BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

In Re: Petition of Gulf Power Company for approval of "Tax Savings" refund for 1988.	DOCKET NO. 890324-EI ORDER NO. 23536 ISSUED: 9-27-90

The following Commissioners participated in the disposition of this matter:

MICHAEL McK. WILSON, Chairman
THOMAS M. BEARD
BETTY EASLEY
GERALD L. GUNTER

ORDER DETERMINING 1988 TAX SAVINGS REFUND

BY THE COMMISSION:

On March 2, 1989, pursuant to Rule 25-14.003, Florida Administrative Code, (the "tax savings rule") Gulf Power Company ("Gulf") filed a report which indicated a revenue deficiency of $471,268, such that no tax savings refund was due to the utility's ratepayers for 1988. Later, on October 4, 1989, Gulf filed a revised report which showed an increased revenue deficiency of $1,378,924. The Office of Public Counsel ("OPC" or "Public Counsel") intervened in this docket.

On January 18, 1990, Commission Staff issued an initial recommendation regarding disposition of Gulf's tax savings report. Thereafter, on January 30, 1990, in conformity with its action in Docket No. 890319-EI, Petition of Florida Power & Light Company for Approval of "Tax Savings" Refund for 1988, and due to the number and complexity of the issues, the Commission declined to vote on the substance of the recommendation. With the agreement of the utility, the Commission proceeded to hearing on the merits of Gulf's tax savings report.

I. SUMMARY OF DECISION

We examined Gulf's initial and revised reports filed in compliance with Rule 25-14.003, F.A.C. and found that various adjustments should be made to the data Gulf used in completion of the form. In its revised filing, the utility corrected for two significant out-of-period adjustments identified after the original report was filed. The first adjustment resulted in a net increase to income tax expense of $663,043 to correct an error made in November, 1988, in which the last carry-over to future years created in 1986 by the utility's Plant Daniel coal buyout was treated as a deduction to current tax expense, thus understating total tax expense. The adjusting entry, made by Gulf in February,

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1989, increased state income tax expense by $1,141,850, which decreased federal income tax expense by $456,180. The second adjustment increased 1988 unit power sales expenses by $106,653, net of taxes, in accordance with an audit disclosure in Docket No. 881167-EI, the utility's withdrawn rate case. We approve these adjustments.

After further adjustments, which are discussed in the body of this order, we find that Gulf should refund tax savings in the amount of $3,618,332, plus interest in accordance with Rule 25-6.109, F. A. C. (Unless otherwise noted, all dollar amounts listed herein are jurisdictional amounts.) In the context of this tax savings procedure, adjustments to Gulf's actual per book figures, over and above those specific regulatory adjustments from the utility's 1984 rate case and those stipulated to herein, do not constitute impermissible retroactive ratemaking, nor is it improper for this Commission to make corrective adjustments to Gulf's expenditures such as would be made in a rate case. We find that Rule 25-14.003, F.A.C., should be construed to require Gulf to justify its actual, per books expenses prior to calculating the utility's tax savings or tax deficiency.

Gulf argued that the burden of proof in this docket rests on any party who attempts to "in effect, change the established rates through disallowance of actually incurred expenses...." This argument is unpersuasive in the context of a tax savings docket held pursuant to Rule 25-14.003, F.A.C. We find that Gulf has the burden of proof herein.

II. ADJUSTMENTS TO RATE BASE

After the adjustments totalling $19,764,102, discussed below, we find the appropriate rate base level to be used in computing Gulf's 1988 tax savings refund to be $691,792,425. Specific adjustments to deferred income taxes and investment tax credits ("ITC's") in the capital structure are discussed in connection with related rate base adjustments. Where the tax effects of rate base adjustments were insignificant, no adjustments were made to deferred taxes or ITC's in the capital structure.

A. ADJUSTMENTS TO PLANT

1. Plant Scherer

In 1984, Gulf purchased a 25% interest in Plant Scherer No. 3 from Georgia Power. The unit did not come on line until 1987. For purposes of computing its 1988 tax savings, Gulf included this investment in rate base. The utility's last complete rate case was in 1984, however, at that time Gulf did not include any Plant Scherer investment in its rate base because the unit had not yet been completed. Since that time, all but 19 megawatts ("MW") of Gulf's 63 MW capacity from Plant Scherer has been dedicated to off-system unit power sales. In 1988, Gulf States Utilities, which had contracted to purchase 44 MW of Plant Scherer capacity, defaulted on its obligation, which made the entire 63 MW of Scherer capacity available. Gulf argued that the Plant Scherer investment should be included in rate base for tax savings purposes because it was in place and available to serve retail customers, and because Gulf's participation in ownership of the plant is in the best interest of its ratepayers. We initially decided to remove all 63 MW of the Plant Scherer investment from rate base for purposes of computing the utility's 1988 tax savings, but upon our own motion, reconsidered this decision. With the exception of Commissioner Beard, who dissented from the reconsideration and from our decision on related issues on the ground that the entire 63 MW investment should be excluded, we find it more reasonable to remove 44 MW. Gulf could not have planned to have this capacity available for its ratepayers in 1988 because it was committed to Gulf States Utilities. Therefore, were it not for the 1986 income tax reduction which gave rise to the tax savings rule, Gulf would have absorbed the loss of 44 MW of unit power sales revenues from Plant Scherer until its next rate case. This disallowance reduces the average balance of accumulated deferred income taxes by $1,139,475 and of investment tax credits by $756,888.

The adjustments necessary to allow 19 MW of Plant Scherer in rate base are as follows:

Plant-in-service	($17,805,000)
Acquisition Adjustment-Net	(1,569,000)
Accumulated Depreciation	1,128,000
Working Capital	(903,000)
O&M Expenses	(397,000)
Depreciation Expense	(702,000)
Amortization of ITC	35,000
Other Taxes	(99,000)
IIC Offset	1,533,000

When Gulf purchased its interest in Plant Scherer, the purchase price was more than the costs recorded on the books of Georgia Power. The excess costs paid by Gulf were noted as an audit exception in the PSC audit conducted during the rate case filed by Gulf in late 1988 and withdrawn in June, 1989. After consultations with PSC and Federal Energy Regulatory Commission (FERC) staff, Gulf agreed to make the necessary adjustments in December 1989. Since these adjustments were made in 1989, and were

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not reflected in the 1988 tax savings docket, we find that Plant-in-Service should be reduced by $614,000, Accumulated Depreciation should be reduced by $47,000 and Depreciation Expense should be reduced by $23,000 to correct for excess cost capitalization. These reductions are included in the above adjustments to allow 19 MW of Plant Scherer in rate base. The adjustments are made net of the related deferred taxes, for the sake of simplicity and for tax savings purposes only. Ordinarily, in a rate case, we would make a separate adjustment to the deferred tax balance.

