was allocated to Gulf. The company charged $369,305 to operating expense and capitalized $346,447. (Audit Exception No. 3, Docket No. 881167-EI.)

According to the Uniform System of Accounts, expenditures for cancelled construction projects should be charged to Account 426.5, Other Deductions (below-the-line), or to the appropriate operating expense account.

The company agreed with this exception and made the appropriate entries on the books in May 1989. Although the company made an adjustment to expenses in its filing removing the expense portion, no adjustment was made reducing Plant-in-Service. For seven months of the interim period, October, 1988 through April, 1989, the building costs were included in rate base. ($338,262 x 7 -:- 13 = $182,141). Therefore, it is appropriate to reduce average Plant in Service $182,141 ($186,548 System). Since the company's books were adjusted in May, 1989, no adjustment should be made to the company's requested September 30, 1990 year-end rate base.

ISSUE 6: Should rate base be reduced for a portion of the construction costs of the office buildings in Bonifay and Graceville?

RECOMMENDATION: Yes. Rate base should be reduced by $38,000 ($41,000 System). (MERTA)

STAFF ANALYSIS: The company included in its last rate case the cost of newly constructed office facilities in Bonifay and Graceville. The Commission stated in Order No. 14030 that: "We are not convinced that sufficient evidence has been introduced to justify the total cost of these buildings." The Commission also stated that this issue would be left open until the company's next rate case at which time the company would be given the opportunity to justify the entire cost of the projects. In that case, the Commission disallowed $20,000 for the Bonifay building and $23,000 for the Graceville building. The basis for the adjustment was to disallow all construction costs in excess of $67 per square foot, which is a cost supported by the Means Survey provided by the company.

Therefore, consistent with the last rate case, it would be appropriate to reduce plant-in-service by $43,000 ($46,000 System) and accumulated depreciation by $5,000 ($5,000 System) for a net reduction of $38,000 ($41,000 System).

ISSUE 7: Should Accumulated Depreciation be increased by $26,072 ($26,682 System) to correct errors in depreciation prior to 1988?

RECOMMENDATION: Yes. Accumulated Depreciation should be increased by $26,072 ($26,682 System). (REVELL)

STAFF ANALYSIS: Normally the company computes one-half month's depreciation on projects in the month that they are completed and transferred to Account 106, Completed Construction Not Classified-Electric. Due to clerical errors, depreciation prior to 1988 was not calculated on two major projects for a period of several weeks after transfer to Account 106. The depreciation on these two projects totaled $67,760 ($69,374 System). The company agreed that depreciation expense for these projects was incorrect and made the correction to accumulated depreciation in February, 1989. Since September 30, 1989 average rate base included five months of the above amount, it is necessary to remove five-thirteenths of the amount, or $26,072 ($26,682 System).

ISSUE 8: Should Plant in Service be reduced by $21,635 ($22,158 System) to reverse AFUDC improperly capitalized beyond the in-service date of the Crist Warehouse and Naval Air Station substation upgrade?

RECOMMENDATION: Yes. Plant in Service should be reduced by $21,635 ($22,158 System). (REVELL)

STAFF ANALYSIS: The FERC audit of Gulf Power noted that AFUDC was improperly capitalized beyond the in-service date on two major projects. The Uniform System of Accounts, as well as the Florida Public Service Commission Rules, require that the accrual of AFUDC cease when projects are placed into or are ready for service. An overaccrual of AFUDC results in a higher than actual amount being recorded in Plant in Service balances. The total amount of the AFUDC overaccrual was $56,250 ($57,611 System). The company agreed with this adjustment and made the necessary journal entries in February, 1989 to remove the full overaccrual from rate base. For this docket, however, the overaccrual from September, 1988 through January, 1989 remains on the books and must be removed. The amount of the overaccrual is equal to five months of the 13 months average or $21,635 ($22,158 System). Therefore, Plant in Service should be reduced by $21,635 ($22,158 System) to remove from rate base the AFUDC overaccrual.

ISSUE 9: Should the fuel inventory component of working capital be reduced?

RECOMMENDATION: Yes. The fuel component of working capital should be reduced by $5,627,682 on a jurisdictional basis ($6,335,310 system). (SHEA)

STAFF ANALYSIS: Gulf Power Company has requested a total of $52,330,000, on a jurisdictional basis, in working capital for fuel inventory. If this total, approximately 87 percent is fuel stored at generating facilities and 13 percent is coal in-transit to plants.

Gulf Power Company has established a coal inventory policy of maintaining a 105 days burn level for the 1990 test year. (Parsons) The MFRs indicate a test year inventory of about 100 days burn. Gulf's policy is based upon the results of a computer model developed by EPRI. Staff is of the opinion that the computer model is acceptable, but a key factor in determining optimal inventory level using this methodology is the set of input parameters and assumptions. These input parameters are extremely complex. Modification of these parameters can significantly alter the optimal inventory target. Staff has not had the opportunity to analyze the inventory model parameters and recommends that the Commission employ the 90 day generic coal inventory policy as stated in Order No. 12645 to calculate allowable coal inventory levels for the interim. Staff recommends that coal inventory be reduced by $4,468,010 on a jurisdictional basis ($5,029,820 System).

Staff also recommends that the same generic policy be employed to determine allowable heavy and light fuel oil inventory levels. Gulf did not offer any justification for the levels of inventory maintained for these fuels. The generic policy would allow a 45 day level for heavy oil at an average burn rate and a 30 day level for light oil at a high rate of burn. Gulf does not project to use heavy oil in test year and staff recommends the entire amount be disallowed. This would reduce working capital by $925,613 ($1,042,000 System). Staff also recommends that light oil inventory be reduced by $234,059 ($263,490 System).

At this time, staff recommends that no adjustment be made to working capital for amounts associated with in-transit coal. Gulf has requested $6,887,000 (jurisdictional) for in-transit coal. Staff notes that Gulf included $11,912,000 (jurisdictional) in accounts payable - coal for the test year. If in-transit coal is adjusted, accounts payable will also have to be adjusted. Staff is of the opinion that the adjustments would offset each other.

ISSUE 10: What is the appropriate amount of rate base to use in determining the revenue requirements for the interim test year?

