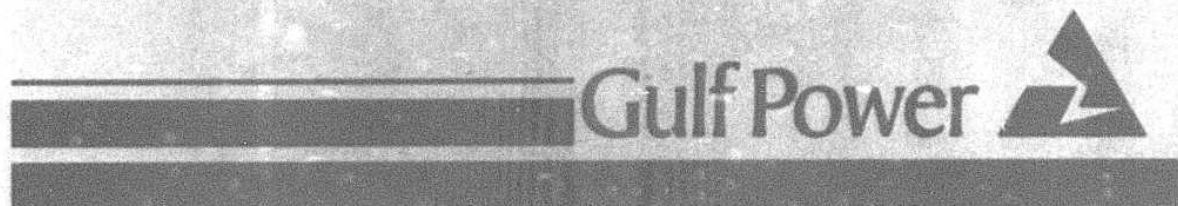


**ORIGINAL
FILE COPY**

**BEFORE THE
FLORIDA PUBLIC SERVICE COMMISSION**

DOCKET NO 891345-EI

**MINIMUM FILING REQUIREMENTS
SECTION F—MISCELLANEOUS SCHEDULES**



DOCUMENT NUMBER-DATE

12022 DEC 15 1989

FPSC-RECORDS/REPORTING

947

GULF POWER COMPANY

Docket No. 891345-EI
Minimum Filing Requirements

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F. Miscellaneous Schedules

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GULF POWER COMPANY
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F. Miscellaneous Schedules (Continued)

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SCHEDULE P-1

Annual and Quarterly Reports to Shareholders

FLORIDA PUBLIC SERVICE COMMISSION

Company: GULF POWER COMPANY

Docket No. 891345-EI

Explanation: Provide a copy of the most recent Annual Report to Shareholders, and all subsequent Quarterly Reports. The company shall file all Quarterly and Annual Reports as they become available during the preceding.

Type of data shown:
Projected Test Year 1990
Prior Year 1989
Witness A. E. Scarbrough

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1988 Annual Report is attached.

Supporting Schedules:

Recep Schedules:

FLORIDA PUBLIC SERVICE COMMISSION
DOCKET NO. 891345-E1
GULF POWER COMPANY
SCHEDULE F1



Gulf Power
1988 Annual Report



... Under One Sun



Gulf Power

1988 Financial Summary

	1988	1987	Percent Increase (Decrease)
(Dollar Amounts In Thousands)			
Operating Revenues	\$ 502,497	\$ 531,903	(5.5)
Operating Expenses	\$ 413,469	\$ 447,893	(7.7)
Net Income After Dividends on Preferred Stock	\$ 45,698	\$ 42,217	8.2
Kilowatthour Sales (In Thousands)			
Within Service Area			
(Territorial Sales)	7,500,330	7,213,011	4.0
Off System Sales (Non-Territorial)	1,638,916	1,821,924	(10.9)
Total	9,139,246	9,034,935	1.2
Customers Served (Year End)	279,747	273,544	2.3
Fuel Cost Per Net Kilowatthour Generated (Cents)	1.86	2.08	(10.6)
Return on Average Common Equity (Percent)	13.41	13.23	1.4
Gross Property Additions	\$ 67,042	\$ 97,511	(31.2)
Gross Utility Plant (Year End)	\$1,397,495	\$1,345,766	3.8

President's Letter to Stockholders

The year 1988 was good for Gulf Power Company. Our financial performance, quality of service to customers, and increased productivity and efficiency in all areas of our operations reflected the hard work and dedication of all our employees.

Net income was \$45.7 million, resulting in a rate of return on average common equity of 13.41 percent. This rate of return reflects the impact of a \$1.5 million refund which we made to our retail customers as a result of the change in the federal tax rates.

Territorial sales of electricity in 1988 totaled 7.5 billion kilowatthours, an increase of 4 percent above 1987 sales. And, customers at year-end totaled 279,747, which is an increase of 2.3 percent above the level in 1987.

Although our 1988 earnings were certainly good, our projections indicate that rate relief is needed in 1989. On November 14, 1988, we filed for an increase in our retail rates of \$25.8 million with the Florida Public Service Commission. (The reasons for this requested increase are discussed in the Financial Summary section.)

It is important to note that Gulf has not raised its rates since 1984, and even with this requested increase, our rates will be among the lowest rates in the nation the Southeast, and the state of Florida and will still enable us to be the competitive energy choice of our customers in Northwest Florida.

This past year was marked by fine accomplishments in all areas of our operations. Some of these will be discussed in more detail in the following pages. However, I want to emphasize that I believe we are making great strides toward moving our company into a more competitive posture. This is the result of comprehensive organizational and operational reviews which began in the early 80s.



Being a competitive company is one of our primary goals. Therefore, in order to keep our prices competitive and the quality of our service high, we have to look very carefully at every expense item in our budget. This is a way of life for us as we move to the end of this decade.

I want to emphasize that some very positive things are happening in Gulf Power's service area which promise benefits for our company. Our economic development efforts are already paying dividends. Last year 39 businesses visited the Northwest Florida region. Twelve of those announced relocation or expansion plans. The combined efforts of government officials, chambers of commerce, and business leaders are making the attraction of new businesses to our area a reality. In addition, the opening of our Business Development Center at the Corporate Office in Pensacola is a significant aid in helping prospects understand the many positive aspects of life in Northwest Florida.

In looking to 1989, we are confident that a fair decision will be rendered in our retail rate case. Preparing, filing, and presenting a rate case is a burdensome and costly task, but one that is absolutely necessary. I am also hopeful that our industry will not have to bear the costs associated with passage of costly and unfair Federal acid rain legislation. Therefore, with a fair rate decision, continued expense control, and no additional costs resulting from acid rain legislation, I believe that we will be in excellent shape as we enter the 90s.

This letter would certainly not be complete without acknowledging the fine people who make up Gulf Power Company — from our electric generating plants to our offices, they are the ones who day in and day out help us maintain one of the highest public confidence levels of any utility in the nation. And so to all of them, I express my sincere appreciation.

I would also like to express my appreciation to our board of directors whose support and guidance are extremely important in making us a successful company.

Douglas McCrary

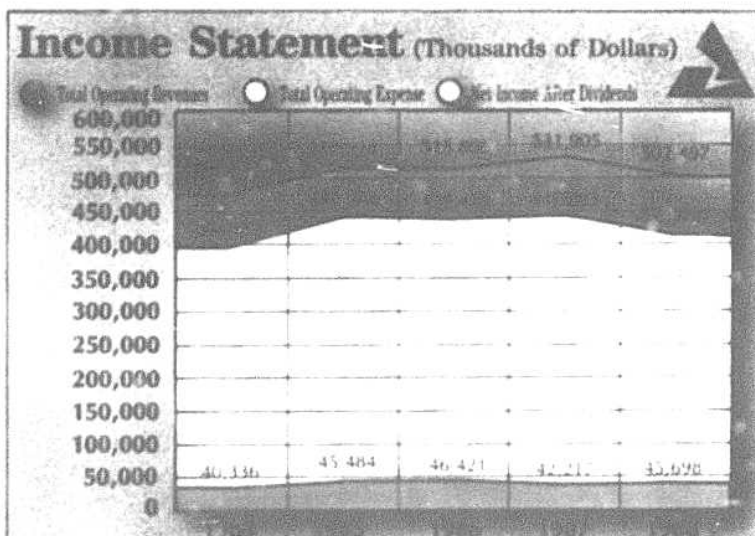
Douglas McCrary
President and Chief Executive Officer

Financial Summary

Earnings

In 1988, Gulf continued to experience growth in kilowatthour sales and customers. Total territorial sales in 1988 amounted to 7,500 million kilowatthours — a 4.0 percent increase over the 7,213 million kilowatthours sold in 1987. At year end, Gulf served 279,747 customers throughout Northwest Florida which represented a 2.3 percent increase over the 273,544 customers served at the end of 1987.

Gulf Power's financial performance in 1988 showed an improvement over levels reached in the prior year as net income after dividends on preferred stock increased to \$45.7 million — up 8.2 percent from results recorded in 1987. This increase occurred despite a decrease in operating revenues of \$29.4 million which included a \$1.5 million refund to customers as a result of 1987 earnings exceeding the approved return allowed by the Florida Public Service Commission (FPSC). A decline in fuel clause revenues and the termination of sales to Gulf States Utilities were the major contributors to the drop in revenues; however, a considerable reduction in fuel costs, as well as a reduction in the federal income tax rate from 40 percent in 1987 to 34 percent in 1988, resulted in a decrease in operating expenses which more than offset the decrease in operating revenues. Part of the reduction in fuel costs can be attributed to the termination of an existing contract with Peabody Coal Company through a \$60 million buy-down payment and entrance into a new agreement at considerable savings. To finance the buy-down, the company issued \$35 million of first mortgage bonds and received \$25 million in capital contributions from its parent company, The Southern Company. Amortization of the buy-down costs and the related carrying costs are being recovered through the fuel adjustment clauses. The company's 1988 return on average common equity was 13.41 percent as compared to 13.23 percent in 1987.



Under One Sun

Small Town Charm . . .

The small town charm of the new book is a real treat for the reader. The author has written a book that is both informative and entertaining. The book is a collection of stories that are both interesting and amusing. The author has a great sense of humor and a great ability to tell a story. The book is a must-read for anyone who loves a good story. The book is a collection of stories that are both interesting and amusing. The author has a great sense of humor and a great ability to tell a story. The book is a must-read for anyone who loves a good story.



Under One Sun

Small Town Charm . . .

Small town charm is a thing of the past, isn't it? Well, not in the case of the new *Small Town Charm* by the author of *Under One Sun*. This book is a collection of stories about small towns and the people who live in them. It's a book that will make you feel like you're back in a small town again. The stories are set in a variety of small towns, from a tiny village in the mountains to a small town on the coast. Each story is a window into a different way of life. The author's writing is simple and straightforward, but it's also full of heart. You can feel the love and care that went into each story. This is a book that you can read over and over again, and it will always make you feel like you're back in a small town again.



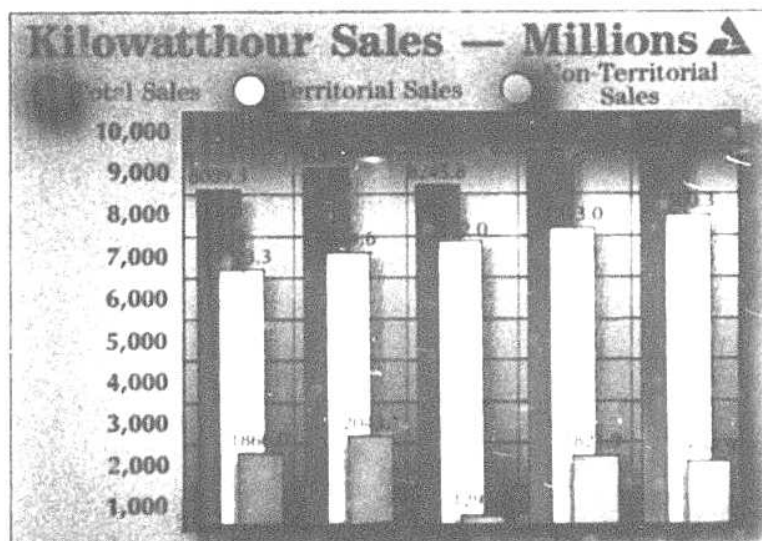


Rate Matters

On November 14, 1988, the company filed a petition for an increase in annual retail revenues of \$25.8 million. This is a 6.3 percent increase in total retail revenue. The return on average common equity requested was 14.0 percent. The increased revenues sought by the company are necessary to maintain its financial integrity and permit it to earn a reasonable rate of return.

The primary factor causing the need for retail rate relief in 1989 is the dedication of substantial additional amounts of Plant Daniel and Plant Scherer generating capacity to Gulf's retail customers and the associated operating expenses. Of the \$188 million increase in retail rate base from 1988 to 1989, \$158 million is related to Plant Daniel and Plant Scherer.

On January 3, 1989, the FPSC denied the company's request for interim relief and voted to suspend the rates pending the outcome of hearings scheduled for the first two weeks of July, 1989.