As a result of its purchase of a portion of the common facilities at Plant Scherer, Gulf recorded an acquisition adjustment of $1,592,045. According to Commission policy, acquisition adjustments should be excluded from rate base unless a utility demonstrates extraordinary circumstances or proves a net benefit to ratepayers. Gulf has done neither in this case. Therefore, the acquisition adjustment should be amortized to Account 425, a below-the-line account. In addition, an adjustment should be made to reflect the impact of a refund which occurred in October 1989 and reduced the cost of the Plant Scherer common facilities. The adjustments to remove the acquisition adjustment and to reduce the cost of Plant Scherer common facilities are:

Plant-in-service	($114,000)
Acquisition Adjustment-Net	(1,569,000)
Accumulated Depreciation	6,000
Depreciation Expense	(49,000)

These adjustments are included in the adjustment to allow 19 MW of Plant Scherer.

2. Construction Cancellation

We find that jurisdictional rate base should be reduced by $338,262 to remove costs associated with a construction project which was canceled by Southern Company Services in 1984. Costs were allocated to all system operating companies, with a total of $715,752 allocated to Gulf. Gulf charged $369,305 to operating expense and capitalized $346,447 (system). However, according to the Uniform System of Accounts, expenditures for canceled construction projects should be charged below-the-line to Account 426.5, Other Deductions, or to the appropriate operating expense account. The utility agreed with this reduction and made the appropriate entries on the books in May 1989. This adjustment reduces the average balance of accumulated deferred income taxes by $82,367.

3. Bonifay and Graceville Construction Costs

We find that Gulf's Plant-in-Service should be reduced by $43,000 and Accumulated Depreciation by $5,000 for a net reduction of $38,000 for a portion of the construction costs of the utility's office buildings in Bonifay and Graceville.

In Gulf's 1984 rate case, we disallowed construction costs in excess of $67 per square foot for these utility office facilities. The $67 per square foot figure was supported by a means survey provided by Gulf. In Order No. 14030, we stated, "We are not convinced that sufficient evidence has been introduced to justify the total cost of these buildings." The issue was left open until Gulf's next rate case at which time the utility would have an opportunity to justify the entire cost of the projects. In accordance with that order, we feel that the proper forum for the determination of whether the costs of the Bonifay and Graceville office buildings were reasonable and prudent is Gulf's current rate case, rather than this tax savings docket.

4. Tallahassee Office Investment

We find that Gulf's rate base should be reduced to remove a portion of the utility's investment in its Tallahassee office as follows: Plant-in-Service, Accumulated Depreciation and Depreciation Expense should be reduced by $23,863, $4,434 and $3,383, respectively, to remove 25% of the office investment and 100% of the investment in the car driven by Mr. Earl Henderson, the utility's lobbyist.

Gulf maintains an office in Tallahassee for use by its lobbyist, its PSC liaison and for general usage by Pensacola-based employees while conducting business in Tallahassee. The office space is leased and the office furniture has been capitalized by the company and included in rate base. In addition, Earl Henderson, Gulf's lobbyist, has a company car which is included in rate base.

Gulf's witness, Mr. Scarbrough, agreed that in order to avoid controversy in this case, Gulf would remove 25% of the capitalized investment in this office and 100% of Earl Henderson's car from rate base, which results in the following adjustments:

	Office Investment	Accumulated Depreciation	Depreciation Expense
System Amount	$42,837	$10,567	$4,969
Jurisdictional Factor	.97992	.97992	.98005

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Jurisdictional Amount	41,976	10,355	4,870
Allocation Factor	25%	25%	25%
Jurisdictional Adjustment	$10,494	$ 2,589	$1,217

	Car Investment	Accumulated Depreciation	Depreciation Expense
System Amount	$13,641	$ 1,883	$2,210
Jurisdictional Factor	.97992	.97992	.98005
Jurisdictional Amount	13,369	1,845	2,166
Allocation Factor	100%	100%	100%
Jurisdictional Adjustment	$13,369	$ 1,845	$2,166
Total System	$24,078	$ 4,487	$3,408
Total Jurisdictional	$23,863	$ 4,434	$3,383

5. Property Held For Future Use

The parties agreed that Gulf's rate base should not be adjusted to remove certain property held for future use, all of which was allowed in the utility's last rate case. For the purpose of the 1988 tax savings docket, all of the following property held for future use will be included in rate base:

Caryville generating plant site: This property consists of approximately 2000 acres assembled for construction of a generating plant. Later, Gulf bought a share of generating plants already under construction rather than building its own plant. The Caryville site is certified for power plant construction. Even though site certification revisions would be required when a plant is constructed, revisions would be far less involved than an initial site review.

Plant Daniel land site: This land is located at Plant Daniel in Mississippi and was reclassified from Plant-in-Service to Land Held for Future Use as a result of a FERC audit conducted on Mississippi Power. In the future, this land will be used as an ash disposal site. It was identified as a "future" site on maps examined by FERC auditors. The property is not an addition to the original site but is part of the original site, with reclassification made at the suggestion of FERC.

Bayfront office site: This property will eventually be used for additional parking when the number of employees at the corporate building is increased. Parking is currently sufficient, but zoning regulations will require additional parking when the third floor of the building is utilized in the future.

General repair facility site: This property is used to support the utility's Pace Boulevard site. A portion of the property was placed in service in March, 1990, when a building used for electric operations was built on it.

6. Depreciation Error

The parties stipulated that Accumulated Depreciation should be increased by $67,760 to correct errors in depreciation prior to 1988. We approve the stipulation. Normally Gulf computes one-half month's depreciation on projects in the month 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. Depreciation on these two projects totaled $67,760. Gulf agreed that depreciation expense for these projects was incorrect and made the correction to accumulated depreciation in February, 1989.

7. AFUDC Capitalization Error

The parties stipulated that Plant-in-Service should be reduced by $56,250 to reverse Allowance for Funds Used During Construction (AFUDC) improperly capitalized beyond the in-service date of the utility's Crist Warehouse and Naval Air Station substation upgrade. We approve the stipulation. A FERC audit noted that AFUDC was improperly capitalized beyond the in-service date of these two major projects. FERC's Uniform System of Accounts, as well as our rules, require accrual of AFUDC to cease when projects are placed into or are ready for service. Overaccrual of AFUDC causes an inflated Plant-in-Service balance. Gulf made the necessary journal entries in February, 1989 to remove the full overaccrual from rate base. However, for this docket the overaccrual remains on the books and must be removed.