RECOMMENDATION: As shown on Schedule 1, the appropriate amount of rate base after adjustments is $828,908,000. (HARVEY, ROMIG)

STAFF ANALYSIS: Staff has made several adjustments to average rate base totalling $10,046,000 and discussed in Issues 3, 4, 5, 6, 7, 8, and 9. The staff's adjusted rate base is $828,908,000. For interim purposes, staff has included Plant Scherer in Gulf's rate base. After Unit Power Sales are removed, this results in a Net Plant-in-Service for Scherer of $37,258,000 on a period end rate base or $37,820,000 on a 13-month average rate base. Staff is concerned that there may be issues which warrant the removal of Plant Scherer from Gulf Power's rate base and staff will be investigating these during the full rate case. However, based on the information available at this time, staff recommends including Scherer in Gulf's rate base for the interim, subject to refund pending the results of the full rate case.

ISSUE 11: What is the appropriate return on equity and overall rate of return for purposes of determining the interim increase?

RECOMMENDATION: As shown on Schedule 2, a 13.0% Return on Equity and a 8.26% overall Rate of Return should be used for purposes of determining the interim increase. (SEERY)

STAFF ANALYSIS: The company has requested in its petition that a 13.00% return on equity be used in determining its interim and permanent rate relief in lieu of the 14.60% return on equity authorized in its last rate case. The staff agrees that the 13.00% return on equity is more reasonable based on current economic conditions and should be used.

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ISSUE 12: What is the appropriate amount of O&M Expenses for the interim test year?

RECOMMENDATION: The appropriate amount of O&M Expense is $105,980,000 ($108,159,000 System).

STAFF ANALYSIS: Gulf has calculated $111,323,000 ($113,742,000 System) in O&M Expenses for the test year as shown on MFR Schedule G-14. In arriving at this amount, the company made adjustments consistent with its last rate case, adjustments to remove Unit Power Sales (U.P.S.) and other adjustments which appear reasonable.

The company on MFR Schedule G-32 calculated its O&M benchmark variance of $7,530,000 which includes O&M associated with U.P.S. but removed in calculating its adjusted N.O.I. For purposes of calculating the O&M benchmark variance, it appears appropriate to remove the U.P.S. expenses, resulting in a variance of $376,000 ($7,530,000 - $7,154,000). (Schedule 3) This calculation is consistent with the recommendation in the company's withdrawn rate case. Even though the adjusted variance is $376,000 staff believes that expenses should be reduced by $5,343,020 ($5,582,615 System) for the following items and discussed below:

1.	Transmission Rents	$1,786,582	($2,011,000 System)
2.	Sales Expenses	669,414	(669,414 System)
3.	Customer Service	2,596,000	(2,596,000 System)
4.	Lobbying & Other Expenses	291,373	(306,550 System)
	Total	$5,343,369	$5,582,964

1. Transmission Rents - $1,786,582 ($2,011,000 System) (BALLINGER) In its justification of transmission line expenses, Gulf made three changes to the benchmark calculation that staff does not agree with. First, the 1984 base year value was reported as $962,000. As shown in Order No. 14030 from the company's last rate case, the amount allowed was $956,000. Second, the Commission disallowed $425,000 of transmission line rental expense for Plant Daniel due to the impact of customer growth. Gulf has tried to include this amount in determining its benchmark, but did not provide a justification for the expense. This appears to be an attempt to pass through a previously disallowed cost. Lastly, the company has included $1,898,000 in expenses for Plant Scherer line rentals. In its last full rate case, Gulf attempted to justify its benchmark variance by stating the cause was transmission line rentals for Plant Daniel. Now the company is trying to avoid an explanation by including these expenses in the benchmark calculation. The net effect of these three adjustments is to disallow $1,786,582 ($2,011,000 System).

2. Sales Expenses - $669,414 ($669,414 System) (REVELL) The company removed from expenses $824,000 for area and economic development, $27,000 for marketing support, and $1,000 for investigation expenses, for a total removal of $852,000. The remaining $825,074 consists of $155,660 in expenses for the Street and Outdoor Lighting Program, "Shine Against Crime", $82,193 in expenses for Ally Information and Education, $566,312 for the Heat Pump Program, and $20,909 for Training. In Gulf's tax savings docket, staff recommended the allowance of expenses associated with the street lighting program and the disallowance of all other expenses in the sales function

because these functions were seen as unnecessary or duplicating existing Gulf programs. In addition, the company did not request any Sales Expense in its last rate case. Staff recommends the allowance of $155,660 of expenses for the Street and Outdoor Lighting Program and the disallowance of $669,414 in expenses associated with all other expenses.

3. Customer Service Expenses - $2,596,000 ($2,596,000 System) (MERTA) Prior to Gulf's 1984 rate case, approximately 50% of the conservation expenses were recovered through base rates and the balance was recovered through the ECCR mechanism. In 1984, the Commission ruled that 100% of the conservation expenses should be recovered through ECCR. Subsequently, the Commission denied recovery of certain programs through the ECCR clause and the company is now seeking base rate recovery of these same programs.

The company made adjustments to its benchmark calculation to include $2,248,000 in the Customer Services area and $348,000 in Other A&G for former ECCR programs, which were not included in the company's last rate case. The company did not provide justification for recovering these expenses in base rates.

Staff recommends that the Commission deny recovery of these programs through base rates. The programs appear to duplicate standards already required by the Department of Community Affairs' building code and information and services available from numerous other sources.

Through interrogatories, staff was provided information regarding "Centsable Contractor Weekends" held at the San Destin Hilton where Gulf entertained contractors. Audit Disclosure No. 31 discusses a Frequent Flyer Program that allows builders and HVAC contractors to receive awards as an incentive to increase the efficiency and quality of energy saving technologies. Expenses for these programs were charged to the customer service functional area and were associated with the Good Cents Program.

These activities go beyond the normal operating functions of a utility and should not be financed by the ratepayers. Therefore, staff recommends the disallowance of $2,596,000 ($2,596,000 System) for former ECCR programs that Gulf now wishes to recover through base rates.