Division Operations

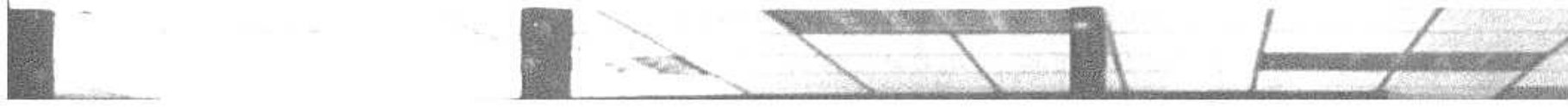
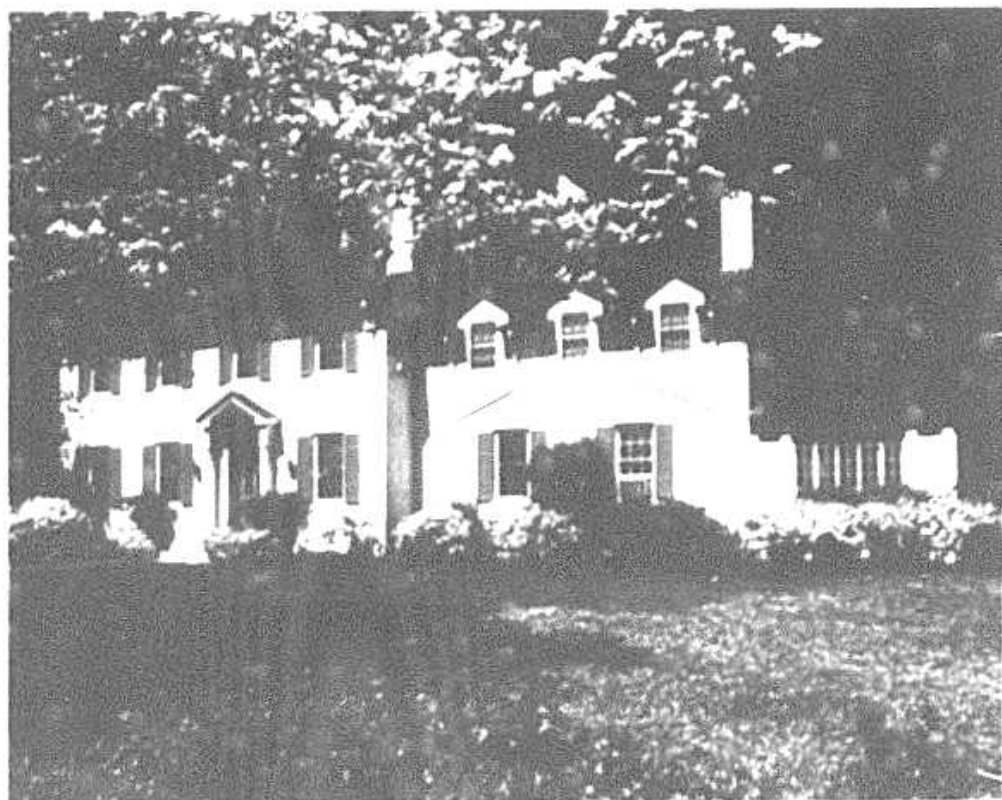
Employees who work in Gulf Power's three divisions — Western, Central, and Eastern — know they are the ones who work every day, year-round with customers. They also know that customers depend on electricity to run their homes, their businesses, and their factories. With this in mind, they focus their efforts on providing the very best service to customers. All three divisions placed increased emphasis on this aspect of their operations in 1988.

In the Western Division, which has offices in Pensacola, Milton, Century, and Gulf Breeze, Quality Improvement Teams were implemented in 1988. The teams, made up of 6-10 people, identify, analyze and solve work-related problems. These teams are not only coming up with more efficient ways of operating, but they are working on better ways to serve customers.

Gulf's Central Division, with offices in Fort Walton Beach, Niceville, DeFuniak Springs, and Crestview, initiated REACT (Responsible Employee Action Team). REACT places strong emphasis on a customer-oriented business philosophy and the program has helped strengthen team work to determine solutions to customer-related problems.

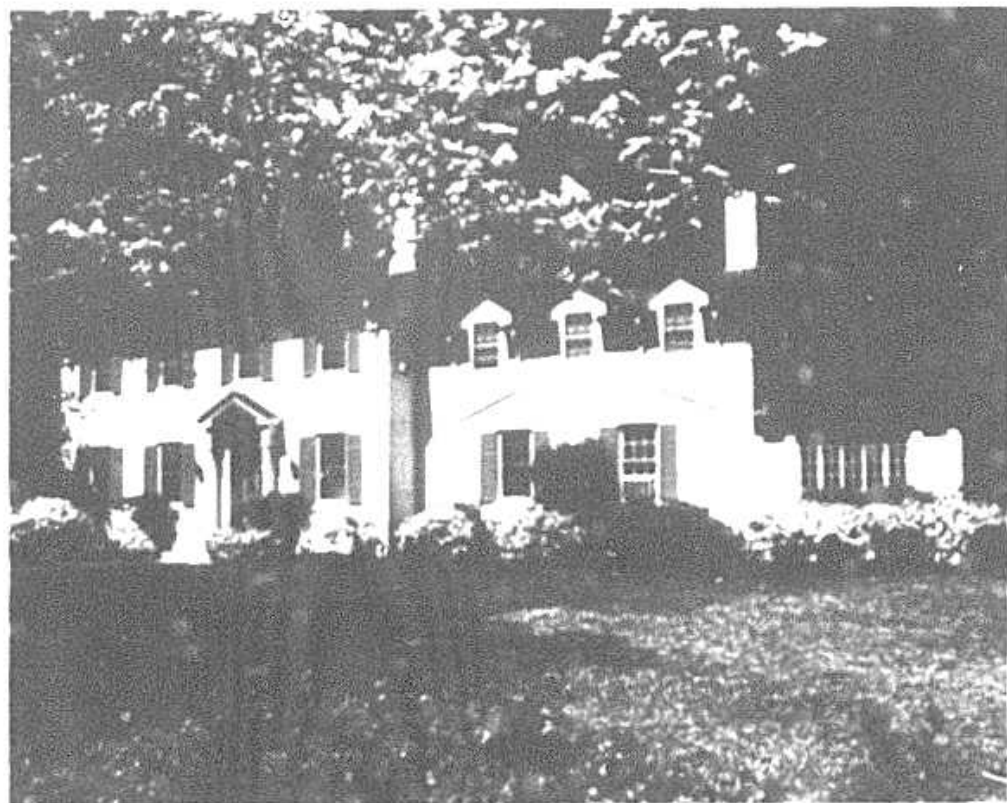
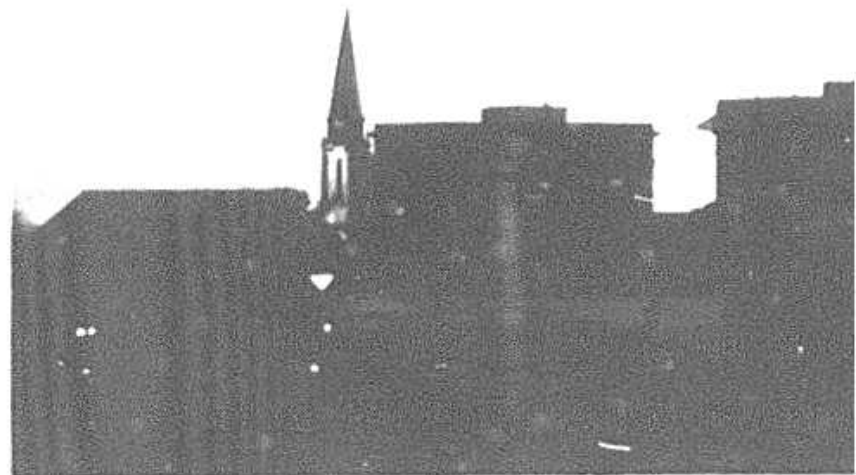
Under One Sun

Living in the City . . .



Under One Sun

Living in the City . . .



"Put Yourself in the Customer's Shoes" is the slogan adopted by Eastern Division, which encompasses Panama City, Chipley, Bonifay, and Graceville. The thrust of this program is to have employees understand customer needs and concerns by putting themselves in the customer's place.

Although residential growth declined in 1988, commercial and industrial growth looked promising.

In the Pensacola area, a successful effort was made to keep the U.S.S. Lexington, a naval aircraft carrier, in Pensacola. The carrier will be docked at the Pensacola Municipal Auditorium and will be a major economic boon to the downtown area.

At Pensacola's Ellyson Field Industrial Park, plans were completed and construction begun on two new buildings: Sears Distribution Center and Starter Sportswear. Also, Athena Manufacturing, a latex glove manufacturer, began construction of a plant which will account for \$1.6 million in sales of electricity per year.

In addition, major contracts with Champion International, Monsanto, and Pensacola Christian College were negotiated. These will result in projected additional sales of 75 million kilowatthours annually. The contract with Pensacola Christian College is significant because the college discontinued all cogeneration except during on-peak time periods.

Numerous other commercial customers in the Western Division began expansion projects which will further increase sales of electricity. Some of those included: a new 50,000 square-foot shopping plaza in Pensacola; two new schools in Santa Rosa County; three new United States Postal service buildings in Pensacola; a shopping center in Navarre; a new fifteen-story dorm at Pensacola Christian College; and a science building at Pensacola Junior College.

Central Division employees were relieved when the Federal Review Panel did not close or cut back on operations at Eglin and Hurlburt, two large military bases. Both bases experienced expansion in 1988 and pumped \$765 million into the Fort Walton area economy. The bases also spent nearly \$74 million on construction.

Some of the commercial expansions in the Central Division announced in 1988 were: a 35,000 square-foot expansion of Burton Manufacturing in Fort Walton Beach Industrial Park; expansion at Okaloosa Correctional Institute; and plans for a Cross-Bay bridge from Destin to Bluewater Bay.

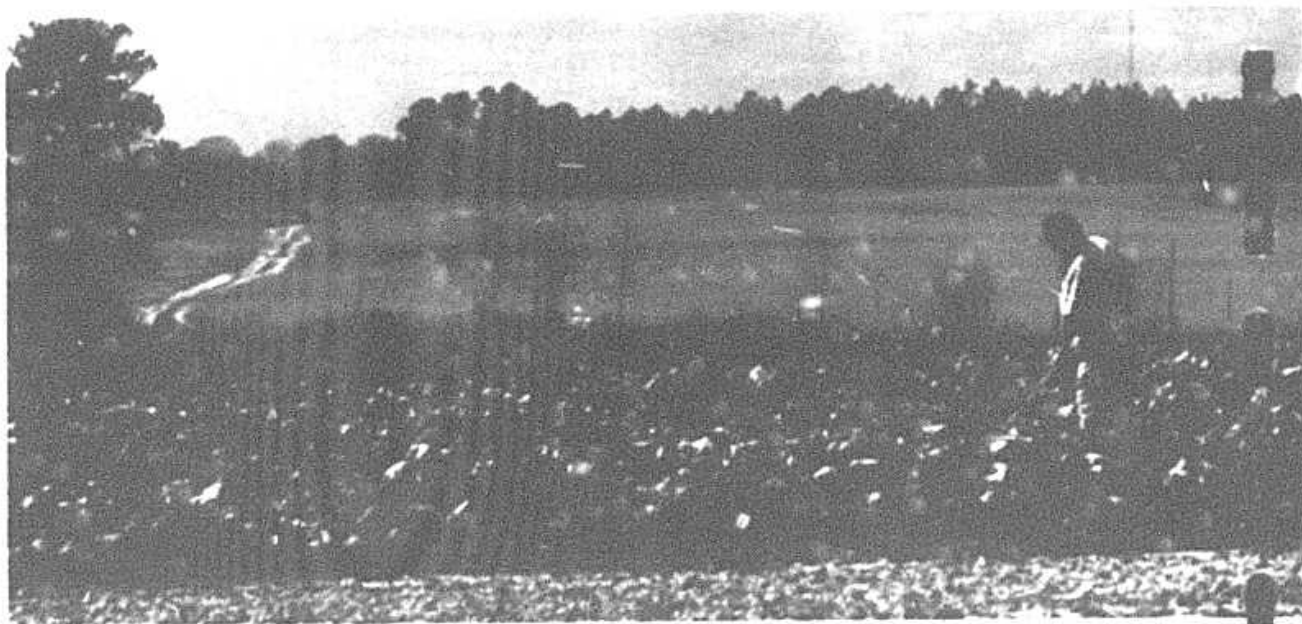
Commercial and industrial additions in the Eastern Division included announcements such as Eastern Auto Parts Manufacturing, Flexpipe, Grolier Telemarketing, Holmes County Correctional Institute, Northwest Florida Tool and Die, and Saunclus Engines.

Future economic development efforts in Bay County will be highlighted by a community campaign with the theme "Share the Future." Gulf Power officials, working with the Bay County Chamber of Commerce spearheaded the campaign to raise \$1 million to fund construction of industrial speculative buildings. By the end of 1988 the fund was up to \$700,000. The goal of this program is to make Bay County attractive to business and industrial prospects.

The company is also realizing major benefits from its new 30 megawatt power-tie at Stone Container, located in Panama City. Previous annual sales of 3,000,000 kilowatthours are expected to more than double over the next two years as a result of this power-tie with a significant amount of that energy being purchased during off-peak periods.