B. ADJUSTMENTS TO WORKING CAPITAL

1. Plant Scherer

Our removal of 44 MW of Gulf's Plant Scherer Unit 3 investment results in a working capital reduction of $903,000.

2. Acid Rain Projects

The parties stipulated that working capital be reduced $26,000 to remove charges related to acid rain projects which were inadvertently included in the 13-month average of the deferred debt balance. We approve the stipulation.

3. Withdrawn Rate Case

In 1988, Gulf initiated a rate case, Docket No. 881167-EI, which was later withdrawn by the utility in 1989. Rate case charges were incurred in 1988 but were accumulated in Account 186, Miscellaneous Deferred Debits, pending completion of the case. The items were expensed in 1989. We find that $69,401, the 13-month average of rate case charges included in the deferred debit account, should be removed from working capital.

II. ADJUSTMENTS TO NET OPERATING INCOME

After the adjustments totalling $1,175,815, discussed below, we find that the appropriate net operating income to be used in computing Gulf's 1988 tax savings refund is $60,812,844.

A. O&M ADJUSTMENTS

1. Plant Scherer

As a result of our removal of 44 MW of Gulf's investment in Plant Scherer Unit 3, we must make the following adjustments to the utility's operating expense:

O&M Expenses	(397,000)
Depreciation	(702,000)
Amortization of ITC	35,000
Other Taxes	(99,000)
IIC offset	1,533,000

2. Lobbying Expenses

We find that expenses should be reduced by $266,342 to remove 100% of identified lobbying expenses, which includes a reduction to Administrative and General (A&G) Expense of $259,637 and a reduction to Taxes Other of $6,705. In 1988, Gulf charged $111,355 to A&G Expenses for expenses incurred by Mr. Henderson, its Tallahassee-based lobbyist. The expenses were primarily for salary, expense accounts, office rent and supplies, and should be removed. In 1989, the utility began charging these expenses below-the-line. The utility has further identified $115,791 in lobbying expenses allocated to Gulf from the Southern Company which should be removed, and has additionally agreed to remove $33,523 for payroll taxes, employee benefits and expenses of its Regulatory

Affairs Coordinator. We have further removed 10% ($5,673) of the salary, payroll overheads and car expenses of the Regulatory Affairs Coordinator.

3. Spouses' Travel

We will reduce Gulf's expenses by $11,564 to remove expenses incurred for certain employees' and executives' spouses to attend out of town functions. Although the utility's witness, Mr. Scarbrough, stated that spouses acted as hostesses at certain meetings, we find that such expenses are not necessary to the provision of electric service.

4. Outside Services

The parties stipulated that Account 923 - Outside Services should be reduced by $56,442 for legal expenses related to non-utility business which was improperly charged to the account. In 1988 various legal fees associated with non-utility business were charged to regulated expense accounts for such items as energy loans, political contributions, and for Southern Sod contracts, as well as for Internal Revenue Service and federal grand jury investigations. These expenses are not utility-related and should be removed.

5. Grand Jury Investigation

Gulf's O&M expenses should be reduced by $3,346 for expenses related to a grand jury investigation of certain utility practices, including, among other things, a percentage of executive and corporate travel. Gulf has previously removed other such expenses.

Although we recognize that executive time spent on the grand jury investigation was time not spent conducting routine company business, the record in this case does not allow us to quantify and remove a clearly identifiable increase in salary or corporate expenses other than those already removed by the utility.

6. Law Firm Bonus

At hearing, Mr. Scarbrough indicated that Gulf paid a bonus of $100,000 to Mr. Fred Levin, a Pensacola attorney, in connection with a personal injury lawsuit. While we believe that stockholders, not ratepayers, should be responsible for such a bonus, the payment occurred in 1987 and is thus beyond the scope of this tax savings docket.

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7. Employee Discrimination Suit

Gulf incurred expenses in the amount of $176,510 for costs associated with settlement of an employee discrimination lawsuit. The parties stipulated that this amount should be removed from the utility's O&M expense and should not be included in the calculation of its 1988 tax savings.

8. Bad Debt Expense

In 1988 Gulf accrued $661,662 for uncollectible expense, calculated according to accrual accounting requirements which require that uncollectible expenses be estimated during the period in which revenues are recognized. Typically, the accrual for uncollectibles will exceed actual write-offs as revenues increase. There are also years where actual write-offs exceed the accrual. During 1988 Gulf's accrual exceeded net write-offs by $216,091.

In this proceeding we review actual historical data rather than projections. The utility followed proper accrual accounting for this expense, which we find was properly estimated in accordance with accrual accounting requirements. The record supports the reasonableness of the amount of the accrual, as shown by historical data reflecting actual accruals, net write-offs and jurisdictional sales, which was used to develop a three-year average of net write-offs as a percentage of sales, which was then applied to 1988 sales.

9. Accounting Treatment For Postretirement Benefits

In 1987, Gulf changed from accounting for medical and life insurance postretirement benefits on a "pay as you go basis" to an accrual basis. The utility reviewed its policy on accounting for postretirement benefits in 1987 when Statement of Financial Accounting Standards 87 "Employer's Accounting for Pensions" was implemented, and decided that postretirement benefits are more appropriately accounted for on an accrual basis. Gulf uses an "aggregate cost" method to spread the expected costs of the postretirement benefits over the remaining periods of employees' service as a level percentage of payroll costs.

OPC argued that postretirement benefits were accounted for on a "pay as you go basis" in Gulf's last rate case, so the benefits should be accounted for in the same manner for purposes of this tax savings docket. We do not believe that the tax savings rule requires that accounting treatments remain identical.

OPC also argued that Gulf chose to change its method of accounting for postretirement benefits and was not mandated to do so by "outside requirements" such as the Financial Accounting Standards Board. We believe that Gulf's change to the accrual method should be judged upon its merits and not by whether or not it was mandated by an "outside requirement."

OPC's third argument is that the amount included by Gulf is a "catch up" amount to recover deficiencies created because the expenses recovered in the past were too low. Mr. Scarbrough testified that the amount recorded for postretirement benefits is in part a "catch-up" amount. Based upon the actuarial methods used in the utility's actuarial valuation report for 1988, past service costs are included in the expense amount. The past service costs for the medical benefits cannot be identified from the actuarial valuation report; however, past service costs for life insurance benefits are $613,054. We believe that the "pay-as-you-go" basis of accounting for other postretirement benefits recognizes costs associated with past employees in current periods. Changing from the "pay-as-you-go" basis to accrual accounting involves not only recognizing the past service costs, but also the costs associated with current employees. Although costs associated with past employees will continue to be recognized during a transition period, the long-range goal of accrual accounting is to recognize the expense associated with the current employees in the current period. For purposes of this tax savings docket, the past service cost should be recognized as part of the other postretirement benefits expense.