4. Lobbying and Other Expenses - $291,373 ($306,550 System) (ROMIG) The F.E.R.C. Uniform System of Accounts as prescribed by this Commission contains the following below-the-line expense account for recording lobbying and other related expenses:

> 426.4 Expenditures for certain civic, political and related activities.
> This account shall include expenditures for the purpose of influencing public opinion with respect to the election or appointment of public officials, referenda, legislation, or ordinances (either with respect to the possible adoption of new referenda, legislation or ordinances or repeal or modification of existing referenda, legislation or ordinances) or approval, modification, or revocation of franchises; or for the purpose of influencing the decisions of public officials, but shall not include such expenditures which are directly related to appearances before regulatory or other governmental bodies in connection with the reporting utility's existing or proposed operations.

The company in its permanent rate filing included in its Minimum Filing Requirements, Schedule C-29, Lobbying and Other Political Expenses. The purpose of the schedule is to provide the Commission with all expenses for lobbying and related expenses which are included for recovery in Net Operating Income.

The company's response to this schedule is: "No lobbying and other political expenses are included in determining Net Operating Income. <u>All are accounted for "below-the-line."</u> (Emphasis added) This same MFR schedule and response was included in the company's last rate case (Docket No. 840086-EI) and the recent rate case which was withdrawn by the company (Docket No. 881167-EI).

Based on information recently supplied to staff, the company recorded above-the-line during the interim test year the following expenses: $291,373 ($306,550 System) expenses incurred by Mr. Earl Henderson, a registered lobbyist; lobbying expenses allocated to Gulf from the Southern Company and certain other expenses incurred by Mr. Jack Connell. Subsequent to the interim test year, December, 1989, the company started charging these expenses below-the-line.

After reading the description of expenditures to be recorded in Account 426.4, as stated above, it would appear that the company is in strict violation of the Uniform System of Accounts concerning lobbying and other related expenses. Staff is suspect that similar expenses have been consistently recorded above-the-line in prior years. Staff finds it disturbing, to say the least, that the company would state in its MFRs that : <u>"no lobbying and other political expenses are included in determining Net Operating Income. All are accounted for "below-the-line"."</u> (Emphasis added) Especially since the company now acknowledges the fact that these lobbying and other related expenses are now being recorded below-the-line.

Since these expenses were recorded above-the-line during the interim test year, it would be appropriate to reduce interim test year expenses by $291,373 ($306,550 System).

This area of expense will be fully examined in the company's permanent rate case to determine the proper amount to be recorded below-the-line.

ISSUE 13: What is the appropriate amount of Depreciation and Amortization Expense for the interim test year?

RECOMMENDATION: The appropriate amount of depreciation expense is $3,063,000, which includes an adjustment reducing expenses $150,000 related to the acquisition of Plant Scherer. (MERTA, REVELL)

STAFF ANALYSIS: Staff recommended under Issues 3 and 4 that adjustments be made to the company's acquisition of Plant Scherer. The effect of these adjustments is to reduce expenses $150,000 ($533,000 System).

ISSUE 14: What is the appropriate amount of current income tax expense for the interim test year?

RECOMMENDATION: The amount of current income tax expense is $17,628,000. (BRAND)

STAFF ANALYSIS: After making adjustments to O&M expense, depreciation income taxes should be increased $2,067,000. The effect on the interest synchronization adjustment due to average rate base adjustment reduces income taxes $542,000.

ISSUE 15: What is the appropriate amount of Net Operating Income for the determination of interim revenue requirements?

RECOMMENDATION: As shown on Schedule 1, page 2, the appropriate amount of N.O.I. after adjustments is $64,051,000. (ROMIG)

STAFF ANALYSIS: After making the adjustment to O&M expenses, depreciation and income taxes, the jurisdictional amount of N.O.I. is $64,051,000.

ISSUE 16: Should the company's petition, under Section 366.071, F.S., for $22,847,000 in interim increase in rates and charges be approved?

RECOMMENDATION: No. An interim increase of $7,207,000 should be granted as shown on Schedule 4. (ROMIG)

STAFF ANALYSIS: Concurrent with its petition for $26,295,000 in permanent rate relief, Gulf also filed a petition for an interim increase in rates and charges under Section 366.071, F.S., in the amount of $22,847,000.

The company's request for rate relief is based primarily on the recent commitment of additional generating capacity to territorial service (Plants Daniel and Scherer). This additional capacity was committed to territorial service July 1, 1988 through February 1, 1989. The interim rate relief was based on a year end rate base using a 13.00% return on equity, the same return on equity as utilized in its request for permanent relief. In strict compliance with Section 366.071, F.S., the floor of the last authorized return of 14.60% would be used. As an alternative, the company filed with its petition for interim relief, four alternative calculations: 1) year-end and average rate base using a 13.00% and 14.60% return on equity. The interim rate relief related to each is as follows: Year-end and average rate base using 13.00%, is $22,847,000 and $25,805,000, respectively and year-end and average using 14.60% is $15,035,000 and $17,607,000, respectively. However, the company has essentially stipulated to the use of 13.00%, a more reasonable return based on current conditions and recent Commission decisions. This request should be granted. If the Commission accepts the use of a 13.00% return on equity, this leaves the decision of whether to base the interim relief on a year-end or average rate base.

Staff recommended interim increase of $7,207,000 is based on the use of an average rate base as discussed in Issue 2 and reflected in Appendix B. If the Commission deems it appropriate to use a year-end rate base, then the appropriate amount of interim relief is $13,832,000 as reflected in Appendix A.

ISSUE 17: If an increase is granted, how should it be spread among rate classes and collected within rate classes?

RECOMMENDATION: Because of Rule 25-6.0435(2)(a), staff recommends that any interim increase be spread among the rate classes on a uniform percentage of base rate revenues. The increase should be collected within each class by increasing all base rate charges and credits (customer, demand, non-fuel KWH charges, etc.) by the uniform percentage. (MEETER)

STAFF ANALYSIS: Gulf Power has petitioned the Commission for an interim increase pursuant to s. 366.071, F.S. Rule 25-6.0435, F.A.C., which requires that an interim increase pursuant to s. 366.071, F.S., be spread among all rate classes on a uniform percentage of base revenues. Gulf has requested that the interim increase be allocated in a manner that moves class rate of return indices closer to parity, except that no class should receive a decrease. Their position is that an allocation to classes on a uniform percentage of base revenues

> would be inequitable in the present case, because, under the proposal for permanent relief, certain rate classes have been designated to receive either no increase or a decrease in base rates in order to achieve the goal of moving class rate of return indices closer to the system average. If an interim increase were spread across the board, the rate of return indices for these rate classes would remain at their present levels.
>
> ... the company believe[s] that giving any increase to the classes not slated for an increase in the request for permanent relief would be unduly discriminatory because these rate classes have rates of return which are too high on a relative basis, when compared to the other rate classes.