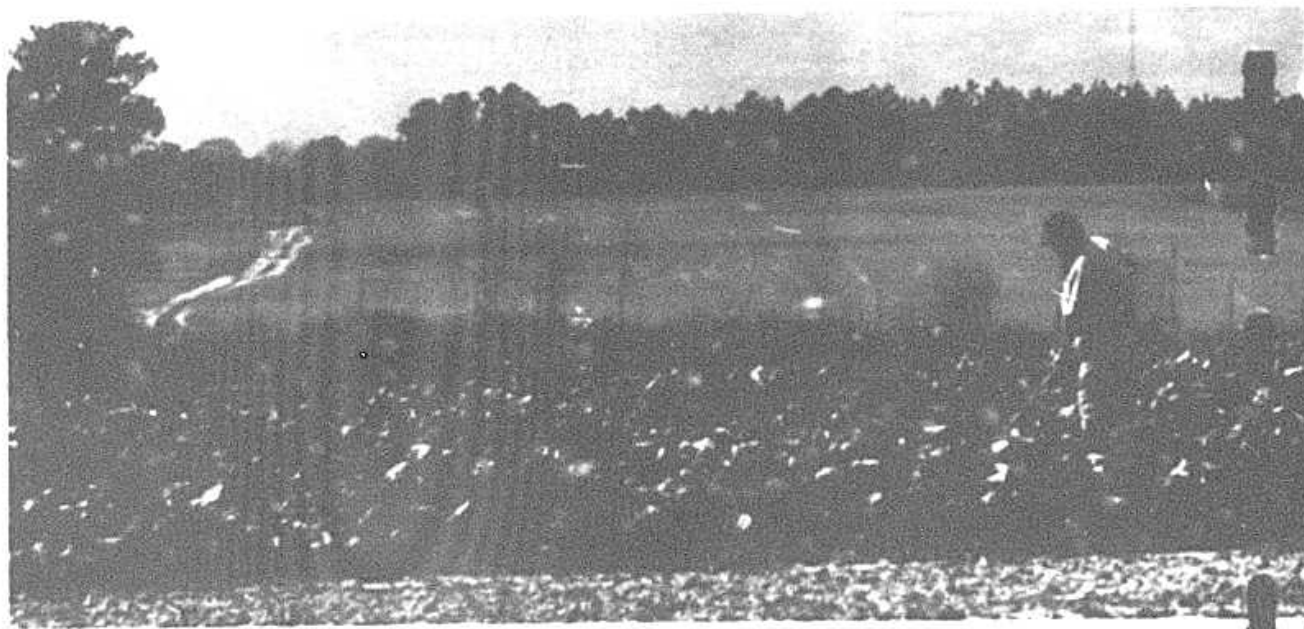
Under One Sun

Working the Soil . . .



Under One Sun

Working the Soil . . .

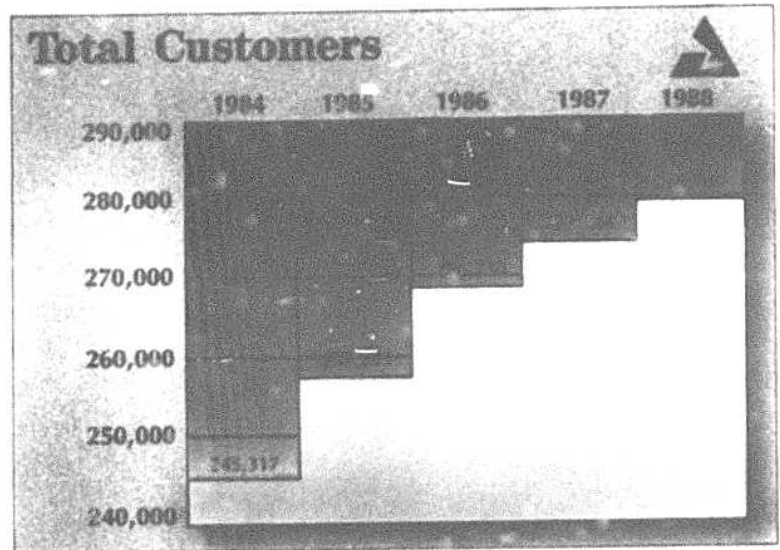


Marketing

The main focus of Gulf's marketing programs is to maintain and improve the company's competitive position in all major market segments – residential, commercial, and industrial. During 1988 Gulf was extremely successful in meeting that challenge by implementing a variety of programs.

The Good Cents home energy efficiency program continued to be the flagship of the marketing programs by emphasizing comfort, value and savings to both new and existing residential customers. In the commercial market, more specific services were furnished to provide energy efficiency information. These services included performing technical energy audits and keeping commercial customers informed about the latest energy technology. Individualized case by case services were developed to assist industrial customers so that the company could retain and expand these loads.

Economic development efforts resulted in the location of 12 new companies in Northwest Florida. These new businesses will immediately add 268 new jobs to the area with the possibility of 1,792 additional jobs in the future. The estimated benefit to Gulf Power is \$1,822,500 in additional revenue through the sale of 40,500,000 kilowatthours.



General Services

A decade of major construction to upgrade the company's facilities was completed in 1987. However, in 1988, several construction projects were implemented as a means to increase the efficiency of serving customers and to improve facilities for employees.

For example, a new meter facility was opened in Pensacola at the Pine Forest Line Service and Engineering site. The 9,600 square-foot facility provides offices, a shop, and warehouse space. The meter department includes: a section for standards; transformer and electronics labs; a meter training lab; a power management center; and a field room for preparation and paper work. The meter test lab receives, tests, and repairs over 25,000 meters annually. By testing and repairing meters, the company saves over a \$1,250,000 expense that would be incurred if meters had to be replaced.

Also at Pine Forest, the renovation and expansion of the main building was completed to provide additional work space and private offices for supervisors.

Under One Sun

Armed Forces Family

Men and women of the Armed Forces form a large segment of the Northwest Florida community — Pensacola Naval Air Station, Hurlburt Field, Eglin Air Force Base, Whiting Field, and Tyndall Air Force Base boast the largest concentrations of military education and high-tech training in the free world.

Under One Sun

Armed Forces Family

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Electric Operations

Fuel Supply

During 1988 Gulf purchased 6,112,034 tons of coal at an average cost of \$43.14 per ton. Changes in fuel purchasing policies, coupled with renegotiations of existing coal contracts, allowed Gulf to reduce its fuel expenses from \$238 million in 1987 to \$209 million in 1988.

This reduction in fuel expense also results partially from continued improvement in the efficiency of Gulf's electric generating units.

Generating Units

Gulf Power personnel work diligently to keep electric generating unit heat rates, or the amount of fuel input required to produce a kilowatt-hour of electricity, as low as possible. Since 1980, through heat rate improvement programs, the company has improved its average heat rate by 449 Btu/kwh. This has resulted in savings of approximately \$61 million in fuel costs during this time.

Another program which is cost effective for the company and its customers is the Generating Performance Incentive Factor program initiated by the Florida Public Service Commission in 1980. Since its inception, Gulf has received rewards for improved efficiency totalling over \$1.6 million.

In 1988, turbine efficiency tests were conducted on all of the company's coal-fired units. At Plant Crist, Gulf's oldest generating plant, major work was done on several units. These projects included replacement of coal pulverizers on Units 6 and 7, and installation of new primary air heaters on Unit 7. By upgrading equipment on these units, future operating and maintenance costs will be reduced.

Transmission and Distribution Systems

Major additions to the company's transmission system were made in 1988 to better serve the growth of Gulf Power's industrial customers.

A 115,000 volt (115 kv) transmission line and a 57 megavolt-amperes (mva) substation were constructed to provide the total energy needs of Pensacola Naval Air Station. From a technical standpoint, the project was significant. It was the first 115 kv submarine power cable and the first submarine fiber optic cable in the Southern electric system.

The contract for a similar project was finalized in 1988 which will require construction of a four-mile 115 kv submarine cable under Choctawhatchee Bay to provide a second source of electricity to the Destin peninsula.

Another 115 kv transmission line and substation were constructed at Caverns Road in Marianna to serve the expanding Marianna Industrial Park, and a similar installation was built to supply additional power to Stone Container in Panama City.

Transmission system additions totaled \$21.6 million in 1988 and distribution construction totaled \$19.3 million.

In addition to these new construction activities, maintenance work continued on Gulf's existing transmission and distribution systems to improve public safety and continue reliable electric service.

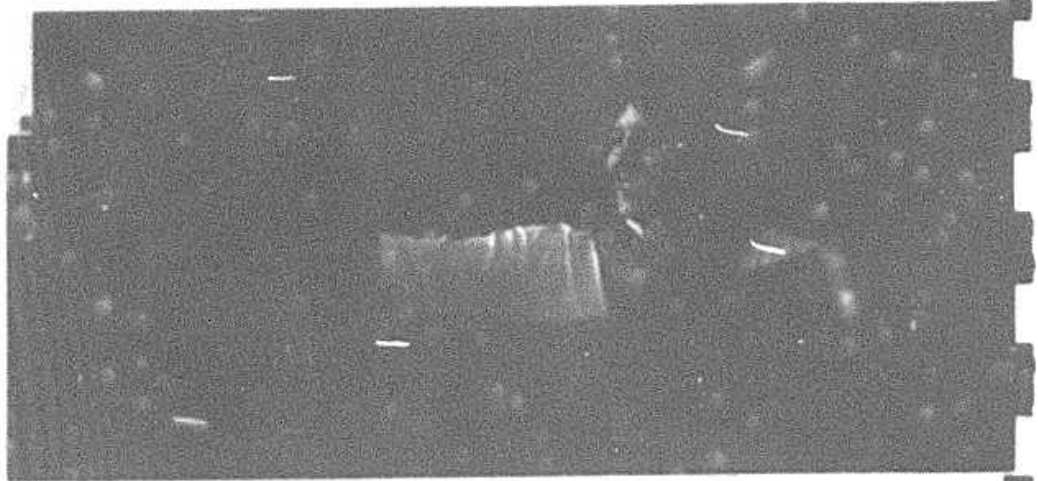
This effort included: a three-year tree trimming cycle, numerous pole replacements and relocations, National Electrical Safety Code inspections, transmission line improvements, and substation equipment testing.



Under One Sun

Equestrian Endeavors

Horses are big business in Escambia and Okaloosa Counties — It's riding for fun, sport, and profit. Rodeos, equestrian competition, and making wagons reminiscent of the Old West are an integral part of life in "west" Florida . . .



Under One Sun

Equestrian Endeavors

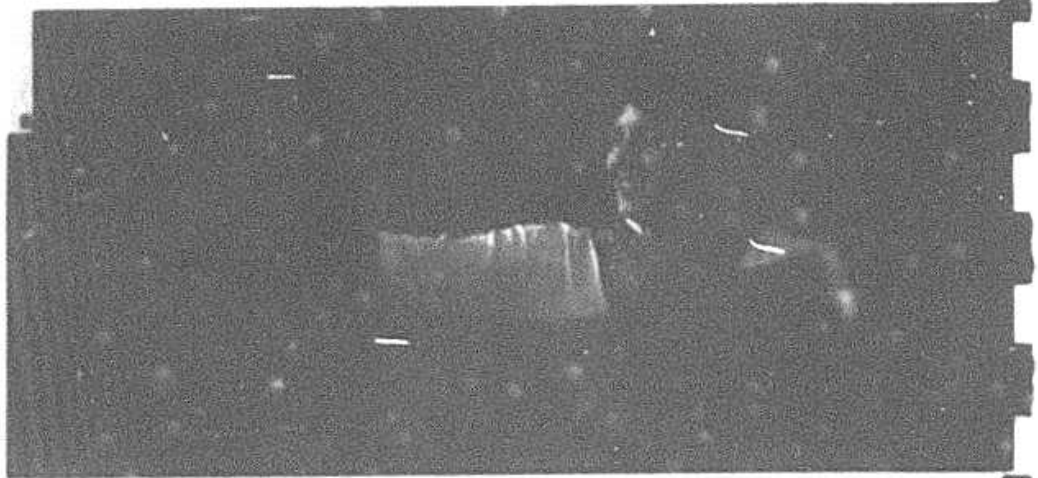
Horses are big business in Escambia and Okaloosa Counties — It's riding for fun, sport, and profit. Rodeos, equestrian competition, and making wagons reminiscent of the Old West are an integral part of life in "west" Florida . . .

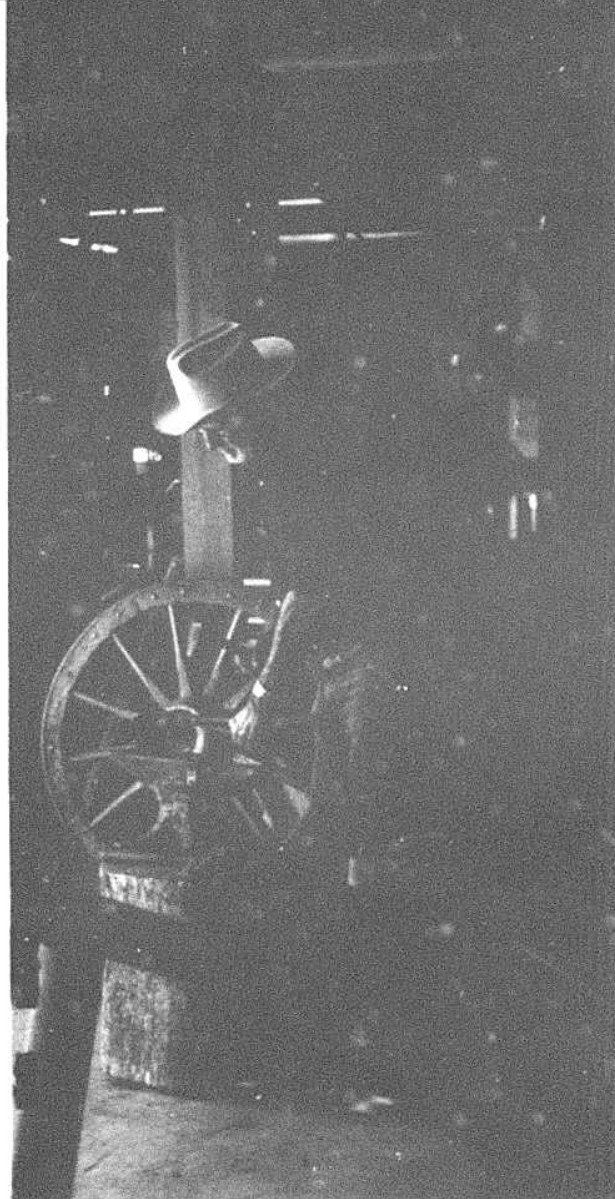


Under One Sun

Equestrian Endeavors

Horses are big business in Escambia and Okaloosa Counties — It's riding for fun, sport, and profit. Rodeos, equestrian competition, and making wagons reminiscent of the Old West are an integral part of life in "west" Florida . . .