Finally, OPC argued that accounting for postretirement benefits should be studied in-depth by the Commission before adopting an industry-wide policy. We agree that this is a significant issue and we do not intend to set our final policy in this docket.

10. Advertising Expense

Advertising expenses of $238,232 related to area development and national advertising were recorded in Account 930.1 in 1988. Gulf removed the expenses in its revised tax savings report. No further adjustment is required.

11. Withdrawn Rate Case

None of the costs associated with the utility's 1989 rate case were actually expensed in 1988 and therefore no adjustment to Gulf's 1988 books is necessary or appropriate.

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12. Additional Pension Expense

OPC took the position that $308,000 of pension expense, over the maximum allowed for tax purposes, should be disallowed. OPC notes that Gulf calls the additional pension expense "gratuitous pension expense."

Mr. Scarbrough testified that the "gratuitous pension expense" is really a supplemental benefits plan offered to certain highly paid employees who would otherwise have benefits capped due to IRS limitations. The purpose of the plan is to avoid discrimination between employees which would be caused by "arbitrary IRS limits" on deductions. The supplemental benefits plan provides for pensions and matching employee savings, both of which are subject to limitations set by the IRS. Only approximately $199,000 is associated with the supplemental benefits plan. The difference between the $308,000 disallowance advocated by OPC and the $199,000 associated with the supplemental benefits plan is the amount of pension expense recorded for the employees at Plant Daniel.

In 1988, three employees of Gulf Power qualified for the supplemental benefits plan. We believe that the supplemental benefits plan should be considered as part of the total compensation package for the employees, and that the compensation plans for Gulf employees appear to be reasonable. It also appears reasonable that highly paid employees should not be discriminated against due to tax considerations. Therefore, we will make no adjustment for the supplemental benefits plan in this tax savings docket.

13. Productivity Improvement Plan

Gulf's Productivity Improvement Plan (PIP) is a part of the total compensation plan for the utility's 15 or 20 most highly compensated employees. There are two components to this plan: an individual component which can be directly influenced by the hands-on performance of an individual and a corporate component paid to these individuals if Gulf and the Southern Company exceed predetermined corporate goals based on the preceding four years average return. Public Counsel challenged the corporate component of the plan. Gulf contributes only 6% to 8% of the Southern Company's revenues and thus Gulf's managers cannot affect results of the Southern Company to any great degree. A 1% change in Gulf's operating results translates into approximately one-twentieth of 1% at the Southern Company level.

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We believe it is important to examine the PIP in the context of Gulf's overall compensation and benefits package, which must be sufficient to attract and retain quality employees. If the overall package is excessive, we would consider disallowance of certain expenses. According to the record, Gulf's objective is to pay employees at approximately the 75th percentile of salaries paid to employees of members of the Southeastern Electric Exchange. Gulf employees affected by this plan earn closer to the 50th percentile. Mr. Scarbrough stated that the PIP allows affected employees the opportunity to earn closer to the 75th percentile than base salary alone would permit. The plan does not guarantee payment, and is subject to year to year fluctuations. As pointed out by Mr. Scarbrough, raising the pay levels would solve the salary problem, but salaries would then be permanently increased. Further, Gulf does not pay pension expenses on the PIP portion of salaries.

Even with this plan, it appears that Gulf's top employees are not overly compensated. Further, we allowed this plan in the utility's last rate case. Therefore, we will allow the corporate PIP component of $238,480 in the calculation of Gulf's tax savings in this docket.

14. Steam Production

Other O&M - Plant Daniel: Gulf has only justified a portion of its increased expense of $506,000 for this function. The utility justifies the expense based on increased generation requirements for Plant Daniel. While increased generation will increase O&M expenses, it also reduces cycling which serves to reduce O&M expenses. Gulf never quantified this relationship.

Gulf's witness, Mr. Lee, agreed that if a power plant cycled on and off, its O&M expenses would be greater than a base load plant in general. He also agreed that an increase in generation would cause a reduction in cycling for a power plant, and that Plant Daniel had cycled less in 1988 than it did in 1984 due to increased generation requirements. Because Gulf did not quantify O&M expense reduction resulting from reduced cycling, we will disallow $253,000, one-half of the increased expense, from the calculation of Gulf's tax savings refund.

Plant Scherer: As noted in our discussion of disallowances resulting from our exclusion from rate base of 44 MW of Gulf's Plant Scherer investment, expenses for the steam production function for Plant Scherer should be reduced by $139,000.

Acid Rain Monitoring: Gulf claimed that its benchmark excess in the Steam Production function resulted, in part, from expenses

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for the Florida Coordinating Group's Acid Rain Deposition Study. However, Gulf has budgeted expenses for this study since 1981. Since this is simply a reclassification of a previously allowed expense, the $13,000 expense should not be recognized in calculating the utility's 1988 tax savings refund.

Transmission Rentals: In its justification for transmission line rental expenses, Gulf included in the benchmark calculation a previously disallowed amount of $425,000, which had been disallowed in the 1984 rate case to reflect the component of customer growth. The disallowed amount was derived from information provided by Gulf, and was not challenged by the utility at the conclusion of the case. We do not think it appropriate to allow Gulf to recover this previously disallowed expense in the context of a tax savings docket. Removal of the $425,000 disallowance from the benchmark calculation produces a benchmark excess of $109,749. This amount has not been justified by the utility and will not be recognized in calculating the tax savings refund.

Additional Personnel and Salary Increases: Gulf claimed expenses of $1,208,000 for additional personnel new to the power production function following the 1984 rate case. The expenses appear reasonable and will be allowed.

Southern Company Services: In its listing of expenses charged by Southern Company Services (SCS), Gulf stated that SCS provided technical assistance in the areas of air quality studies, chemistry services, water quality, and solid waste disposal. It appeared that these services may have already been provided or associated with other research and development projects, but there is no evidence in the record to support such a finding, so no additional disallowance is appropriate.

Additional Personnel - Plant Daniel: Additional personnel expense of $127,000 was incurred for Plant Daniel to provide quality assurance of maintenance activities. Previously, maintenance and repair was performed by the original equipment manufacturer. Currently, several manufacturers bid for maintenance work, so quality assurance is the responsibility of the utility. Therefore, the additional quality assurance positions at Plant Daniel seem reasonable.

Plant Daniel Turbine and Boiler: Gulf claimed that expenses of $168,000 should be recognized in the O&M expenses used in calculating its 1988 tax savings because there was no turbine component inspection required for Plant Daniel in 1984, and thus, such expenses were not included in its last rate case. We find the expense in question to be reasonable.