Gulf's Petition at page 3 of Section IIId, Volume 1, Petition and Request for Interim Increase in Rates and Charges.

Staff agrees with Gulf's position but believes that to be in compliance with Rule 25-6.0435, F.A.C., the increase must be spread on a uniform percentage of base revenues to all classes. All interim increases in the past have been allocated in this manner.

Staff and the company agree that the increase should be collected within each class by increasing the test year base rate charges and credits (customer, demand, non-fuel charges, etc.) by the same percentage increase. This is consistent with the method used for determining interim increases in recent electric rate cases with the exception of the last two TECO rate cases (Dockets Nos. 830012-EU and 850050-EI). In Docket No. 830012-EU, the Commission voted to collect the interim increase within each rate class on only the non-fuel energy (KWH) charge while in Docket No. 850050-EI it was collected within rate classes by increasing all base charges except the customer charge by a uniform percentage.

Increasing all base charges by the same percentage is preferable because it results in no change in rate structure and all customers experience the same percentage increase in their base rate bills. Furthermore, staff believes that Rule 25-6.0435, F.A.C., requires all base rates of a class be increased by the same percentage for an interim increase. The recommended increase of $7,207,000 results in a uniform percentage increase of 3.05% ($7,207,000 divided by $236,299,000).

Appendix A: Calculation of revenue requirement and rates using a September 30, 1989 year-end rate base as requested by Gulf Power Company.

To calculate the interim revenue requirements using year-end rate base as requested by Gulf. No adjustments were made to N.O.I. to reflect the year-end level of revenues and expenses. Staff, however, made adjustments to year-end rate base and N.O.I. consistent with those made in calculating average rate base and N.O.I. Rate base adjustments made in Issues 5, 7, and 8 were not made since the company booked these adjustments during the interim test year and are reflected in their year-end per book amounts.

Attached are the spreadsheets detailing our calculation of year-end interim revenue requirements at September 30, 1989 of $13,832,000.

GPCYE989
22-Jan-90

GULF POWER COMPANY
DOCKET NO. 891345-EI
SEPTEMBER 1989 TEST YEAR
YEAR END RATE BASE
(000)

	(1) ADJUSTED JURIS. AS FILED	(2) PLANT SCHERER ACQUISITION ADJUSTMENT	(3) SCS BUILDING CANCELLATION	(4) BONIFAY & GRACEVILLE OFFICES	(5) ACCUMULATED DEPRECIATION ERRORS	(6) AFUDC OVERACCRUAL	(7) FUEL INVENTORY GENERIC LEVEL	(8) TOTAL ADJUSTMENTS	(9) ADJUSTED TOTAL
PLANT IN SERVICE	$1,239,451	($4,422)	$0	($43)	$0	$0		($4,465)	$1,234,986
ACCUMULATED DEPRECIATION	(427,402)	374		5				379	(427,023)
NET PLANT IN SERVICE	812,049	(4,048)	0	(38)	0	0		(4,086)	807,963
CONSTRUCTION WORK IN PROGRESS	8,816							0	8,816
PROPERTY HELD FOR FUTURE USE	3,610							0	3,610
								0	0
								0	0
NET UTILITY PLANT	824,475	(4,048)	0	(38)	0	0		(4,086)	820,389
WORKING CAPITAL	78,232				0		(5,628)	(5,628)	72,604
TOTAL RATE BASE	$902,707	($4,048)	$0	($38)	$0	$0	($5,628)	($9,714)	$892,993
OPERATING REVENUES	$243,500							$0	$243,500
OPERATING EXPENSES:									
O&M - OTHER	111,323							0	111,323
O&M - INTERCHANGE	(3,907)							0	(3,907)
DEPRECIATION & AMORTIZATION	43,213	(150)						(150)	43,063
AMORT. OF INVESTMENT CREDIT	(1,741)							0	(1,741)
TAXES OTHER THAN INCOME	18,426							0	18,426
INCOME TAXES-CURRENTLY PAYABLE	15,444	56						56	15,500
DEFERRED INCOME TAXES - NET	0							0	0
INVESTMENT TAX CREDIT - NET	0							0	0
TOTAL OPERATING EXPENSES	182,758	(94)	0	0	0	0	0	(94)	182,664
NET OPERATING INCOME	$60,742	$94	$0	$0	$0	$0	$0	$94	$60,836
ACHIEVED RATE OF RETURN	6.73%							0.08%	6.81%

GPCYE989
22-Jan-90

GULF POWER COMPANY
DOCKET NO. 891345-EI
SEPTEMBER 1989 TEST YEAR
YEAR END RATE BASE
(000)

	(9) ADJUSTED TOTAL FROM PAGE 1	(10) LOBBYING EXPENSE	(11) TRANSMISSION RENTALS	(12) CUSTOMER SERVICES	(13) SALES	(14) INTEREST RECONCIL-IATION	(15)	(16)	(17) TOTAL ADJUSTMENTS	(18) ADJUSTED TOTAL
PLANT IN SERVICE	$1,234,986								$0	$1,234,986
ACCUMULATED DEPRECIATION	(427,023)								0	(427,023)
NET PLANT IN SERVICE	807,963								0	807,963
CONSTRUCTION WORK IN PROGRESS	8,816								0	8,816
PROPERTY HELD FOR FUTURE USE	3,610								0	3,610
									0	0
NET UTILITY PLANT	820,389								0	820,389
WORKING CAPITAL	72,604								0	72,604
TOTAL RATE BASE	$892,993								$0	$892,993
OPERATING REVENUES	$243,500								$0	$243,500
OPERATING EXPENSES:										
O&M - OTHER	111,323	(291)	(1,787)	(2,596)	(669)				(5,343)	105,980
O&M - INTERCHANGE	(3,907)								0	(3,907)
DEPRECIATION & AMORTIZATION	43,063								0	43,063
AMORT. OF INVESTMENT CREDIT	(1,741)								0	(1,741)
TAXES OTHER THAN INCOME	18,426								0	18,426
INCOME TAXES-CURRENTLY PAYABLE	15,500	110	672	977	252	(1,206)			805	16,305
DEFERRED INCOME TAXES - NET	0								0	0
INVESTMENT TAX CREDIT - NET	0								0	0
TOTAL OPERATING EXPENSES	182,664	(181)	(1,115)	(1,619)	(417)	(1,206)	0	0	(4,538)	178,126
NET OPERATING INCOME	$60,836	$181	$1,115	$1,619	$417	$1,206	$0	$0	$4,538	$65,374
ACHIEVED RATE OF RETURN	6.81%								0.51%	7.32%

GULF POWER COMPANY
DOCKET NO. 891345-EI
YEAR END RATE BASE
EXPLANATION OF ADJUSTMENTS

RATE BASE

COLUMN NO.