Safety Awareness Program

As part of the company's commitment to safety, a Safety City multi-media presentation was developed to help children and adults understand the precautions which should be taken with electricity. This public awareness program utilizes videotapes, slides, and a "live" miniature display of the most common high-voltage, potentially dangerous situations.

Employees from the divisions and corporate office presented this program to 21,000 members of the general public in 1988.

Environmental Issues

Acid Rain

The 100th Congress adjourned in December 1988 without passing Clean Air Act revisions designed to reduce emissions which purportedly cause acid rain. While our company does not believe additional legislation is needed at this time, the scientific debate continues on the causes and effects of acid rain. The economic impact of proposed legislation is clear and it will have a significant effect on our customers.

Electric and Magnetic Fields

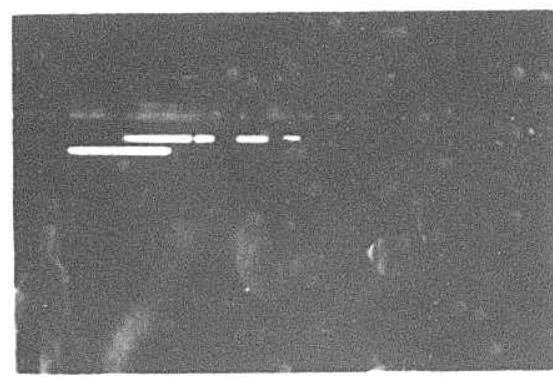
The Florida Environmental Regulation Commission has adopted standards for electric and magnetic fields emanating from new transmission lines, distribution lines, and electric substations. The standards, some of the first in the nation, were developed after a two-year period of workshops and hearings across the state. Active participation by Gulf personnel, along with other Florida utilities in the rule development process, resulted in adoption of reasonable standards.

Employee Relations

At the end of 1988, Gulf Power employed 1,601 individuals who work in a wide variety of jobs in generating plants, line service operations, division offices, and the Corporate Office.

In order to facilitate the company's ability to prosper in a more competitive environment, two new and related programs were introduced in 1988. The No Surprises Performance Management Program was updated and a system-wide Pay for Performance Plan was developed for implementation in 1989. The No Surprises Performance Management Program is designed to provide challenge, stretch, and measurable output for each non-covered job. The Performance Pay Plan will provide award opportunities for individual, department, and company success. In addition to these initiatives, a Job Rotation Program was initiated to give exempt employees, who have been in the same job for six years or longer an opportunity to move into another position with the company.

Training employees so they are better able to perform their present job duties and prepare for advancement opportunities is viewed as a shared employer-employee responsibility. Consistent with this philosophy, employees were encouraged to pursue undergraduate and graduate degrees through the Educational Reimbursement Program. This program was enhanced by an arrangement with Troy State University to offer evening classes at Gulf Power facilities in all three divisions.



Employees of Gulf Power
are shown in a variety of
positions, including
generating plants, line
service operations, and
division offices.

Under One Sun

Spice of Life . . .

Hunting, fishing, golfing, boating, and strolling on a quiet beach are just a few of the leisurely pastimes enjoyed by folks in Northwest Florida - From Pensacola to Sneads, parks and large expanses of unspoiled land are available for family picnics and recreation





Clockwise from left
String of Fish, Perdido Key
Sandestin Golf, Destin
Hunting for Quail, Crestview
Bass Fishing, Escambia River
Beach Solitude, Panama City Beach

Public Relations

The company's award winning public relations activities continued to emphasize effective communication with employees, customers, media representatives and other key publics. This commitment to communicating openly with the publics we serve helped the company achieve a public confidence level of 76 percent, which is one of the highest levels of any utility in the nation.

Certainly one of the major events of 1988 was planning and coordinating of Heartwatch, a community-wide program to certify individuals in cardio-pulmonary resuscitation. The project, jointly sponsored by Gulf and Baptist Hospital, resulted in the certification of over 700 individuals. Gulf's corporate office provided classrooms for three training days so that instructors could teach the course and administer the written test.

Through the Partners in Education Program, the company provided a great deal of support to its adopted school in Pensacola, Allie Yniestra. Employees served as tutors, classroom readers, room parents, and scout troop leaders.

The company's Speakers Corps continued to help civic organizations with their programs and members reached almost 3000 people with their programs in 1988.

Within the company, Gulf Currents, the employee news magazine; Gulfline, the video news program; and Worth Mentioning, a bi-weekly newsletter, served to inform employees about important events and issues affecting the company.

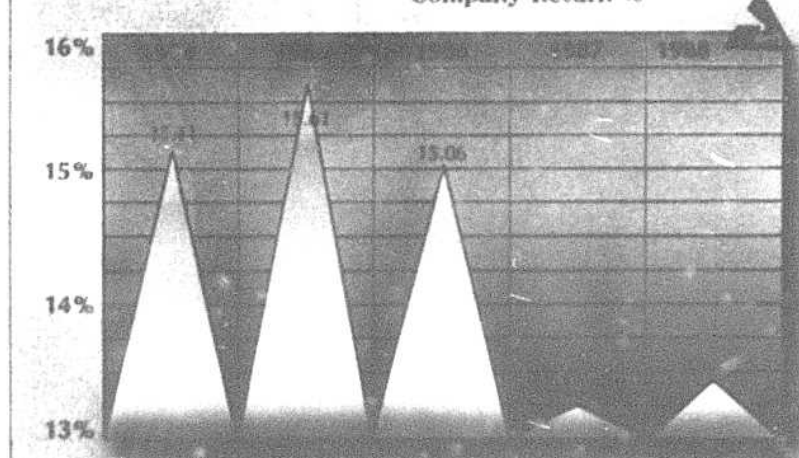
The advertising section worked closely with the corporate marketing department to develop advertisements in support of the company's marketing programs. Advertising campaigns included those for: Good Cents, safety, heat pump, outdoor lighting, economic development, parade of homes, and product value.

The media section responded to nearly 200 inquiries during the year. Most of those related to the Florida Public Service Commission audit, the company's rate increase request, storm procedures, and external investigations.

Vision Design, the company's teleproduction facility, moved into new headquarters at Corporate Woods in Pensacola. The state-of-the-art video production center is a diversification division of Gulf Power. Major projects were completed for several national clients in 1988 and plans are to market the facility throughout the Southeast in 1989.

Return on Average Common Equity

Company Return %





Financial Information

Report of Management

The Management of Gulf Power Company has prepared and is responsible for the financial statements and related information included in this report. These statements were prepared in accordance with generally accepted accounting principles appropriate in the circumstances and necessarily include amounts that are based on the best estimates and judgments of management. Financial information throughout this annual report is consistent with the financial statements.

The company maintains a system of internal accounting controls to provide reasonable assurance that assets are safeguarded and that books and records reflect only authorized transactions of the company. Limitations exist in any system of internal controls, however, based on a recognition that the cost of the system should not exceed its benefits. The company believes its system of internal accounting controls maintains an appropriate cost/benefit relationship.

The company's system of internal controls is evaluated on an ongoing basis by the company's qualified internal audit staff. The company's independent public accountants also consider certain elements of the internal control system in order to determine their auditing procedures for the purpose of expressing an opinion on the financial statements.

The audit committee of the board of directors, composed of the directors who are not employees, provides a broad overview of management's financial reporting and control functions. Periodically, this committee meets with management, the internal auditors, and the independent public accountants to ensure that these groups are fulfilling their obligations and to discuss auditing, internal controls, and financial reporting matters. The internal auditors and independent public accountants have access to the members of the audit committee at any time.

Management believes that its policies and procedures provide reasonable assurance that the company's operations are conducted according to a high standard of business ethics. In management's opinion, the financial statements present fairly, in all material respects, the financial position, results of operations, and cash flows of the company in conformity with generally accepted accounting principles.

Report of Independent Public Accountants

To the Board of Directors of
Gulf Power Company

We have audited the accompanying balance sheets and statements of capitalization of GULF POWER COMPANY (a Maine corporation and a wholly owned subsidiary of The Southern Company) as of December 31, 1988 and 1987, and the related statements of income, earnings retained in the business, other paid in capital and cash flows for each of the three years in the period ended December 31, 1988. These financial statements are the responsibility of the company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Gulf Power Company as of December 31, 1988 and 1987, and the results of its operations and its cash flows for the periods stated, in conformity with generally accepted accounting principles.

Arthur Andersen & Co.

Atlanta, Georgia
February 10, 1989

Selected Financial Data

Years Ended December 31

	1988	1987	1986
Condensed Statements of Income (Thousands of Dollars):			
Operating Revenues	502,497	531,905	515,806
Operating Expenses:			
Operation and Maintenance	312,613	345,325	335,222
Depreciation and Amortization	47,530	44,619	39,386
Taxes Other Than Income Taxes	27,087	26,246	24,854
Federal and State Income Taxes	26,239	31,703	39,948
Total Operating Expenses	413,469	447,893	439,410
Operating Income	89,028	84,012	76,396
Other Income, Net	810	3,516	8,529
Income Before Interest Charges	89,838	87,528	84,925
Net Interest Charges	38,379	39,286	32,291
Net Income	51,459	48,242	52,634
Dividends on Preferred Stock	5,761	6,025	6,213
Net Income After Dividends on Preferred Stock	45,698	42,217	46,421
Cash Dividends on Common Stock (Thousands of Dollars)	35,400	34,200	33,100
Return on Average Common Equity (Percent)	13.41	13.23	15.06
Total Assets (Thousands of Dollars)	1,097,225	1,051,182	1,028,864
Gross Property Additions (Thousands of Dollars)	67,042	97,511	90,160
Capitalization (Thousands of Dollars):			
Common Stock Equity	358,310	323,012	314,995
Preferred Stock	55,162	55,162	55,162
Preferred Stock Subject to Mandatory Redemption	12,750	14,000	16,500
Long Term Debt	497,069	474,640	482,869
Total Capitalization	923,291	866,814	869,526
Kilowatthour Sales (In Thousands):			
Residential	3,154,541	3,055,041	2,963,502
Commercial	2,088,598	1,986,332	1,913,139
Industrial	1,968,091	1,839,931	1,745,074
Sales for Resale	272,843	316,466	315,396
Other	16,257	15,241	14,903
Total Territorial Sales	7,500,330	7,213,011	6,952,014
Sales to Utilities Outside Territory	1,638,916	1,821,924	1,293,750
Total Kilowatthour Sales	9,139,246	9,034,935	8,245,764
Operating Revenues (Thousands of Dollars):			
Residential	184,036	199,701	200,725
Commercial	107,615	116,057	116,253
Industrial	72,634	80,295	79,873
Sales for Resale	11,369	14,213	15,706
Other	1,402	1,357	1,343
Total Revenues from Territorial Sales	377,056	411,623	413,899
Revenues from Sales to Utilities Outside Territory	106,044	120,243	91,187
Total Revenues from Sales of Electricity	483,100	531,866	505,086
Other Revenues	19,397	39	10,720
Total Operating Revenues	502,497	531,905	515,806
Customers (Year End)	279,747	273,544	266,730
Employees (Year End)	1,601	1,603	1,544
Average Revenue per Kilowatthour - Total Sales (Cents)	5.29	5.89	6.13
Average Cost of Fuel Per Net Kilowatthour Generated (Cents)	1.86	2.08	2.55