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Southern Company Services - Plant Daniel: Public Counsel challenged the inclusion in O&M expenses of $202,000 for certain Southern Company Services charges for Plant Daniel, on the ground that such expenses arose from three activities which the utility used as justification for other purposes. The record shows that the expenses were direct charges by Southern Company Services to Mississippi Power for Plant Daniel, incurred for support of the Production Plant Management system, for ash storage and for turbine testing. We find no evidence of double counting as alleged by Public Counsel.

Ash Hauling - Plant Daniel: In 1988, Gulf stored fly ash in a pond, and incurred expenses of $111,000 for digging and stacking the ash prior to transporting it to a landfill in order to obtain additional fly ash storage capacity. Removal of the ash from the existing pond is desirable due to the difficulty of obtaining environmental permitting for a new ash pond. Similar expenses were not incurred in 1984, but the amount appears reasonable and should be recognized in calculating Gulf's 1988 tax savings refund.

Ash Hauling and Storage - Dry Land Fill - Plant Smith: Gulf incurred expenses of $752,000 for ash hauling in this function. The only difference between this expense and the expense for Plant Daniel discussed above is that the Plant Smith expense was incurred for construction of another ash storage site, not just removal and storage at a landfill. We find the expense to be reasonable and necessary.

Crist Plant - Painting: In 1988 Gulf incurred expense of $953,000 in this function. Public Counsel argued that the expense should be disallowed because, although no major painting was budgeted for Plant Crist in 1984, other painting was budgeted and therefore this amount is excessive. Gulf's witness, Mr. Lee, testified that the magnitude of the painting budgeted for 1984 was not at all equivalent to the amount of painting performed at Plant Crist during 1988. We will therefore allow this expense in the calculation of Gulf's 1988 tax savings refund.

Electromagnetic Field Research: Expenses of $8,000 were incurred as a result of Gulf's involvement with the development of electromagnetic field standards as required by the Florida Department of Environmental Regulation. We find that these expenses should be recognized in calculating Gulf's 1988 tax savings refund.

Underground Line Extensions: Gulf's benchmark excess of $289,000 for underground line extensions should be recognized in the O&M expenses used in calculating Gulf's 1988 tax savings

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refund. According to Gulf, increased demand for installations coupled with the increased cost for maintenance compared to overhead has caused the overall expense for maintenance to increase well beyond customer growth and inflation.

15. Distribution

Distribution System Work Order (DSWO) Clearance: Gulf's justification for the benchmark excess of $1,057,000 is that the relative amount of dollars spent for DSWO clearance did not increase, rather, the allocation of charges between plant and O&M changed. This has the effect of understating the base year from which the benchmark is calculated. If the amount for 1984, the base year, was increased by the same percentage as the shift in expenses, bias in the base year would be eliminated, and the "new" 1988 benchmark would be $139,000 above the 1988 actual expenses. Thus, even if we accept Gulf's contention that expenses shifted from capital to O&M, there is still a variance of $139,000 which Gulf did not justify, and which we will disallow.

Electric Power Research Institute (EPRI): Gulf has not justified the benchmark excess of $54,000 for EPRI expenses in addition to dues. The only evidence in the record states that EPRI performs research in the area of distribution and therefore benefits all utilities. While we agree that EPRI research in a particular area will benefit all participating utilities, we find that Gulf failed to provide additional justification for this particular function area. Therefore, this benchmark excess should not be recognized in calculating Gulf's 1988 tax savings refund.

Obsolete Distribution Material: In 1984, Gulf began implementation of a new computerized inventory control system in order to improve identification of obsolete materials and reduce excessive inventory. Implementation of this system continued until 1988, when the system was able to identify a large amount of obsolete materials. This is reflected by the utility's write-offs for the years 1985 through 1988. Also, salvage values for all materials rose significantly in 1988 with the increased write-offs of obsolete materials. The utility explained that this is a one time expense. We find that it should be recognized in calculating Gulf's 1988 tax savings refund.

16. Customer Service and Information

Good Cents Programs: In Order No. 19742, we approved Gulf's stipulation that the utility would not seek to recover costs of its Good Cents Programs through the energy conservation cost recovery docket. Recovery through a tax savings docket would constitute

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similar direct cost recovery. Further, the programs were shown to be marginally cost effective, while mimicking the state building code. Therefore, this expense of $447,057 should not be recognized in calculating Gulf's 1988 tax savings refund.

Industrial Customer Activities and Cogeneration: As justification for its benchmark excess of $248,990, Gulf stated that this program provides benefits to the general body of ratepayers by preserving revenues. While retention of high load factor customers offers some benefits to the utility's general body of ratepayers, Gulf has no firm purchases of cogenerated power and is requesting that additional plant, Daniel and Scherer, be placed in base rates. Not only does this appear contradictory, but we fail to see a clear benefit from the program. We find that the benchmark variance should not be recognized in calculating Gulf's 1988 tax savings refund.

Ally Information and Education: Gulf's benchmark excess of $256,000 should not be recognized in the O&M expenses used in calculating Gulf's 1988 tax savings refund. This program was not budgeted in 1984 and appears to be a partial duplication of the Good Cents Program which was removed from direct recovery through the energy conservation cost recovery docket in 1987. Through this program, Gulf provides information relating to the efficiency of appliances on the market to trade allies. The information is readily available to contractors and has been for some time. Also, residential and commercial customers are more aware of energy efficiency than they were a few years ago and the provision of energy information is one of the justifications for the Good Cents Programs.

"Essential" Customer Services: Customer services are an important function of the utility. Utility customers would request information and services regarding appliance usage and efficiency characteristics even if the utility had no specific area designed to meet these needs. In other words, if the Commission disallowed these costs today, ratepayers would still ask for these services. We find that the benchmark excess of $62,325 should be recognized in the O&M expenses used in calculating Gulf's tax savings refund.

17. <u>Sales</u>

Heat Pump Program: Gulf's heat pump program is a stand alone program dedicated to the promotion of heat pumps. Gulf indicated that this program is necessary to address the issue of inefficient heating and air conditioning, which is one of the same reasons that Gulf contends the Good Cents Programs are necessary. This program appears to partially duplicate the Good Cents programs, which we

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disallowed for recovery herein. We therefore find that expenses in the amount of $665,000 should not be recognized in calculating Gulf's 1988 tax savings refund.