(2) - THIS ADJUSTMENT REMOVES THE PLANT SCHERER UNIT 3 ACQUISITION ADJUSTMENT ($6,937,131; A/D $671,515) AND THE ACQUISITION ADJUSTMENT FOR COMMON FACILITIES ($8,680,507; A/D 671,515) FROM RATE BASE AND THE RELATED AMORTIZATION FROM THE INCOME STATEMENT. THE ACQUISITION ADJUSTMENTS AND AMORTIZATION HAVE NOT BEEN APPROVED BY THE COMMISSION.

(3) - THIS ADJUSTMENT WAS NOT NECESSARY SINCE THE COMPANY MADE THE ADJUSTMENT REMOVING THE SCS CANCELLED BUILDING FROM PLANT-IN-SERVICE PRIOR TO THEIR SEPTEMBER 30. 1990 YEAR END.

(4) - THIS ADJUSTMENT REMOVES THE UNJUSTIFIED EXCESS COST OF THESE BUILDINGS THAT WAS DISALLOWED IN GULF'S LAST RATE CASE.

(5) - THIS ADJUSTMENT WAS NOT NECESSARY SINCE THE COMPANY MADE THE ADJUSTMENT TO INCREASE DEPRECIATION PRIOR TO THEIR SEPTEMBER 30, 1990 YEAR END.

(6) - THIS ADJUSTMENT WAS NOT NECESSARY SINCE THE COMPANY MADE THE ADJUSTMENT REMOVING THE OVERACCRUAL OF AFUDC PRIOR TO THEIR SEPTEMBER 30. 1990 YEAR END.

(7) - THIS ADJUSTMENT REDUCES THE FUEL INVENTORY BY $5,627,682 ($6,335,310 SYSTEM) TO CONFORM WITH THE COMMISSION'S GENERIC FUEL INVENTORY POLICY.

NOI ADJUSTMENTS

(10) - THIS ADJUSTMENT REMOVES FROM O&M EXPENSES LOBBYING EXPENSES IMPROPERLY CHARGED ABOVE-THE-LINE.

(11) - THIS ADJUSTMENT REDUCES O&M EXPENSES FOR PREVIOUSLY DISALLOWED TRANSMISSION LINE RENTALS ASSOCIATED WITH PLANT DANIEL AND TRANSMISSION LINE RENTALS FOR PLANT SHERER THAT WERE NOT JUSTIFIED BY THE COMPANY.

(12) - THIS ADJUSTMENT REMOVES FROM O&M EXPENSES FORMER ECCR PROGRAMS NOT JUSTIFIED BY THE COMPANY FOR RECOVERY IN BASE RATES.

(13) - THIS ADJUSTMENT REMOVES FROM O&M EXPENSES SALES EXPENSES WHICH WERE SEEN AS UNNECESSARY OR WHICH DUPLICATE EXISTING GULF PROGRAMS.

(14) - THIS ADJUSTMENT IS SIMPLY A MATHEMATICAL CALCULATION BASED ON THE CHANGES IN THE CAPITAL STRUCTURE AS A RESULT OF THE RATE BASE AND CAPITAL STRUCTURE RECONCILIATION.

Gulf Power Company
Docket No. 891345-EI

Gulf Power Company
Year End Capital Structure
Interim Rate Relief
Test Year Ending 9/30/89
Staff Position

Capital Components	Total Per Books	Direct Adjust-ments	Non-Utility Adjust-ments	Less: Unit Power Sales	Pro Rata Adjust ments	System Adjusted	Juris-dictional Factor	Adjusted Capital Structure	Non-Utility Adjust-ments	Pro Rata Adjust-ments	Staff Adjusted	Ratio	Cost Rate	Wtd. Cost
Long-Term Debt	$490,131	($78,917)	$0	($63,447)	($10,327)	$337,440	97.61385%	$329,389	$0	($3,545)	$325,844	36.49%	8.70%	3.17%
Short-Term Debt	$0	$0	$0	$0	$0	$0	97.61385%	$0	$0	$0	$0	0.00%	0.00%	0.00%
Preferred Stock	$68,663	$0	$0	($9,379)	($1,760)	$57,524	97.61385%	$56,151	$0	($604)	$55,547	6.22%	7.80%	0.49%
Common Equity	$373,570	($23,771)	($14,502)	($41,562)	($8,722)	$285,013	97.61385%	$278,212	$0	($2,994)	$275,218	30.82%	13.00%	4.01%
Customer Deposits	$15,728	$0	$0	$0	($467)	$15,261	100.00000%	$15,261	$0	($164)	$15,097	1.69%	7.55%	0.13%
Deferred Taxes	$204,125	$0	$0	($12,662)	($5,685)	$185,778	97.61385%	$181,345	$0	($1,951)	$179,393	20.09%	0.00%	0.00%
ITCs - Zero Cost	$963	$0	$0	$0	($29)	$934	97.61385%	$912	$0	($10)	$902	0.10%	0.00%	0.00%
ITCs - Wtd. Cost	$49,728	$0	$0	($5,979)	($1,299)	$42,450	97.61385%	$41,437	$0	($446)	$40,991	4.59%	10.43%	0.48%
	$1,202,908	($102,688)	($14,502)	($133,029)	($28,289)	$924,400		$902,707	$0	($9,714)	$892,993	100.0%		8.27%