Gulf Power Company

1985	1984	1983	1982	1981	1980	1979	1978
518,224	470,100	433,410	357,355	321,197	268,714	229,062	214,220
339,362	303,567	272,038	204,853	193,152	180,926	148,817	135,309
37,775	33,061	31,479	31,010	27,636	23,687	21,498	16,836
22,886	21,696	21,370	20,080	17,223	13,146	11,429	11,489
40,061	35,831	34,434	32,716	25,666	13,124	14,952	17,571
440,084	394,155	359,321	288,659	263,677	230,883	196,696	181,205
78,140	75,945	74,089	68,696	57,520	37,831	32,366	33,015
8,135	7,426	4,044	2,523	3,505	6,147	5,149	3,844
86,275	83,371	78,133	71,219	61,025	43,978	37,515	36,859
34,500	36,695	36,087	33,559	30,195	23,815	17,701	15,104
51,775	46,676	42,046	37,660	30,830	20,163	19,814	21,755
6,291	6,340	6,535	6,571	6,694	6,660	5,402	4,770
45,484	40,336	35,511	31,089	24,136	13,503	14,412	16,985
30,800	27,000	24,900	23,600	20,500	19,600	16,800	15,650
15.61	15.11	14.70	13.79	11.37	7.18	8.93	11.68
921,635	892,924	841,628	787,146	755,238	711,194	612,459	555,940
92,541	156,443	51,131	50,300	64,996	94,231	69,614	50,969
301,674	280,990	252,831	230,231	220,625	203,812	172,074	150,647
55,162	55,162	55,162	55,162	55,162	55,162	55,162	45,162
18,250	19,000	21,250	22,000	22,750	23,500	14,250	15,000
410,917	394,859	382,293	377,578	352,166	339,276	281,316	251,691
786,003	750,911	711,536	684,971	650,703	621,750	522,802	462,500
2,736,432	2,560,648	2,471,714	2,363,615	2,360,619	2,334,747	2,225,026	2,243,479
1,777,418	1,559,344	1,498,762	1,431,670	1,352,499	1,292,833	1,269,356	1,253,550
1,770,587	1,771,100	1,612,393	1,431,738	1,482,275	1,494,425	1,552,363	1,529,743
345,450	317,666	297,247	273,967	353,905	531,897	519,216	530,266
14,702	14,555	14,637	14,507	14,383	14,693	14,396	14,314
6,644,589	6,223,313	5,894,753	5,515,497	5,563,681	5,668,595	5,580,357	5,571,352
2,043,141	1,865,965	1,273,351	571,675	326,102	258,069	-	-
8,687,730	8,089,278	7,168,104	6,087,172	5,889,783	5,926,664	5,580,357	5,571,352
186,415	174,402	169,127	157,794	143,011	113,233	96,425	90,660
109,631	98,408	95,426	90,590	80,207	67,925	60,136	55,870
81,621	83,538	77,035	67,463	64,205	55,003	49,387	47,219
17,936	16,530	15,449	14,330	16,359	18,777	16,413	15,957
1,346	1,334	1,334	1,311	1,136	1,106	1,021	940
396,949	374,212	358,371	331,488	304,918	256,044	223,382	208,646
108,853	90,172	68,885	17,713	10,444	7,140	-	-
505,802	464,384	427,256	349,201	315,362	263,184	223,382	208,646
12,422	5,716	6,154	8,154	5,835	5,530	5,680	5,574
518,224	470,100	433,410	357,355	321,197	268,714	229,062	214,220
257,693	245,317	231,750	221,173	213,626	205,831	196,956	191,775
1,509	1,460	1,463	1,412	1,410	1,347	1,287	1,195
5.82	5.74	5.96	5.74	5.35	4.44	4.00	3.74
2.70	2.60	2.57	2.49	2.23	1.99	1.72	1.67

Management's Discussion and Analysis of Results of Operations and Financial Condition

Results of Operations

Net Income

Gulf Power Company's net income after preferred stock dividends was \$45.7 million for 1988, which represented a 13.41 percent return on average common equity. Earnings for 1988 increased by 8.2 percent over 1987 and were 1.6 percent under those of 1986.

Revenues

Changes in operating revenues over the last three years are the result of the following factors:

	Increase (Decrease) From Prior Years		
	1988	1987	1986
	(In Thousands)		
Retail -			
Customer growth	\$ 9,717	\$ 7,424	\$ 8,876
Weather	(2,225)	1,542	1,337
Change in base rates	—	—	—
Fuel cost recovery and other	(39,215)	(9,750)	8,968
Total retail	(31,723)	(784)	19,181
Sales for resale -			
Within territory	(2,644)	(1,492)	(2,231)
Off system	(14,199)	29,056	(17,666)
Total sales for resale	(17,043)	27,564	(19,897)
Other operating revenues	19,358	(10,681)	(1,702)
Total operating revenues	\$ (29,408)	\$ 16,099	\$ (2,418)
Percent increase (decrease)	(5.5)	3.1	(0.5)

Retail revenues decreased \$31.7 million or 8.0 percent in 1988, compared to a decrease of \$0.8 million or 0.2 percent in 1987 and an increase of \$19.2 million or 5.1 percent in 1986. The decrease in revenues in 1988 is primarily the result of lower fuel costs. The company's electric rates include fuel cost recovery clauses under which fuel costs are billed to customers; therefore, when fuel costs are reduced, revenues are reduced by a similar amount.

Sales for resale within the service territory decreased \$2.8 million or 20.0 percent in 1988, compared to a \$1.5 million or 9.5 percent decrease in 1987 and a \$2.2 million or 12.4 percent decrease in 1986. The decrease in 1988 reflects the loss of two wholesale customers on June 1, 1988.

Gulf Power and the other operating affiliates of the Southern electric system have entered into agreements for the sale of capacity and energy from specific fossil generating units (unit power sales) and capacity and energy from system fossil units for sales which call for the delivery of specific amounts of power over a specified time period, if that power is not needed in the four-state service area (other long-term sales). Under these contracts, 1.6 billion, 1.8 billion, and 1.3 billion kilowatthours were sold by the company in 1988, 1987, and 1986, respectively.

Revenues from these sales consist of capacity and energy components. Capacity revenues reflect the

recovery of fixed costs and a return on investment under the contracts. Energy is sold at its variable cost. Off system sales, by components, were

	1988	1987	1986
	(In Thousands)		
Capacity	\$ 68,707	\$ 76,219	\$ 53,032
Energy	37,337	44,024	38,156
Total	\$106,044	\$120,243	\$91,187

The above amounts include substantial revenues from contractual agreements with Gulf States Utilities (Gulf States) that may not be collectable. In late 1986, Gulf States discontinued most payments due under these contracts. Effective July 1, 1988, the Southern electric system suspended all transactions called for by the agreements because of Gulf States' refusal to pay. For additional information on off-system sales and Gulf States see Note 5 to the financial statements.

Kilowatthour sales for 1988 and the percent change by year are shown below:

	Amount	Percent Change		
(Millions of Kilowatthours)	1988	1988	1987	1986
Residential	3,154	3.3	3.1	8.3
Commercial	2,089	5.1	3.8	7.6
Industrial	1,968	7.0	5.4	(1.4)
Sales for resale -				
Within territory	273	(13.8)	0.3	(8.7)
Off-system	1,639	(10.0)	40.8	(36.7)
Other	16	6.7	2.3	1.4
Total	9,139	1.2	9.6	(5.1)

The company's maximum demand from customers in 1988 occurred in June and was 1,613,200 kilowatts which was 0.3 percent below the maximum demand of 1987. A reduction in billings due to recovery of lower fuel costs caused the average revenue per kilowatthour to decrease from 5.89 cents in 1987 to 5.29 cents in 1988. A greater proportion of off-system energy sales to total sales and reduced billings due to lower fuel and purchased power costs resulted in a decrease in the average revenue per kilowatthour from 6.13 cents in 1986 to 5.89 cents in 1987.

Expenses

The decrease in operation expenses that occurred during 1988 was due primarily to lower fuel prices which reduced fuel cost. In addition, operation expenses experienced a decline due to the reduction in uncollectable expenses that resulted from the termination of off-system energy sales to Gulf States. (See Note 5 to the financial statements for more information on Gulf States.) During 1988, the company remained a net seller of interchanged power, but with a lower level of sales than in 1987. As a result, the credit for net purchased and interchanged power sales decreased in 1988. The rise in operation expenses in 1987 resulted primarily from increased uncollectable expenses related to Gulf States and higher fuel expense resulting from increased generation requirements. The decline in operation

expenses in 1986 reflects decreased fuel expense resulting from lower unit cost of fuel, as well as decreased generation requirements. Fuel costs in cents per kilowatthour generated were 1.86 in 1988, 2.08 in 1987, and 2.55 in 1986.

Maintenance expenses increased 8.2 percent in 1988 compared to 1987 due to a higher level of plant maintenance.

The 17 percent decrease in income taxes in 1988 can be attributed primarily to the decrease in the federal income tax rate. (See Note 6 to the financial statements concerning the income tax provisions.)

Allowance for Funds Used During Construction (AFUDC)

AFUDC represents the cost of capital charged to utility plant under construction which is not included in rate base. The equity portion of AFUDC represents non-cash income. However, the normalization of the income tax effect of the debt portion currently results in a net non-cash charge to income. In addition, when facilities are completed and included in rate base, previously capitalized amounts significantly increase cash flow since revenues are higher because of the increased rate base and additional depreciation expense. AFUDC, net of income taxes, as a percent of net income after dividends on preferred stock amounted to 2.4 percent, 3.9 percent, and 28.4 percent in 1988, 1987, and 1986, respectively, (a major portion of the amount in 1986 resulted from the purchase from Georgia Power Company, an affiliate, of a 25 percent undivided interest in Plant Scherer Unit 3).

Effects of Inflation

The company is subject to rate regulation and income tax laws that are based on the recovery of historical cost. Therefore, inflation creates an economic loss because the company is recovering its cost of investments in dollars that have less purchasing power. While the rate of inflation has been relatively low in recent years, inflation continues to have an adverse effect on the company due to the large investment in long lived utility plant. Conventional accounting for historical cost does not recognize this economic loss nor the partially offsetting gain that arises through financing facilities with fixed-money obligations, such as long-term debt and preferred stock. Any recognition of inflation by regulatory authorities is generally reflected in the rate of return allowed.

Future Earnings Potential

The results of operations discussed above are not necessarily indicative of future earnings. It is expected that higher operating costs and carrying charges on increased investment in plant, if not offset by proportionate increases in operating revenues (either by periodic rate increases or increases in sales), will adversely affect future earnings. Future earnings will also depend upon growth in energy sales which will be subject to a number of factors, including the volume of sales to neighboring utilities, energy conservation practiced by customers, the elasticity of demand, weather, and the rate of economic growth in the service area. (See Note 5 to the financial statements for information concerning the dispute with Gulf States related to unit power and other long-term power sales contracts with the company.)

On November 14, 1988, the company filed a petition for an increase in annual retail revenues of \$25.8 million. This is a 6.3 percent increase in total retail revenue. The return on average common equity requested was 14.0 percent. The increased revenues sought by the company are necessary to maintain its financial integrity and permit it to earn a reasonable rate of return.

The primary factor causing the need for retail rate relief in 1989 is the dedication of substantial additional amounts of Plant Daniel and Plant Scherer generating capacity to Gulf's retail customers and the associated operating expenses.

The company requested that all or a part (at least the \$18.2 million which is related solely to Plants Daniel and Scherer) of the increase be allowed to become effective on an interim basis on February 1, 1989, subject to refund, with interest, of any portion subsequently disallowed. On January 3, 1989, the Florida Public Service Commission (FPSC) denied the request for interim relief and voted to suspend the rates pending the outcome of hearings scheduled for the first two weeks of July 1989. The new permanent rates are expected to become effective by mid-October. On January 27, 1989, the company filed a motion for reconsideration of the interim decision. On February 24, 1989, the company filed an addendum to the motion for reconsideration in order to provide the FPSC with more recent data and to emphasize an even greater need for interim relief. At this time, no action has been taken by the FPSC on the petition.

The Tax Reform Act of 1986 reduced the federal corporate income tax rate from 46 percent in 1986 to 40 percent in 1987 and 34 percent for 1988 and future years. Under the FPSC Income Tax Rule, when income tax rates are reduced the utility shall refund those revenues which are associated with any tax savings which cause the utility to earn in excess of the midpoint of the range of the rate of return approved by the FPSC in the utility's last rate case. The FPSC approved a 13.75 percent return on equity for the company to be used in 1988 and 1989, instead of the 15.6 percent midpoint allowed in the company's last rate case.

Also, the Financial Accounting Standards Board (FASB) has issued new rules for accounting for income taxes that will be effective in 1990. These rules will require that deferred taxes be provided on the equity component of AFUDC. These rules also require the adjustment of accumulated deferred income tax balances to reflect changes in income tax laws and rates. The accounting for and impact on net income related to these adjustments will depend greatly on future ratemaking treatment. Depreciation related deferred income taxes will continue to be reversed over the lives of the related assets because of the requirements of the Tax Reform Act of 1986. Other deferred income taxes will be reversed in accordance with regulatory ratemaking treatment.

Financial Condition

The major changes in the company's financial condition in 1988 were additions of \$67 million to utility plant and a \$60 million buy-down of an existing coal contract.

Funds provided from financing activities were comprised of \$35 million from the issuance of first mortgage bonds, \$25 million of common equity contributions received from the parent company, and \$3.7 million from the proceeds of previously issued pollution control obligations. These funds were offset by the maturities of \$9.4 million related to first mortgage bonds, maturities of \$5.2 million related to other long-term debt, and \$1.8 million for preferred stock reacquired. The balance of funds for construction expenditures was provided from operations and other sources. (See the Statements of Cash Flows for further details.)

The company continued to make progress in 1988 toward meeting its long-term goal of increasing common equity as a percent of total capitalization. At year end, this ratio was 38.8 percent compared to 37.2 percent at the end of 1987. Conversely, the long-term debt ratio has decreased from 54.8 percent to 53.8 percent during the same period. The composite interest rate on long-term debt has increased from 8.47 percent at December 31, 1987 to 8.59 percent at December 31, 1988, primarily as a result of issuing \$35 million of first mortgage bonds used in the financing of the buy-down of an existing coal contract and the maturity of \$8.0 million in 4.0 percent first mortgage bonds. (See Note 3 where the coal contract buy-down is discussed.) The composite dividend rate on preferred stock decreased from 8.28 percent in 1987 to 8.21 percent in 1988 as a result of reacquiring a portion of the 11.36 percent and 10.40 percent preferred stock subject to mandatory redemption. (See the Statements of Capitalization for further details.)