Shine Against Crime: Only one-half of the benchmark excess of $104,000 should be recognized in the O&M expenses used in calculating Gulf's 1988 tax savings refund. According to the utility, this program is designed to perform two functions - replacement of inefficient outdoor lights with more efficient fixtures and installation of new efficient outdoor lighting fixtures. Replacement of inefficient outdoor fixtures helps reduce energy requirements, but promotion of new outdoor fixtures increases energy requirements. While we do not intend to make a policy statement as to the intent of Sections 366.80 - .85, Florida Statutes, the Florida Energy Efficiency and Conservation Act, we are concerned about the promotion of off-peak load which does not result in a reduction in peak demand. However, the record does not contain a cost breakdown between the two program functions, so we will allow one-half of these expenses in the calculation of a tax savings refund.

Training: Gulf continues to offer energy management recommendations to individual customers and must therefore have competent personnel to make these recommendations. This program also emphasizes development of a more "customer oriented" organization by training Gulf employees to be responsive to customer needs. We find that the benchmark excess of $83,000 in this area should be allowed.

18. Production Related Administrative & General Expenses

In its last rate case, Gulf did not separate A&G expenses between Production-Related and Other for O&M benchmark purposes. The Production-Related expenses represented Gulf's 50% share of Plant Daniel A&G expenses. The Commission, in Order No. 14030, found expenses of $1,464,000 to be unjustified because the utility trended all A&G expenses by both Consumer Price Index (CPI) and customer growth. However, only CPI is correctly applied to Production expenses for purposes of the benchmark calculation. As stated in Order No. 14030, "...we reject it not because we find the amount to be unreasonable or imprudent, but because we find that Gulf has already included this amount in a previous justification."

In this docket, the utility restated the 1984 A&G expense by separating this function into Production-Related and Other and then recalculating the benchmark variance. After restatement, Gulf was under the benchmark for A&G Production by $28,000. When

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calculating the benchmark variance, Gulf added the disallowed amount to the base amount, and included A&G expenses related to Plant Scherer.

Billings to Gulf by Mississippi Power for Plant Daniel expenses are audited by the internal auditors of Southern Company Services on a periodic basis in order to determine whether such billings comply with the terms of the parties' operating agreement. The most recent audits found overbilling of $43,272 for Plant Daniel in 1988, which was corrected in 1988. There were no errors found in 1988 for Plant Scherer.

Because the disallowance in the last rate case was not based on unreasonableness or imprudence, and because the utility has adequately addressed the reasons for the disallowance, we will make no adjustment herein.

19. Administrative & General

Employee Relocation Expenses: We find that the benchmark excess of $140,000 should be recognized in the O&M expenses used in calculating Gulf's 1988 tax savings refund. Gulf pays relocation expenses, including moving and storage, living, personal transportation, and, if necessary, purchase of the employee's home through an independently contracted relocation firm, for employees who are transferred from one work site to another at the convenience of Gulf. In 1988 relocation expenses totaled $205,287, which is approximately $9,000 higher than the 1984-1987 average of $196,000. While such expenses exceeded the benchmark, we find that the benchmark itself was budgeted at an unrealistically low level of $50,000. Further, it is nearly impossible to forecast year-to-year changes in this category.

Bank Fees and Line of Credit Charges: The benchmark excess of $89,000 related to bank fees and fees for lines of credit should not be disallowed. Prior to 1988, Gulf utilized several disbursement and depository accounts and had lines of credit with its major banks. Gulf maintained compensating balances of 10 percent of the line of credit at these banks, which compensated the bank for providing the credit line and also offset bank service charges. After analysis and comparison of alternatives, Gulf consolidated its disbursement accounts into one controlled disbursement account which allows the investment of all idle cash until checks are presented for payment. Gulf is required to pay bank service fees for this service because it maintains a zero balance in this account with the bank. The bank service fees for 1988 were $46,472.

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Gulf now pays a fee for its lines of credit of $1 million or greater, rather than maintaining compensating balances at these banks. Currently, Gulf pays one-eighth of 1 percent of the line of credit to compensate the banks for making the lines available. This method of compensating the banks for a credit line allows Gulf to invest the previously unavailable funds on a short term basis. The 1988 cost for lines of credit was $42,500.

Mr. McMillan, Gulf's witness, testified that if the utility still included cash investments in working capital and the earnings on those investments in NOI, revenue requirements would be increased. In 1988, the earnings rate on the temporary cash investments was 6.73%, which would have increased revenue requirements by almost $1.5 million.

In its last complete rate case, Docket No. 840086-EI, Gulf was allowed $4,384,000 in cash and compensating bank balances supporting $77 million in lines of credit. Current Commission policy is to exclude temporary cash investments from working capital and treat the earnings below-the-line. We find that ratepayers benefit from the utility's procedure of paying bank fees in lieu of maintaining higher cash and compensating bank balances. Therefore, no adjustment should be made.

Employee Long Term Disability Plan: Gulf maintains that its long term disability plan protects employees while allowing the utility to standardize employee disability practices and reduce potential liability exposure. The employee pays one-half of the premium payments for the plan, as does Gulf. This plan went into effect after Gulf's last rate case, causing a non-production A&G benchmark variance of approximately $78,000. We will allow the expense. Some form of long term disability insurance plan is common for companies of Gulf's size. Further, 92% of utilities surveyed by Gulf had long-term disability programs. Gulf's salaries rank among the lowest compared to other southeastern utilities, so the utility's total benefits package must be considered as a factor in recruiting and retaining employees.

B. DEPRECIATION ADJUSTMENTS

As discussed above, in connection with our disallowance of a portion of Plant Scherer from rate base we must reduce depreciation and amortization expense by $655,000. We must additionally disallow $23,000 for the reduction resulting from the excess capitalization of Plant Scherer costs and $24,000 related to the refund of a portion of the Plant Scherer common facilities purchase price. We must additionally reduce depreciation expense by $3,383

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resulting from our disallowance of a portion of the utility's investment in its Tallahassee office. The total disallowance is $705,383.

C. TAX ADJUSTMENTS

As a result of adjustments to expenses discussed above, Gulf's income tax expense must be increased by $1,209,568. Income tax expense should be increased by $910,790 for the effect of adjustments on NOI, and an interest reconciliation and synchronization adjustment should be made which increases taxes by $298,778. No parent debt adjustment is required in this docket, since the parent company had no debt during 1988.

The record indicates that neither Gulf nor Southern Company has ever paid or accrued income taxes on customer deposits. Thus, no adjustment is required for such deposits.

Exclusion from rate base of a portion of the utility's investment in Plant Scherer necessitates an additional adjustment of $35,000 for decreased amortization of ITC's.