Calculation of JDIC Rate

Capital Components	Adjusted Amount	Ratio	Cost Rate	Wtd. Cost
Common Equity	$278,212	41.92%	13.00%	5.45%
Preferred Stock	$56,151	8.46%	7.80%	0.66%
Long-Term Debt	$329,389	49.63%	8.70%	4.32%
	$663,752	100.00%		10.43%

GULF POWER COMPANY
DOCKET NO. 881167-EI
SEPTEMBER 1989 TEST YEAR
YEAR END RATE BASE

SCHEDULE 4
INTERIM

	(1) YEAR END AS FILED PER COMPANY	(2) YEAR END STAFF ADJUSTED
JURISDICTIONAL ADJUSTED RATE BASE	$902,707	$892,993
REQUIRED RATE OF RETURN	8.28%	8.27%
REQUIRED NET OPERATING INCOME	74,744	73,851
JURISDICTIONAL ADJUSTED NOI	60,742	65,374
NOI DEFICIENCY/(EXCESS)	14,002	8,477
NOI MULTIPLIER	1.631699	1.631699
REVENUE DEFICIENCY/(EXCESS)	$22,847	$13,831
REQUIRED RETURN ON EQUITY	13.00%	13.00%
ACHIEVED RATE OF RETURN	6.73%	7.32%

Appendix B: Calculation of revenue requirement using a September 30, 1989 average rate base.

Attached are the schedules detailing our calculation of revenue requirement using an average rate base.

GPCAV989
22-Jan-90

GULF POWER COMPANY
DOCKET NO. 891345-EI
SEPTEMBER 1989 TEST YEAR
13 MONTH AVERAGE RATE BASE
(000)

SCHEDULE 1
Page 1 of 3
INTERIM

	(1) ADJUSTED JURIS. AS FILED	(2) PLANT SCHERER ACQUISITION ADJUSTMENT	(3) SCS BUILDING CANCELLATION	(4) BONIFAY & GRACEVILLE OFFICES	(5) ACCUMULATED DEPRECIATION ERRORS	(6) AFUDC OVERACCRUAL	(7) FUEL INVENTORY GENERIC LEVEL	(8) TOTAL ADJUSTMENTS	(9) ADJUSTED TOTAL
PLANT IN SERVICE	$1,145,119	($4,422)	($208)	($43)		($22)		($4,695)	$1,140,424
ACCUMULATED DEPRECIATION	(395,093)	298		5	(26)			277	(394,816)
NET PLANT IN SERVICE	750,026	(4,124)	(208)	(38)	(26)	(22)		(4,418)	745,608
CONSTRUCTION WORK IN PROGRESS	11,979							0	11,979
PROPERTY HELD FOR FUTURE USE	3,306							0	3,306
								0	0
								0	0
NET UTILITY PLANT	765,311	(4,124)	(208)	(38)	(26)	(22)		(4,418)	760,893
WORKING CAPITAL	73,643						(5,628)	(5,628)	68,015
TOTAL RATE BASE	$838,954	($4,124)	($208)	($38)	($26)	($22)	($5,628)	($10,046)	$828,908
OPERATING REVENUES	$243,500							$0	$243,500
OPERATING EXPENSES:									
O&M - OTHER	111,323							0	111,323
O&M - INTERCHANGE	(3,907)							0	(3,907)
DEPRECIATION & AMORTIZATION	43,213	(150)						(150)	43,063
AMORT. OF INVESTMENT CREDIT	(1,741)							0	(1,741)
TAXES OTHER THAN INCOME	18,426							0	18,426
INCOME TAXES-CURRENTLY PAYABLE	16,103	56						56	16,159
DEFERRED INCOME TAXES - NET	0							0	0
INVESTMENT TAX CREDIT - NET	0							0	0
TOTAL OPERATING EXPENSES	183,417	(94)	0	0	0	0	0	(94)	183,323
NET OPERATING INCOME	$60,083	$94	$0	$0	$0	$0	$0	$94	$60,177
ACHIEVED RATE OF RETURN	7.16%							0.10%	7.26%

GPCAV989
22-Jan-90

GULF POWER COMPANY
DOCKET NO. 891345-EI
SEPTEMBER 1989 TEST YEAR
13 MONTH AVERAGE RATE BASE
(000)

	(9) ADJUSTED TOTAL FROM PAGE 1	(10) LOBBYING EXPENSE	(11) TRANSMISSION RENTALS	(12) CUSTOMER SERVICES	(13) SALES	(14) INTEREST RECONCIL-IATION	(15)	(16)	(17) TOTAL ADJUSTMENTS	(18) ADJUSTED TOTAL
PLANT IN SERVICE	$1,140,424								$0	$1,140,424
ACCUMULATED DEPRECIATION	(394,816)								0	(394,816)
NET PLANT IN SERVICE	745,608								0	745,608
CONSTRUCTION WORK IN PROGRESS	11,979								0	11,979
PROPERTY HELD FOR FUTURE USE	3,306								0	3,306
	0								0	0
	0								0	0
NET UTILITY PLANT	760,893								0	760,893
WORKING CAPITAL	68,015								0	68,015
TOTAL RATE BASE	$828,908								$0	$828,908
OPERATING REVENUES	$243,500								$0	$243,500
OPERATING EXPENSES:										
O&M - OTHER	111,323	(291)	(1,787)	(2,596)	(669)				(5,343)	105,980
O&M - INTERCHANGE	(3,907)								0	(3,907)
DEPRECIATION & AMORTIZATION	43,063								0	43,063
AMORT. OF INVESTMENT CREDIT	(1,741)								0	(1,741)
TAXES OTHER THAN INCOME	18,426								0	18,426
INCOME TAXES-CURRENTLY PAYABLE	16,159	110	672	977	252	(542)			1,469	17,628
DEFERRED INCOME TAXES - NET	0								0	0
INVESTMENT TAX CREDIT - NET	0								0	0
TOTAL OPERATING EXPENSES	183,323	(181)	(1,115)	(1,619)	(417)	(542)			(3,874)	179,449
NET OPERATING INCOME	$60,177	$181	$1,115	$1,619	$417	$542			$3,874	$64,051
ACHIEVED RATE OF RETURN	7.26%								0.47%	7.73%

GULF POWER COMPANY
DOCKET NO. 891345-EI
13 MONTH AVERAGE RATE BASE
EXPLANATION OF ADJUSTMENTS

RATE BASE

COLUMN NO.