The company's gross property additions are estimated to total \$205 million for the three years 1989 through 1991 (\$69 million in 1989, \$68 million in 1990, and \$68 million in 1991.)

Changes in environmental regulations could substantially increase the company's capital requirements and operating costs. Passage of acid rain legislation or the tightening of existing regulations governing power plant emissions has a significant chance of occurring by the end of 1989. Legislation amending the Clean Water Act; the Resource Conservation and Recovery Act; the Comprehensive Environmental Response, Compensation, and Liability Act; and the Emergency Planning and Community Right-to-Know Act affects many areas of the company's operations, including the generation, transmission, and distribution of electric energy. The full impact of these requirements cannot be determined at this time, pending the development and implementation of applicable regulations. In 1985, the Environmental Protection Agency (EPA) promulgated air quality control regulations related to stack height requirements of the Clean Air Act. The U.S. Court of Appeals for the District of Columbia Circuit issued a decision in litigation concerning the EPA's stack height rules in January, 1988. The decision, which the U.S. Supreme Court has declined

to review, remands the matter to the EPA for reconsideration of certain of the stack height rules. At this time, the impact of the court's decision on final rules and the ultimate impact on the company cannot be determined.

In addition to the funds required for the construction program, approximately \$40.8 million will be required by the end of 1991 in connection with maturities of long-term debt and preferred stock subject to mandatory redemption.

The Tax Reform Act of 1986 will significantly decrease the amount of capital provided through investment tax credits and deferred income taxes compared with amounts in prior years. Although lower taxes initially reduce the amount of revenues required to earn a specified return on investment, the cost of the increased capital requirements will ultimately exceed the benefits of reduced tax rates, resulting in higher revenue requirements. These factors will also reduce interest and preferred stock dividend coverage ratios.

At December 31, 1988, the company had \$14.2 million of cash and temporary cash investments and \$51.4 million of unused credit arrangements with banks to meet its short-term cash needs. (See Note 3 to the financial statements.)

It is anticipated that the funds required for construction and other purposes will be derived from sources similar to those used in the past. However, in order to issue additional first mortgage bonds and preferred stock, the company must comply with certain earnings coverage requirements contained in its mortgage indenture and corporate charter. The ability to maintain these coverages and to generate adequate amounts of internal funds for construction is dependent upon increasing sales, controlling expenses, and receiving adequate and timely rate increases that will provide an adequate return on investment.

On the basis of the requirements contained in its mortgage indenture and corporate charter, the company's mortgage coverages (2.00 required) were 3.27 and 3.67 at December 31, 1988 and 1987, respectively, and the charter coverages (1.50 required) were 1.80 and 1.81 at December 31, 1988 and 1987, respectively. The amount of securities which the company will be permitted to issue in the future will depend upon market conditions and other factors prevailing at that time.

Balance Sheets

Gulf Power Company

At December 31	1988	1987
(In Thousands)		
ASSETS		
UTILITY PLANT:		
Plant in service, at original cost (Note 4)	\$1,367,923	\$1,335,653
Less accumulated provision for depreciation	425,520	388,248
Net Plant in Service	942,403	947,405
Construction work in progress (Note 4)	29,572	10,113
Total	971,975	957,518
Less property-related accumulated deferred income taxes (Note 1)	178,657	166,707
Total	793,318	790,811
OTHER PROPERTY AND INVESTMENTS		
	6,756	2,932
CURRENT ASSETS:		
Cash	292	5,226
Temporary cash investments, at cost which approximates market	13,950	35,000
Receivables —		
Customer accounts receivable	34,615	32,126
Accrued utility revenues	11,310	9,525
Affiliated companies	6,784	12,000
Other accounts receivable (Note 5)	33,904	29,998
Accumulated provision for uncollectable accounts (Note 5)	(31,907)	(21,753)
Refundable income taxes	4,745	6,539
Materials and supplies, at average cost —		
Fuel stock	61,480	45,932
Materials and operating supplies	32,992	28,828
Fuel cost under recovery	1,218	—
Prepayments	3,577	677
Vacation pay deferred (Note 1)	3,340	3,200
Total	176,300	187,298
DEFERRED CHARGES:		
Debt expense, being amortized	3,281	3,203
Unamortized loss on reacquired debt	6,892	7,210
Deferred coal contract costs (Note 3)	106,263	55,889
Miscellaneous	4,415	3,839
Total	120,851	70,141
TOTAL ASSETS	\$1,097,225	\$1,051,182
CAPITALIZATION AND LIABILITIES		
CAPITALIZATION (see accompanying statements):		
Common stock equity	\$ 358,310	\$ 323,012
Preferred stock	55,162	55,162
Preferred stock subject to mandatory redemption (Note 8)	12,750	14,000
Long-term debt	497,069	474,640
Total	923,291	866,814
CURRENT LIABILITIES:		
Preferred stock to be redeemed within one year (Note 8)	1,250	1,750
Long-term debt due within one year (Note 9)	15,005	13,225
Accounts payable —		
Affiliated companies	8,360	10,473
Other	21,235	24,027
Customer deposits	15,316	15,565
Taxes accrued —		
Federal and state income	4,061	287
Other	6,622	7,563
Interest accrued	10,247	9,584
Fuel cost over recovery	—	9,330
Vacation pay accrued (Note 1)	3,340	3,200
Miscellaneous (Note 1)	2,748	2,144
Total	88,184	97,148
DEFERRED CREDITS AND OTHER LIABILITIES:		
Accumulated deferred income taxes	17,678	22,992
Accumulated deferred investment tax credits	52,451	54,597
Accumulated provision for property insurance (Note 1)	4,970	3,770
Miscellaneous	10,651	5,861
Total	85,750	87,220
Commitments and Contingent Matters (Notes 1, 2, 3, 5, and 6)		
TOTAL CAPITALIZATION AND LIABILITIES	\$1,097,225	\$1,051,182

The accompanying notes are an integral part of these statements.

Statements of Capitalization

Gulf Power Company

At December 31	Amount		Percent of Total	
	1988	1987	1988	1987
	(In Thousands)			
COMMON STOCK EQUITY:				
Common stock (no par value) — authorized and outstanding 992,717 shares	\$ 38,060	\$ 38,060		
Other paid-in capital (See accompanying statements)	207,150	182,150		
Premium on preferred stock	399	399		
Earnings retained in the business (Note 10) (See accompanying statements)	112,701	102,403		
Total common stock equity	358,310	323,012	38.8%	37.2%
CUMULATIVE PREFERRED STOCK:				
\$10 par value, authorized 10,000,000 shares, outstanding none				
\$100 par value, authorized 551,626 shares, outstanding 551,626 shares —				
4.64% Series	5,102	5,102		
5.16% Series	5,000	5,000		
5.44% Series	5,000	5,000		
7.52% Series	5,000	5,000		
7.88% Series	5,000	5,000		
8.28% Series	15,000	15,000		
8.52% Series	5,060	5,060		
9.52% Series	10,000	10,000		
Total (annual dividend requirement \$4,162,000)	55,162	55,162	6.0	6.4
CUMULATIVE PREFERRED STOCK SUBJECT TO MANDATORY REDEMPTION:				
\$100 par value, authorized 250,000 shares, outstanding 140,000 shares (Note 8) —				
10.40% Series	7,500	8,250		
11.36% Series	6,500	7,500		
Total (annual dividend requirement \$1,518,000)	14,000	15,750		
Less amount due or to be redeemed within one year	1,250	1,750		
Total excluding amount due within one year	12,750	14,000	1.4	1.6
LONG-TERM DEBT:				
First mortgage bonds —				
Maturity	Interest Rates			
February 1, 1988	4%	—	8,000	
April 1, 1989	4¾%	7,000	7,000	
July 1, 1990	5%	3,890	3,890	
1994 through 1998	4½% to 9½%	60,631	27,000	
1999 through 2003	7½% to 8½%	95,123	95,123	
2004 through 2008	8½% to 9%	60,000	60,000	
2009	10¼%	30,000	30,000	
2016	10½%	50,000	50,000	
Total first mortgage bonds	306,644	281,013		
Pollution control obligations (Note 7)	157,505	153,878		
Notes payable (Note 7)	50,714	55,889		
Unamortized debt premium (discount), net	(2,789)	(2,015)		
Total long-term debt (annual interest requirement \$44,210,000)	512,074	487,865		
Less amount due within one year (Note 9)	15,005	13,225		
Total long-term debt, excluding amount due within one year	497,069	474,640	53.8	54.8
TOTAL CAPITALIZATION	\$923,291	\$866,814	100.0%	100.0%

The accompanying notes are an integral part of these statements.

Statements of Income

Gulf Power Company

For the years ended December 31	1988	1987	1986
		(In Thousands)	
OPERATING REVENUES (Note 5)	\$502,497	\$531,905	\$515,806
OPERATING EXPENSES:			
Operation —			
Fuel	208,721	238,176	215,262
Purchased and interchanged power, net	(19,595)	(25,837)	14,592
Other	81,568	94,238	70,117
Maintenance	41,919	38,748	35,251
Depreciation and amortization	47,530	44,619	39,386
Taxes other than income taxes	27,087	26,246	24,854
Federal and state income taxes (Note 6)	26,239	31,703	39,948
Total operating expenses	413,462	447,893	439,410
OPERATING INCOME	89,028	84,012	76,396
OTHER INCOME (EXPENSE):			
Allowance for equity funds used during construction	457	1,013	7,809
Other, net	353	2,503	720
INCOME BEFORE INTEREST CHARGES	89,838	87,528	84,925
INTEREST CHARGES:			
Interest on long-term debt	36,962	38,385	39,479
Allowance for debt funds used during construction	(808)	(1,004)	(8,651)
Amortization of debt discount, premium and expense, net	587	555	488
Other interest charges	1,638	1,350	975
Net interest charges	38,379	39,286	32,291
NET INCOME	51,459	48,242	52,634
DIVIDENDS ON PREFERRED STOCK	5,761	6,025	6,213
NET INCOME AFTER DIVIDENDS ON PREFERRED STOCK	\$ 45,698	\$ 42,217	\$ 46,421

Statements of Earnings Retained in the Business

For the years ended December 31	1988	1987	1986
		(In Thousands)	
BALANCE, beginning of period	\$102,403	\$ 94,386	\$ 81,065
ADD (DEDUCT):			
Net income after dividends on preferred stock	45,698	42,217	46,421
Cash dividends on common stock	(35,400)	(34,200)	(33,100)
BALANCE, end of period (Note 10)	\$112,701	\$102,403	\$ 94,386

Statements of Other Paid-In Capital

For the years ended December 31	1988	1987	1986
		(In Thousands)	
BALANCE, beginning of period	\$182,150	\$182,150	\$182,150
Cash contribution to capital by parent company	25,000	—	—
BALANCE, end of period	\$207,150	\$182,150	\$182,150

The accompanying notes are an integral part of these statements.

Statements of Cash Flows

Gulf Power Company

For the years ended December 31

1988 1987 1986

(In Thousands)

OPERATING ACTIVITIES:

Net Income	\$ 51,459	\$ 48,242	\$ 52,634
Adjustments to reconcile net income to net cash provided by operating activities —			
Depreciation and amortization	58,292	51,872	41,619
Deferred income taxes	10,138	2,377	45,213
Deferred investment tax credit	—	868	1,634
Allowance for equity funds used during construction	(457)	(1,013)	(7,809)
Other, net	9,404	12,913	5,860
Changes in current assets and liabilities —			
(Increase) decrease receivables, net	8,984	(8,849)	(6,012)
(Increase) decrease fuel stock	(15,348)	23,853	4,105
Increase materials and operating supplies	(4,164)	(2,804)	(5,447)
Increase (decrease) accounts payable	(4,905)	10,486	449
Increase (decrease) other, net	(14,880)	8,850	(113)
Net cash provided from operating activities	98,323	146,595	132,133

INVESTING ACTIVITIES:

Gross property additions	(67,042)	(97,511)	(90,160)
Adjustments to gross property additions, net	607	(692)	7,029
Deferred coal contract costs (Note 3)	(60,000)	—	(60,663)
Other investing activities	(3,824)	(313)	(2,018)
Net cash used in investing activities	(130,259)	(98,516)	(145,812)

FINANCING ACTIVITIES:

Proceeds:			
Capital contributions from parent company	25,000	—	—
First mortgage bonds	35,000	—	50,000
Pollution control bonds	3,677	35,996	9,900
Other long term debt	—	—	60,663
Redemptions:			
Preferred stock subject to mandatory redemption	(1,750)	(2,500)	(750)
First mortgage bonds	(9,369)	—	(46,640)
Pollution control bonds	(50)	(32,050)	(50)
Other long term debt	(5,175)	(4,774)	—
Payment of common stock dividends	(35,400)	(34,200)	(33,100)
Payment of preferred stock dividends	(5,761)	(6,025)	(6,213)
Miscellaneous	(220)	(1,632)	(6,064)
Net cash provided from (used in) financing activities	5,952	(45,185)	27,746

NET INCREASE (DECREASE) IN CASH AND TEMPORARY CASH INVESTMENTS

\$ (25,984) \$ 2,894 \$ 14,067

SUPPLEMENTAL CASH FLOW INFORMATION:

Cash paid during the year for interest (net of amount capitalized)	\$ 39,160	\$ 37,006	\$ 25,860
Cash paid (refunded) during the year for income taxes	\$ 21,443	\$ 32,130	\$ (6,602)

The accompanying notes are an integral part of these statements.