V. REFUND OF TAX SAVINGS

After the adjustments discussed above, we find that Gulf should refund 1988 tax savings in the amount of $3,618,332, plus interest calculated using the 30-day commercial paper rate as provided by Rule 25-6.109 (4), F.A.C. Interest should begin accruing on January 1, 1988, consistent with the determination made in Docket No. 880355-EI that interest should begin accruing on the first day of the year for which tax savings are calculated. Because there is no proof to the contrary in the record, Gulf shall treat the refundable amounts as earned evenly throughout the year, at one-twelfth per month. Interest shall continue to accrue on the unrefunded balance during implementation of the refund.

The refund shall be refunded to customers on an equal cents per KWH basis and identified as such on the bill. The utility may make a one-month refund based on a winter month (December, January, or February), or may make the refund over a six-month period to reflect more accurately how the revenues were collected. A six-month refund should be implemented beginning with the October billing cycle.

In consideration of the above, it is

ORDERED by the Florida Public Service Commission that the findings and stipulations discussed in this order are hereby approved. It is further

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ORDERED that Gulf Power Company shall refund tax savings in the amount of $3,618,332, plus interest, in the manner set forth herein.

BY ORDER of the Florida Public Service Commission, this 27th day of SEPTEMBER, 1990.

STEVE TRIBBLE, Director
Division of Records and Reporting

(S E A L)

by: Kay Flynn
Chief, Bureau of Records

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NOTICE OF FURTHER PROCEEDINGS OR JUDICIAL REVIEW

The Florida Public Service Commission is required by Section 120.59(4), Florida Statutes, to notify parties of any administrative hearing or judicial review of Commission orders that is available under Sections 120.57 or 120.68, Florida Statutes, as well as the procedures and time limits that apply. This notice should not be construed to mean all requests for an administrative hearing or judicial review will be granted or result in the relief sought.

Any party adversely affected by the Commission's final action in this matter may request: 1) reconsideration of the decision by filing a motion for reconsideration with the Director, Division of Records and Reporting within fifteen (15) days of the issuance of this order in the form prescribed by Rule 25-22.060, Florida Administrative Code; or 2) judicial review by the Florida Supreme Court in the case of an electric, gas or telephone utility or the First District Court of Appeal in the case of a water or sewer utility by filing a notice of appeal with the Director, Division of Records and Reporting and filing a copy of the notice of appeal and the filing fee with the appropriate court. This filing must be completed within thirty (30) days after the issuance of this order, pursuant to Rule 9.110, Florida Rules of Appellate Procedure. The notice of appeal must be in the form specified in Rule 9.900 (a), Florida Rules of Appellate Procedure.

GULF POWER COMPANY
DOCKET NO. 890324-EI
CALCULATION OF ADDITIONAL TAX SAVINGS REFUND

	GROSS	TAXES @ 37.63%	NET
NET OPERATING INCOME PER TAX FILING			$59,637,029
ADJUSTMENTS:			
O&M (TOTAL)	$1,609,295	($605,578)	$1,003,717
DEPRECIATION	705,383	(265,436)	439,947
TAXES OTHER	105,705	(39,777)	65,928
AMORTIZATION OF ITC			(35,000)
INTEREST RECONCILIATION			(298,778)
TOTAL ADJUSTMENTS	$2,420,383	($910,790)	$1,175,815
STAFF ADJUSTED NOI			$60,812,844
ADJUSTED RATE BASE PER TAX FILING			$711,556,527
STAFF ADJUSTMENTS			($19,764,102)
STAFF ADJUSTED RATE BASE			$691,792,425
OVERALL RATE OF RETURN			8.79%
OVERALL RATE OF RETURN @ 13.75% ROE			8.47%
DIFFERENCE			0.32%
STAFF ADJUSTED RATE BASE			$691,792,425
NET OPERATING INCOME EXCESS			$2,218,025
REVENUE EXPANSION FACTOR			1.631330
TOTAL TAX SAVINGS REFUND			$3,618,332
AMOUNT PREVIOUSLY REFUNDED			0
ADDITIONAL AMOUNT TO BE REFUNDED (EXCLUDING INTEREST)			$3,618,332

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GULF POWER COMPANY TAX SAVINGS
DOCKET NO. 890324-EI

RATE BASE ADJUSTMENTS

ISSUE NO.	EXPLANATION	JURISDICTIONAL
	PLANT	
7	PLANT SCHERER, UNIT 3	(17,238,383)
10	SCHERER ACQUISITION ADJ.-NET	(1,568,617)
7	ACC. DEPRE. SCHERER UNIT 3	1,128,000
8	PURCHASE PRICE-PL.SCHERER	(614,000)
8	ACCUM.DEP.PL.SCHERER PUR.PRICE	47,000
9	SCS CANCELLED BLD.	(338,262)
11	BONIFAY/GRACEVILLE OFFICES	(38,000)
12	TALLAHASSEE OFFICE	(23,863)
12	ACC. DEPRE. TALLA. OFFICE	4,434
14	CORRECTION-ACC. DEPRE. ERROR	(67,760)
15	AFUDC OVERACCRUAL	(56,250)
	TOTAL	(18,765,701)
	WORKING CAPITAL	
7	PLANT SCHERER, UNIT 3	(903,000)
16	ACID RAIN LEGISLATION	(26,000)
31	WITHDRAWN RATE CASE	(69,401)
	TOTAL	(998,401)
	TOTAL RATE BASE ADJUSTMENTS	(19,764,102)

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GULF POWER COMPANY TAX SAVINGS
DOCKET NO. 890324-EI

EXPENSE ADJUSTMENTS

ISSUE NO.	EXPLANATION	JURISDICTIONAL
	O&M ADJUSTMENTS	
7	PLANT SCHERER, UNIT 3	(397,000)
7	PL SCHERER ITC OFFSET	1,533,000
20	LOBBYING EXPENSES	(259,637)
21	SPOUSES' TRAVEL	(11,564)
22	OUTSIDE SERVICES	(56,442)
24	GRAND JURY MATTERS	(3,346)
26	EMPLOYEE DISCRIMINATION SUIT	(176,510)
37	OTHER O&M-PLANT DANIEL	(253,000)
46	ACID RAIN MONITORING	(13,000)
47	TRANSMISSION RENTALS	(109,749)
49	DSO CLEARANCE	(139,000)
51	EPRI	(54,000)
52	GOOD CENTS PROGRAMS	(447,057)
54	INDUSTRIAL CUST. ACT. & COGEN.	(248,990)
56	HEAT PUMP PROGRAM	(665,000)
57	ALLY INFO. & ED.	(256,000)
58	SHINE AGAINST CRIME	(52,000)
	TOTAL	(1,609,295)
	DEPRECIATION	
7	DEPRE.& AMORT.EXP. SCHERER UNI	(655,000)
8	DEP.EXP. SCHERER PURCH. PRICE	(23,000)
10	AMORT. ACQ. ADJ. COMMON FAC.	(24,000)
12	DEPRE. EXP. TALLAHASSEE OFFICE	(3,383)
	TOTAL	(705,383)
	TAXES OTHER	
7	PLANT SCHERER, UNIT 3	(99,000)
20	LOBBYING-PAYROLL TAXES	(6,705)
	TOTAL	(105,705)
	AMORTIZATION OF ITC	
7	PLANT SCHERER, UNIT 3	35,000
	INCOME TAXES	
63	TAX EFFECT OF ADJUSTMENTS	910,790
63	INTEREST RECONCILIATION	298,778
	TOTAL	1,209,568
	TOTAL EXPENSE ADJUSTMENTS	(1,175,815)