(2) - THIS ADJUSTMENT REMOVES THE PLANT SCHERER UNIT 3 ACQUISITION ADJUSTMENT ($6,937,131; A/D $671,515) AND THE ACQUISITION ADJUSTMENT FOR COMMON FACILITIES ($8,680,507; A/D 671,515) FROM RATE BASE AND THE RELATED AMORTIZATION FROM THE INCOME STATEMENT. THE ACQUISITION ADJUSTMENTS AND AMORTIZATION HAVE NOT BEEN APPROVED BY THE COMMISSION.

(3) - THIS ADJUSTMENT REMOVES FROM RATE BASE THE COST OF A SOUTHERN COMPANY SERVICES BUILDING CANCELLED PRIOR TO CONSTRUCTION.

(4) - THIS ADJUSTMENT REMOVES THE UNJUSTIFIED EXCESS COST OF THESE BUILDINGS THAT WAS DISALLOWED IN GULF'S LAST RATE CASE.

(5) - THIS ADJUSTMENT INCREASES ACCUMULATED DEPRECIATION TO CORRECT ERRORS IN DEPRECIATION ON TWO MAJOR PROJECTS.

(6) - THIS ADJUSTMENT REMOVES FROM PLANT-IN-SERVICE AFUDC IMPROPERLY CAPITALIZED BEYOND THE IN-SERVICE DATE OF THE CRIST WAREHOUSE AND NAVAL AIR STATION SUBSTATION UPGRADE.

(7) - THIS ADJUSTMENT REDUCES THE FUEL INVENTORY BY $5,627,682 ($6,335,310 SYSTEM) TO CONFORM WITH THE COMMISSION'S GENERIC FUEL INVENTORY POLICY.

NOI ADJUSTMENTS

(10) - THIS ADJUSTMENT REMOVES FROM O&M EXPENSES LOBBYING EXPENSES IMPROPERLY CHARGED ABOVE-THE-LINE.

(11) - THIS ADJUSTMENT REDUCES O&M EXPENSES FOR PREVIOUSLY DISALLOWED TRANSMISSION LINE RENTALS ASSOCIATED WITH PLANT DANIEL AND TRANSMISSION LINE RENTALS FOR PLANT SHERER THAT WERE NOT JUSTIFIED BY THE COMPANY.

(12) - THIS ADJUSTMENT REMOVES FROM O&M EXPENSES FORMER ECCR PROGRAMS NOT JUSTIFIED BY THE COMPANY FOR RECOVERY IN BASE RATES.

(13) - THIS ADJUSTMENT REMOVES FROM O&M EXPENSES SALES EXPENSES WHICH WERE SEEN AS UNNECESSARY OR WHICH DUPLICATE EXISTING GULF PROGRAMS.

(14) - THIS ADJUSTMENT IS SIMPLY A MATHEMATICAL CALCULATION BASED ON THE CHANGES IN THE CAPITAL STRUCTURE AS A RESULT OF THE RATE BASE AND CAPITAL STRUCTURE RECONCILIATION.

Gulf Power Company
Docket No. 891345-EI

Gulf Power Company
13-Month Average Capital Structure
Interim Rate Relief
Test Year Ending 9/30/89
Staff Position

Capital Components	Total Per Books	Direct Adjust-ments	Non-Utility Adjust-ments	Less: Unit Power Sales	Pro Rata Adjust ments	System Adjusted	Juris-dictional Factor	Adjusted Capital Structure	Non-Utility Adjust-ments	Pro Rata Adjust-ments	Staff Adjusted	Ratio	Cost Rate	Wtd. Cost
Long-Term Debt	$496,851	($82,154)	$0	($81,522)	($12,242)	$320,933	97.58861%	$313,194	$0	($3,750)	$309,444	37.33%	8.59%	3.21%
Short-Term Debt	$1,115	$0	$0	$0	($41)	$1,074	97.58861%	$1,048	$0	($13)	$1,036	0.12%	10.29%	0.01%
Preferred Stock	$69,028	$0	$0	($13,387)	($2,044)	$53,597	97.58861%	$52,304	$0	($626)	$51,678	6.23%	7.62%	0.48%
Common Equity	$357,854	($19,434)	($14,858)	($52,590)	($9,956)	$261,016	97.58861%	$254,722	$0	($3,050)	$251,671	30.36%	13.00%	3.95%
Customer Deposits	$15,546	$0	$0	$0	($571)	$14,975	100.00000%	$14,975	$0	($179)	$14,795	1.78%	7.66%	0.14%
Deferred Taxes	$200,428	($27,244)	$0	$0	($6,363)	$166,821	97.58861%	$162,798	$0	($1,949)	$160,849	19.40%	0.00%	0.00%
ITCs - Zero Cost	$1,033	$0	$0	$0	($38)	$995	97.58861%	$971	$0	($12)	$959	0.12%	0.00%	0.00%
ITCs - Wtd. Cost	$50,762	$0	$0	($9,336)	($1,522)	$39,904	97.58861%	$38,942	$0	($466)	$38,475	4.64%	10.32%	0.48%
	$1,192,617	($128,832)	($14,858)	($156,835)	($32,778)	$859,314		$838,954	$0	($10,046)	$828,908	100.0%		8.26%

Calculation of JDIC Rate

Capital Components	Adjusted Amount	Ratio	Cost Rate	Wtd. Cost
Common Equity	$254,722	41.07%	13.00%	5.34%
Preferred Stock	$52,304	8.43%	7.62%	0.64%
Long-Term Debt	$313,194	50.50%	8.59%	4.34%
	$620,220	100.00%		10.32%