Notes to Financial Statements

December 31, 1988, 1987 and 1986

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

General —

The company is a wholly owned subsidiary of The Southern Company which is the parent company of five operating companies, a system service company, Southern Electric International, Inc. (SEI), and The Southern Investment Group, Inc. (SIG). The operating companies provide electric service in four southeastern states. Contracts among the companies — dealing with jointly owned generating facilities, interconnecting transmission lines, and the exchange of electric power — are regulated by the Federal Energy Regulatory Commission (FERC) or the Securities and Exchange Commission (SEC). The system service company provides, at cost, specialized services to The Southern Company and to the subsidiary companies. SEI markets to utilities and industrial concerns the technical expertise of the Southern electric system in planning and operating electric power facilities. SIG was formed to research and develop new business opportunities.

The parent company is registered as a holding company under the Public Utility Holding Company Act of 1935. Both the parent company and its subsidiaries are subject to the regulatory provisions of the Act. The company is also subject to regulation by the FERC and the Florida Public Service Commission (FPSC). The company follows generally accepted accounting principles and complies with the accounting policies and practices prescribed by these commissions.

Statements of Cash Flows —

In 1988, the company adopted Financial Accounting Standards Board (FASB) Statement No. 95, Statement of Cash Flows. This statement replaced the Statement of Sources of Funds for Gross Property Additions, and prior periods have been restated for comparative purposes. For purposes of this statement, temporary cash investments — which are principally securities with maturities of 90 days or less — are considered cash equivalents.

Revenues —

The company accrues for service rendered but unbilled at the end of each fiscal period.

Fuel Costs —

Fuel costs are expensed as the fuel is used. The company's electric rates include fuel cost recovery clauses under which fuel costs are billed to customers. The retail clause is based on a six-month projected cost of fuel and purchased power and a true-up during a succeeding six-month period of the difference between the projected and actual costs and is subject to a public hearing procedure requiring prior approval of a change in the level of the recovery factor.

Energy Conservation Cost Recovery Clause —

The company's retail electric rates include an Energy Conservation Cost Recovery Clause which allows recovery of costs associated with energy conservation programs and their implementation. The charge is applied to all retail kilowatthours sold, similar to the Fuel Charge.

Utility Plant —

Utility plant is stated at original cost. This cost includes appropriate administrative and general costs, payroll-related costs such as taxes, pensions, and other benefits, and the estimated cost of funds used during construction. The cost of maintenance, repairs, and replacement of minor items of property is charged to maintenance expense. The cost of replacements of property (exclusive of minor items of property) is charged to utility plant.

Allowance for Funds Used During Construction (AFUDC) —

AFUDC represents the estimated debt and equity costs of capital funds which are necessary to finance the construction of new facilities. While cash is not realized currently from such allowance, it is realized over the service life of plant through increased revenues resulting from a higher rate base and higher depreciation expense. The FPSC-approved composite rate used to calculate AFUDC was 8.03 percent in 1988 and 9.78 percent in 1987 and 1986.

Depreciation and Amortization —

Depreciation of the original cost of depreciable utility plant in service is provided primarily using composite remaining life rates which approximated 3.8 percent in 1988, 3.9 percent in 1987 and 3.8 percent in 1986. When property subject to depreciation is retired or otherwise disposed of in the normal course of business, its cost together with the cost of removal, less salvage, is charged to the accumulated provision for depreciation.

Retirement Plans —

The company has a defined benefit, trustee, noncontributory pension plan which covers substantially all regular employees. Benefits are based on the greater of amounts resulting from two different formulas: years of service and final average pay, or years of service and a flat-dollar benefit. The company uses the "entry age normal method with a frozen initial liability" actuarial method for funding purposes, subject to limitations under federal income tax regulations. Amounts funded were \$3.3 million, \$1.6 million and \$3.6 million in 1988, 1987, and 1986, respectively. On January 1, 1987, the company implemented FASB Statement No. 87, Employers' Accounting for Pensions, which requires use of the "projected unit credit" actuarial method for financial reporting purposes.

The funded status of the plans at December 31 were as follows:

	1988	1987
	(In Thousands)	
Actuarial present value of benefit obligations:		
Vested Benefits	\$41,297	\$39,175
Nonvested Benefits	3,423	2,797
Accumulated benefit obligation	44,720	41,972
Additional amounts related to projected salary increases	19,074	29,124
Projected benefit obligation	63,794	71,096
Less: Fair value of plan assets, primarily equity and fixed income securities	92,707	81,461
Unrecognized net loss (gain)	(14,594)	2,782
Unrecognized prior service cost	6	—
Unrecognized net transition asset	(12,417)	(13,147)
Prepaid pension cost recognized in the Balance Sheets	\$ 1,908	\$ 0

The rates assumed in the actuarial calculations were:

	1988	1987
Discount	8.5%	7.5%
Annual salary increase	6.0	6.0
Long-term return on plan assets	8.5	8.5

The components of net pension cost are shown below:

	1988	1987
	(In Thousands)	
Benefits earned during the year	\$ 3,326	\$3,131
Interest cost on projected benefit obligation	5,185	4,797
Actual return on plan assets	(10,618)	(3,058)
Net amortization and deferral	3,492	(3,286)
Net pension cost	\$ 1,385	\$1,584

Pension cost amounted to \$3.6 million in 1986. Of pension costs recorded, \$1.0 million in 1988, \$1.1 million in 1987, and \$2.8 million in 1986 were charged to operating expenses, and the balances, were charged to construction and other accounts.

The company also provides certain health care and life insurance benefits for retired employees. Substantially all employees may become eligible for these benefits when they retire. Prior to 1987, the costs of such benefits were recognized as payments were made. In 1987, to reflect the full cost of such benefits, the company began recognizing these benefit costs on an accrual basis using the "aggregate cost" actuarial method, which spreads the expected cost of such benefits over the remaining periods of employees' service as a level percentage of payroll costs. Accrued costs for medical benefits are funded to the extent deductible under federal income tax regulations; accrued costs of life insurance benefits, other than current cash payments for retirees, are not currently being funded. The total costs of such benefits recognized were \$2.0 million in 1988, \$2.2 million in 1987, and \$136,000 in 1986.

Provision For Injuries and Damages —

The company is subject to claims and suits arising in the ordinary course of business. As permitted by regulatory authorities, the company is providing for the uninsured costs of injuries and damages by charges to income amounting to \$1.2 million annually. The expense of settling claims is charged to the provision to the extent available. The accumulated provision is included in miscellaneous current liabilities in the accompanying balance sheets.

Provision For Property Insurance —

As permitted by regulatory authorities, the company is providing for the estimated cost of uninsured property damage by charges to income amounting to \$1.2 million annually. The expense of repairing such damage as occurs from time to time is charged to the provision to the extent it is available.

Income Taxes —

The company provides deferred income taxes for all income tax timing differences. Investment tax credits utilized are deferred and amortized to income over the average lives of the related property. Provisions for property-related deferred income taxes reflect consumption of part of the value of the plant and equipment to which the provisions relate. Accordingly, the related accumulated deferred income taxes (ADIT) are a valuation reserve which is deducted from plant investment in the Balance Sheets. Other ADIT are included in taxes accrued or deferred credits and other liabilities. FASB Statement No. 96, Accounting for Income Taxes, which must be implemented by 1990, will require, among other things, conversion to the liability method of accounting for ADIT. This change, which the company expects to adopt in 1990 on a prospective basis, will necessitate recording ADIT for all book-tax basis differences, providing ADIT for the equity component of AFUDC, and restating ADIT at the rates at which they are expected to be settled. Certain ADIT have been recorded at rates higher than the rates specified in the Tax Reform Act of 1986. The amounts resulting from the change in tax rates will be used to reduce future tax expense for accounting and ratemaking purposes. Tax law requires that these amounts related to accelerated depreciation be used to reduce tax expense over the lives of the related assets. Amounts not related to accelerated depreciation are not covered by normalization requirements and will be reversed in accordance with regulatory ratemaking treatment. The statement also precludes netting of deferred tax liabilities against assets. The company is included in the consolidated federal income tax return of The Southern Company. (See Note 6 for further information regarding income taxes.)

Vacation Pay —

The company's employees earn vacation in one year and take it in the subsequent year. However, for ratemaking purposes, vacation pay is recognized as an allowable expense only when paid. Consistent with this ratemaking treatment, the company accrues a current

liability for earned vacation pay and records a current asset representing the future recoverability of this cost. Such amounts were \$3.3 million and \$3.2 million at December 31, 1988 and 1987, respectively. In 1989, an estimated 82 percent of the 1988 deferred vacation cost will be expensed, and the balance will be charged to construction and other accounts.

2. RATE MATTERS:

The Tax Reform Act of 1986 provided for a reduction in the federal corporate income tax rate from 46 percent to 34 percent in July 1987. On January 20, 1987, the FPSC approved the operation of Rule 25-14.003, which deals with any increase or decrease in income tax rates. The rule states that any earnings over the approved midpoint in the last authorized return on common equity resulting from a decrease in income tax rates will be refunded in a subsequent period. Gulf Power stipulated to a return of 13.6 percent for 1987 instead of the last authorized midpoint of 15.6 percent. On March 1, 1988, Gulf filed a report with the FPSC identifying earnings of \$1.1 million that exceeded the approved amount. This amount plus interest was refunded in May 1988 as a credit to the customers' bills. On December 20, 1988, the FPSC ordered Gulf to refund an additional \$313,000 plus interest. This additional refund is due to adjustments made by the FPSC to Gulf's original March 1 filing. This refund was charged to income in 1988 and is expected to be made during the first half of 1989. On March 1, 1989, Gulf filed a report with the FPSC stating that jurisdictional earnings for 1988 did not exceed the 13.75 percent approved return for the year and would not require a refund.

On November 14, 1988, Gulf filed a petition for an increase in annual retail revenues of \$25,793,000. This is a 6.3 percent increase in total retail revenue. The rate of return requested is 8.63 percent and the return on common equity requested is 14.00 percent. Hearings are scheduled to be held in Tallahassee during the first two weeks of July, with new permanent rates becoming effective by mid-October.

3. CONSTRUCTION PROGRAM, FINANCING, AND FUEL COMMITMENTS:

The company's gross property additions for 1989, 1990, and 1991, are estimated to be \$69 million, \$68 million, and \$68 million, respectively.

The construction program is subject to periodic review and revisions, and actual construction costs to be incurred may vary from the above estimates because of factors such as changes in environmental regulations, new estimates of costs, revised load estimates and the availability and cost of capital.

To finance a portion of such construction costs, the company plans to sell additional first mortgage bonds and preferred stock to the public and obtain additional paid-in capital from its parent, The Southern Company. In addition, the company plans to use interim financing in the form of notes payable to banks and commercial paper.

As of December 31, 1988, unused credit arrangements with banks totaled \$51.4 million which expire at various times during 1989. In connection with these lines of credit, the company has agreed to pay certain fees and/or maintain compensating balances with the banks. The compensating balances, which represent substantially all the cash of the company except for daily working funds and like items, are not legally restricted from withdrawal.

To supply a portion of the fuel requirements of its generating plants, the company has entered into various long-term commitments for the procurement of fuel. In most cases, such contracts contain provisions for price escalations, minimum production levels and other financial commitments. Additional commitments will be required in the future to supply the company's fuel needs.

In order to take advantage of lower cost coal supplies, agreements were reached in December, 1986, for the termination of two long-term contracts for the supply of coal to Plant Daniel, which is jointly owned by the company and Mississippi Power Company, an operating affiliate. The company's portion of the unamortized amounts of payments made to suppliers was \$50.7 million at December 31, 1988. This amount is being amortized on a per-ton basis to the cost of the replacement coal to match costs with savings achieved. Also, in March 1988, the company made an advanced payment of \$60 million to coal suppliers under an arrangement to lower the cost of future coal purchased under a revised agreement. The unamortized amount of this payment was \$55.5 million at December 31, 1988. The prepayment is being amortized to fuel expense over a ten-year period.

4. JOINT OWNERSHIP AGREEMENTS:

The company and Mississippi Power Company jointly own Plant Daniel, a steam-electric generating plant, located in Jackson County, Mississippi. In accordance with an operating agreement, Mississippi Power Company acts as the company's agent with respect to the construction, operation, and maintenance of the plant.

The company and Georgia Power Company jointly own Plant Scherer Unit No. 3, a steam-electric generating plant, located near Forsyth, Georgia. In accordance with an operating agreement, Georgia Power Company acts as the company's agent with respect to the construction, operation, and maintenance of the unit.

The company's pro rata share of expenses related to both plants is included in the corresponding operating expense accounts in the Statements of Income.