GULF POWER COMPANY
DOCKET NO. 890324-EI
O & M BENCHMARK VARIANCE BY FUNCTION
1988

	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					0.0368		0.0368	0.0368	0.0368	0.0368		0.0368		
Adj. to actual CPI-Cust. Growth	0	0	0	0	53	53	167	140	33	0	0	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 840086-EI				425		425					1,573		1,573	1,998
Total O&M Base Adjusted for Plant Daniel	36,167	81	1,020	1,387	2,388	3,775	7,837	6,214	1,538	0	4,958	21,379	26,337	82,969
1984 - 1988 Compound Multiplier	1.139	1.139	1.139	1.139	1.319		1.319	1.319	1.319	1.319	1.139	1.319		
1988 O&M Benchmark - System	41,194	92	1,162	1,580	3,150	4,730	10,337	8,196	2,029	0	5,647	28,199	33,846	101,506
1988 Plant Scherer & Assoc. Trans Line Rents	1,961			1,500	31	1,531					446		446	3,938
1988 Benchmark less Direct Fuel & Pur. Power-System	43,155	92	1,162	3,080	3,181	6,261	10,337	8,196	2,029	0	6,093	28,199	34,292	105,524
1988 Actual O&M less Direct Fuel & Pur. Power-System	49,167	34	1,175	2,709	2,937	5,646	14,466	7,312	5,993	1,953	6,065	30,613	36,678	122,424
NOI O&M Adjustments	0	0	0	0	0	0	0	0	(2,187)	(845)	0	(716)	(716)	(3,748)
1988 Actual Adjusted O&M -System	49,167	34	1,175	2,709	2,937	5,646	14,466	7,312	3,806	1,108	6,065	29,897	35,962	118,676
Benchmark Variance - Adj. System	6,012	(58)	13	(371)	(244)	(615)	4,129	(884)	1,777	1,108	(28)	1,698	1,670	13,152
Staff Adjustments-System	(561)	0	0	(113)	(6)	(119)	(194)	0	(696)	(973)	(446)	(330)	(776)	(3,319)
Adjusted Variance-System	5,451	(58)	13	(484)	(250)	(734)	3,935	(884)	1,081	135	(474)	1,368	894	9,833

GULF POWER COMPANY
DOCKET NO. 890324-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

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%.

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GULF POWER COMPANY

DOCKET NO. 890324-EI

1988 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)
7 PLANT SCHERER UNIT 3	(266)				(6)					(488)	(760)
20 LOBBYING EXPENSES										(273)	(273)
21 SPOUSES'TRAVEL										(12)	(12)
22 OUTSIDE SERVICES										*	0
24 GRAND JURY MATTERS										(3)	(3)
26 EMPLOYEE DISCRIM. SUIT										*	0
37 OTHER O&M-PLANT DANIEL	(281)										(281)
46 ACID RAIN MONITORING	(14)										(14)
47 TRANSMISSION RENTALS					(113)						(113)
49 DSO CLEARANCE						(140)					(140)
51 EPRI						(54)					(54)
52 GOOD CENTS PROGRAMS								(447)			(447)
54 INDUSTRIAL CUST.ACT.& COGEN.								(249)			(249)
56 HEAP PUMP PROGRAM									(665)		(665)
57 ALLY INFO. & ED.									(256)		(256)
58 SHINE AGAINST CRIME									(52)		(52)
											0
											0
											0
TOTAL SYSTEM	(561)	0	0	0	(119)	(194)	0	(696)	(973)	(776)	(3,319)

* These adjustments were made by Gulf for purposes of calculating the O&M benchmark.
These adjustments were not made by Gulf for purposes of calculating any tax savings.

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Gulf Power Company
Rule 25-14.003 Corporate Income Tax Expense Adjustments
12 Months Ended December 31, 1988

STAFF POSITION

CLASS OF CAPITAL	TOTAL COMPANY	COMPANY ADJUSTMENTS	COMPANY RECONCILED AMOUNT	STAFF ADJUSTMENTS SPECIFIC	STAFF ADJUSTMENTS PRO RATA**	STAFF ADJUSTED	RATIO	COST RATE	WTD COST
Long-Term Debt	438,148,507	(167,410,359)	270,738,148	0	(8,815,016)	261,923,132	37.87%	8.28%	3.14%
Short-Term Debt	3,076,923	(3,076,923)	0	0	0	0	0.00%	7.50%	0.00%
Preferred Stock	70,008,754	(25,810,051)	44,198,703	0	(1,439,074)	42,759,629	6.18%	7.15%	0.44%
Common Equity	345,782,403	(125,033,356)	220,749,047	0	(7,187,411)	213,561,636	30.88%	13.75%	4.25%
Customer Deposits	15,699,275	(867,222)	14,832,053	0	(482,920)	14,349,133	2.07%	7.63%	0.16%
Deferred Taxes	193,782,025	(66,823,106)	126,958,919	(1,221,842)	0	125,737,077	18.18%	0.00%	0.00%
Unamortized ITCs	52,231,488	(19,201,014)	33,030,474	(756,888)	0	32,273,586	4.67%	10.44%	0.49%
3% ITCs	1,138,277	(89,094)	1,049,183	0	0	1,049,183	0.15%	0.00%	0.00%
TOTAL CAPITAL	1,119,867,652	(408,311,125)	711,556,527	(1,978,730)	(17,924,420)	691,653,377	100.00%		8.47%

Calculation of JDIC Rate

Capital Components	Adjusted Amount	Ratio	Cost Rate	Wtd. Cost
Common Equity	213,561,636	41.21%	13.75%	5.67%
Preferred Stock	42,759,629	8.25%	7.15%	0.59%
Long-Term Debt	261,923,132	50.54%	8.28%	4.18%
Total	518,244,398	100.00%		10.44%

** Prorated over investor sources of capital and customer deposits.