GULF POWER COMPANY
DOCKET NO. 891345-EI
O & M BENCHMARK VARIANCE BY FUNCTION
1989

	Steam Production (000)	Other Production (000)	Other Power Supply (000)	Trans. Rents (000)	Trans. Other (000)	Total Trans. (000)	Distribution (000)	Customer Accounts (000)	Customer Service (000)	Sales (000)	Prod Rel Adm.& Gen. (000)	Other Adm. & General (000)	Total Adm.&Gen. (000)	Total (000)
1984 FPSC Allowed O&M Less Direct Fuel, ECCR & Purchased Power-System	$35,502	$81	$1,020	$962	$2,335	$3,297	$7,670	$6,074	$1,505	$0	$3,043	$21,006	$24,049	$79,198
Reconciling Adjustments														
Amort. of Unavailable Oil	(51)													(51)
Capacity Payments	716													716
UPS Allocation Error											342		342	342
Adjusted 1984 FPSC Allowed O&M	36,167	81	1,020	962	2,335	3,297	7,670	6,074	1,505	0	3,385	21,006	24,391	80,205
True-up of 1984 Comp. Multiplier Adj. to actual CPI-Cust. Growth	0	0	0	0	0.0368 53	53	0.0368 167	0.0368 140	0.0368 33	0.0368 0	0	0.0368 373	373	766
1984 Allowed O&M less Direct Fuel, ECCR & Purchased Power-System	36,167	81	1,020	962	2,388	3,350	7,837	6,214	1,538	0	3,385	21,379	24,764	80,971
Add Plant Daniel Related Adj. Docket 840036-EI				425		425					1,573		1,573	1,998
Former ECCR Programs Moved to Base Rates									2,248			348	348	2,596
Total O&M Base Adjusted for Plant Daniel & Framer ECCR	36,167	81	1,020	1,387	2,388	3,775	7,837	6,214	3,786	0	4,958	21,727	26,685	85,565
1984 - 9/89 Compound Multiplier	1.1800	1.1800	1.1800	1.1800	1.3890		1.3890	1.3890	1.3890	1.3890	1.1800	1.3890		
Interim O&M Benchmark - System	42,677	96	1,204	1,637	3,317	4,954	10,886	8,631	5,259	0	5,850	30,179	36,029	109,736
Plant Scherer & Associated Trans Line Rents	1,393			1,898	22	1,920					318		318	3,631
Interim Benchmark less Direct Fuel & Pur. Power-System	44,070	96	1,204	3,535	3,339	6,874	10,886	8,631	5,259	0	6,168	30,179	36,347	113,367
Interim Actual O&M less Direct Fuel & Pur. Power-System	52,819	24	1,086	3,139	2,945	6,084	13,907	6,714	5,564	1,677	5,640	31,902	37,542	125,417
NOI O&M Adjustments	0	0	0	0	0	0		642	(1,758)	(852)	0	(2,552)	(2,552)	(4,520)
Interim Actual Adjusted O&M -System	52,819	24	1,086	3,139	2,945	6,084	13,907	7,356	3,806	825	5,640	29,350	34,990	120,897
Benchmark Variance - Adj. System	8,749	(72)	(118)	(396)	(394)	(790)	3,021	(1,275)	(1,453)	825	(528)	(829)	(1,357)	7,530
Staff Adjustments-System	0	0	0	(2,011)	0	(2,011)	0	0	(2,596)	(669)	0	(307)	(307)	(5,583)
Unit Power Sales O&M Exp.														(7,154)
Adjusted Variance-System	8,749	(72)	(118)	(2,407)	(394)	(2,801)	3,021	(1,275)	(4,049)	156	[illegible]	(1,136)	(1,664)	(5,207)

GULF POWER COMPANY
DOCKET NO. 891345-EI

COMPOUND MULTIPLIERS

Year	Total Customers	% Increase	Compound Multiplier	CPI Amount	% Increase	Compound Multiplier	Inflation and Growth Multiplier
1984	239,956		1.00000	1.039335		1.00000	1.0000
1985	253,135	5.492%	1.05492	1.076250	3.552%	1.03552	1.0924
1986	263,646	4.152%	1.09873	1.096917	1.920%	1.05540	1.1596
1987	271,448	2.959%	1.13124	1.137084	3.662%	1.09405	1.2376
1988	277,883	2.371%	1.15806	1.183500	4.082%	1.13871	1.3187
Sept 12 MTD 1989	282,408	1.628%	1.17692	1.226500	3.633%	1.18008	1.3889

TRUE - UP OF BASE YEAR MULTIPLIERS (1979 - 1984), PROJECTED TO ACTUAL*

	Compound Multiplier	Compound Multiplier	Inflation and Growth Multiplier
1984 ACTUAL	1.23006	1.4316	1.7610
1984 PROJECTED	1.20439	1.4316	1.7242
DIFFERENCE	0.0257	0.0000	0.0368

* 1984 ACTUAL CPI WAS 4.3% AND CUSTOMER GROWTH WAS 5.503%.
1984 PROJECTED ASSUMES CPI WAS 4.3% AND CUSTOMER GROWTH WAS 3.31%.

GULF POWER COMPANY

DOCKET NO. 891345-EI

1989 O & M BENCHMARK VARIANCE BY FUNCTION (SYSTEM)

	Issue	Steam Production (000)	Nuclear Production (000)	Other Production (000)	Other Power Supply (000)	Trans-mission (000)	Distribution (000)	Customer Accounts (000)	Customer Service (000)	Sales (000)	Admin. & General (000)	Total (000)
1	Transmission Line Rentals					(2,011)						(2,011)
2	Sales									(669)		(669)
3	Customer Service								(2,596)			(2,596)
4	Lobbying Expenses										(307)	(307)
												0
												0
												0
												0
												0
												0
												0
												0
												0
												0
												0
												0
												0
												0
												0
	TOTAL SYSTEM	0	0	0	0	(2,011)	0	0	(2,596)	(669)	(307)	(5,583)

GULF POWER COMPANY
DOCKET NO. 881167-EI
SEPTEMBER 1989 TEST YEAR
13 MONTH AVERAGE RATE BASE

SCHEDULE 4
INTERIM

	(1) AVERAGE PER COMPANY	(2) AVERAGE STAFF ADJUSTED
JURISDICTIONAL ADJUSTED RATE BASE	$838,954	$828,908
REQUIRED RATE OF RETURN	8.26%	8.26%
REQUIRED NET OPERATING INCOME	69,298	68,468
JURISDICTIONAL ADJUSTED NOI	60,083	64,051
NOI DEFICIENCY/(EXCESS)	9,215	4,417
NOI MULTIPLIER	1.631699	1.631699
REVENUE DEFICIENCY/(EXCESS)	$15,035	$7,207
REQUIRED RETURN ON EQUITY	13.00%	13.00%
ACHIEVED RATE OF RETURN	7.16%	7.73%