At December 31, 1988, the company's percentage ownership and investment in these jointly owned facilities were as follows:

Generating Plant	Total Megawatt Capacity	Percent Ownership	Plant In Service	Construction Work in Progress
(In Thousands)				
Scherer Unit				
No. 3 (coal)	818	25	\$191,790	\$ 185
Daniel (coal)	1,000	50	203,953	2,083

5. OFF-SYSTEM SALES AGREEMENTS:

The company and the other operating affiliates of the Southern electric system have entered into long-term contractual agreements for the sale of capacity and energy to certain nonaffiliated utilities located outside of the system's service territory. Certain of these agreements are nonfirm and are based on capacity of the system in general. Other agreements are firm and pertain to capacity related to specific generating units. Because the energy is generally sold at cost under these agreements, revenues from capacity sales primarily affect profitability. Off-system capacity revenues have been as follows:

Year	Unit Power	Other Long-Term Power	Total
		(In Thousands)	
1988	\$67,748	\$ 959	\$68,707
1987	\$73,938	\$2,281	\$76,219
1986	\$45,098	\$7,934	\$53,032

Long-term nonfirm power has been sold to Florida Power & Light Company (FPL), Jacksonville Electric Authority (JEA), Florida Power Corporation (FPC), and Mississippi Power & Light Company. These contracts expired at the end of 1986. A similar contract with the city of Tallahassee, Florida, expires in the year 2000.

Unit power from specific generating plants is being sold to FPL, JEA, and beginning in 1994 to FPC. The company's portion of these contracted sales, peaked at 660 megawatts in 1988. These sales will be 511 megawatts in January, 1989, will decrease to 149 megawatts in February, 1989 and continue at this level through mid-1995. Thereafter, these sales will begin increasing to approximately 200 megawatts and remain at that level - unless reduced by the customers after 1999 - until the expiration of the contracts in 2010. These megawatts of capacity sales do not include any amounts under contracts to Gulf States Utilities Company (Gulf States) which were suspended in 1988 as discussed below.

On July 2, 1986, Gulf States filed suit in the U.S. District Court for the Eastern District of Texas against The Southern Company, its operating subsidiaries, and the system service company. The complaint seeks a judgment declaring that Gulf States is excused from further obligation under its unit power and other long-term power sales contracts with the company and the other operating affiliates, and an award to Gulf States for unspecified damages. Gulf States alleges, among other things, that the Southern electric system failed to negotiate and renegotiate in good faith to reduce the amount of capacity purchases under the contracts and engaged in fraudulent conduct in entering into the contracts. The court permitted Gulf States to make payments due under such contracts by depositing funds with the court pending the outcome of the lawsuit. Subsequently, Gulf States received orders from the Texas and Louisiana commissions disallowing the recovery of the capacity charges under these contracts. As a result of this action, Gulf States advised the Southern Company's operating affiliates that future capacity charges applicable

to these jurisdictions would not be deposited with the court or paid to the operating affiliates. Because of Gulf States' refusal to pay, the operating affiliates suspended performance under these contracts effective July 1, 1988. On December 5, 1988, the Southern electric system filed a counterclaim against Gulf States in the proceeding seeking recovery of all past due payments and damages for breach of the contracts. The case is pending before the U.S. District Court in Texas.

In consolidated proceedings initiated by Gulf States and The Southern Company's operating subsidiaries, the FERC in 1988 found the contracts not to be unjust or unreasonable, granted the declaratory relief sought by The Southern Company's operating subsidiaries and dismissed the complaint filed by Gulf States. Gulf States has appealed this decision to the U.S. Court of Appeals for the District of Columbia. The FERC had previously ruled that it does not have jurisdiction over the question of whether The Southern Company negotiated in good faith to reduce the amount of capacity purchases and engaged in fraudulent conduct in entering into the contracts.

Revenues through June, 1988, include sales to Gulf States for unit power and other long-term contracts. Most of these revenues have been withheld by Gulf States. Revenues recorded after July 1, 1988, do not include any amounts for sales to Gulf States under these contracts. Because of disclosure in reports filed with the SEC by Gulf States concerning its financial condition, the withheld revenues, after taxes, have been excluded from net income through charges to the provision for uncollectable accounts as shown below:

	1988	1987	1986
			(In Millions)
Total revenues	\$11.5	\$22.4	\$17.6
Revenues withheld	9.9	18.6	7.4
Provision for uncollectable accounts	9.9	18.5	7.4
Excluded from after-tax income	6.2	10.5	1.2

At December 31, 1988, the total amount owed to the company from Gulf States was \$36 million. The ultimate outcome of this matter cannot now be determined; however, in management's opinion, the outcome will not have a material impact on the company's financial statements.

Capacity and energy sales to FPL, the company's largest single customer, provided revenues of \$76.7 million in 1988, \$77.4 million in 1987, and \$55.8 million in 1986, or 15.3 percent, 14.6 percent, and 10.8 percent respectively, of operating revenues.

6. INCOME TAXES:

The U.S. Attorney for the Northern District of Georgia and the Internal Revenue Service (IRS) are conducting an investigation of certain tax accounting practices of The Southern Company's operating subsidiaries, including Gulf Power. Management is informed that the investigation was initiated regarding tax accounting for emergency spare parts for generating plants, but has been expanded to include other matters, including political contributions.

The full extent of the investigation and its ultimate outcome cannot now be determined; however, in management's opinion, the outcome will not have a material impact on the company's financial statements.

Details of the federal and state income tax provisions are shown below:

	1988	1987	1986
	(In Thousands)		
Total provision for income taxes:			
Federal —			
Currently payable (refundable)	\$15,562	\$25,189	\$(5,718)
Deferred — current year	22,127	22,109	58,640
Deferred — reversal of prior years	(13,653)	(20,294)	(18,634)
Deferred investment tax credits	—	868	1,634
	<u>24,036</u>	<u>27,872</u>	<u>35,922</u>
State —			
Currently payable (refundable)	(462)	3,911	(532)
Deferred — current year	3,312	2,888	6,937
Deferred — reversal of prior years	(1,648)	(2,326)	(1,730)
	<u>1,202</u>	<u>4,473</u>	<u>4,674</u>
Total	<u>25,238</u>	<u>32,345</u>	<u>40,596</u>
Less income taxes charged (credited) to other income	<u>(1,001)</u>	<u>642</u>	<u>648</u>
Federal and state income taxes charged to operations	<u>\$26,239</u>	<u>\$31,703</u>	<u>\$39,948</u>

Deferred income taxes result primarily from the company's use of accelerated methods of depreciation and other write-offs of property costs, as provided for by the income tax laws, being greater than the book depreciation of such costs. Other deferred income taxes are provided for certain costs or revenues that are recognized for income tax purposes in periods different from those used for book purposes. Income taxes deferred in prior years are reversed (and charged or credited to income) when the book depreciation of property costs exceeds the related tax deductions or when other timing differences reverse. As explained in Note 1, certain amounts resulting from the change in tax rates will be reversed in accordance with regulatory ratemaking treatment. See Management's Discussion and Analysis for further information on the impact of the Tax Reform Act of 1986 and the new rules on accounting for income taxes.

Deferred investment tax credits are amortized over the life of the related property with such amortization normally applied as a credit to reduce depreciation and amortization in the Statements of Income. The amortization of these credits amounted to \$2.3 million in

1988, \$2.5 million in 1987, and \$2.0 million in 1986. At December 31, 1988, all investment tax credits available to reduce federal income taxes payable had been utilized.

The provision for income taxes currently payable includes the tax effects of the reversal of prior year's timing differences for which deferred income taxes were not provided. At December 31, 1988, the remaining balance of such timing differences was approximately \$8.9 million of which deferred income taxes of \$3.3 million have not been provided.

The total provision for federal income taxes as a percentage of income before federal income tax amounted to 31.8 percent, 36.6 percent, and 40.6 percent for 1988, 1987, and 1986, respectively. The difference between these rates and the federal statutory rate (34 percent in 1988, 40 percent in 1987, and 46 percent in 1986) resulted, in 1988 and 1987, primarily from the exclusion from taxable income of amortization of investment tax credits of 1.1 percent and 1.3 percent, respectively; however, in 1986, the difference between provisions of 40.6 percent and the federal statutory rate reflected mainly the exclusion from taxable income of the allowance for equity funds used during construction of 5.1 percent.

7. POLLUTION CONTROL OBLIGATIONS AND NOTES PAYABLE:

Obligations incurred in connection with the sale by public authorities of tax-exempt pollution control revenue bonds are as follows:

	December 31,	
	1988	1987
	(In Thousands)	
Collateralized —		
8% due 2004	\$ 8,930	\$ 8,930
6.75% due 2006	12,800	12,800
6% due 2006	12,500	12,500
11.50% due 2011	21,200	21,200
10% due 2013	20,000	20,000
8.25% due 2017	32,000	32,000
Noncollateralized —		
5.90% due serially*		
1988-2003	8,075	8,125
10.50% due 2014	42,000	42,000
Less funds on deposit with trustee	—	3,677
Total	<u>\$157,505</u>	<u>\$153,878</u>

*Serial maturities applicable to pollution control obligations are \$50,000 for each year 1989 through 2002, with the remaining balance due in 2003.

The company has authenticated and delivered to trustees a like principal amount of first mortgage bonds as security for obligations under collateralized installment agreements. The principal and interest on the first mortgage bonds will be payable only in the event of default under the installment purchase agreements.

Long-term debt also includes \$50.7 million for the company's portion of notes payable issued in connection with the termination of Plant Daniel coal contracts (see

Note 3 for information on fuel commitments). The notes bear interest at 8.25 percent with the principal being amortized through 1995. Interest on the notes is being charged to fuel stock. The estimated annual maturities of the notes payable through 1993 are as follows: \$5.6 million in 1989, \$6.1 million in 1990, \$6.6 million in 1991, \$7.2 million in 1992, and \$7.8 million in 1993.

8. CUMULATIVE PREFERRED STOCK SUBJECT TO MANDATORY REDEMPTION:

The company has issued two series of preferred stock which are entitled to the benefit of a mandatory sinking fund. The company is required to purchase or redeem at par, five percent of the shares annually commencing in the fifth year of issue. The amount of redemption requirements through 1993 amounts to \$1,250,000 annually.

9. LONG-TERM DEBT DUE WITHIN ONE YEAR:

A summary of the improvement fund requirement and scheduled maturities of long-term debt due within one year is as follows:

	December 31, 1988	1987
	(In Thousands)	
Bond improvement fund requirement	\$ 3,130	\$2,860
Less: Portion to be satisfied by bonding property additions	3,130	2,860
Cash improvement fund requirement	—	—
First Mortgage Bonds	9,344	8,000
Current portion of notes payable (Note 7)	5,611	5,175
Pollution control bond maturity (Note 7)	50	50
Total	\$15,005	\$13,225

The indenture's first mortgage bond improvement (sinking) fund requirement amounts to one percent of each outstanding series of bonds authenticated under the indenture prior to January 1 of each year, other than those securing pollution control obligations. The requirement may be satisfied by depositing cash, reacquiring bonds, or by pledging additional property equal to one and two thirds times the requirement.

10. COMMON STOCK DIVIDEND RESTRICTIONS:

The company's first mortgage bond indenture contains various common stock dividend restrictions which remain in effect so long as the bonds are outstanding. At December 31, 1988, \$62 million of retained earnings was restricted against the payment of cash dividends on common stock under the terms of the mortgage indenture.

The company's charter limits cash dividends on common stock to 50 percent of net income available for such stock during a prior period if the ratio of common stock equity to total capitalization, including retained earnings, adjusted to reflect the payment of the proposed dividend, is below 20 percent and to 75 percent of such net income if such ratio is 20 percent or more but less than 25 percent. At December 31, 1988, the ratio was 37 percent.

11. ASSETS SUBJECT TO LIEN:

The company's mortgage, as amended and supplemented, securing the first mortgage bonds issued by the company, constitutes a direct first lien on substantially all of the company's fixed property and franchises.

12. QUARTERLY FINANCIAL DATA (UNAUDITED):

Summarized quarterly financial data for 1988 and 1987 are as follows:

Quarter Ended	Operating Revenues	Operating Income	Net Income After Dividends on Preferred Stock
	(In Thousands)		
March 31, 1988	\$117,888	\$19,917	\$ 9,218
June 30, 1988	124,036	23,315	12,380
Sept. 30, 1988	144,061	31,893	21,150
Dec. 31, 1988	116,512	13,898	2,950
March 31, 1987	127,244	\$18,508	\$ 7,964
June 30, 1987	138,654	23,175	12,164
Sept. 30, 1987	159,855	30,110	19,475
Dec. 31, 1987	106,152	12,219	2,584

The company's business is influenced by seasonal weather conditions and the timing of rate increases, among other factors.

General Information

Gulf Power Company is a subsidiary of The Southern Company. The other operating subsidiaries of The Southern Company are Alabama Power Company, Georgia Power Company, Mississippi Power Company, and Savannah Electric. Other subsidiaries include Southern Electric International Inc., an international consulting firm. The Southern Investment Group, Inc., which researches and develops new business and investment opportunities and Southern Company Services, Inc., an organization which provides engineering and technical services, at cost, to the other members of the Southern electric system. Together, these companies make up one of the largest, most efficient, and reliable investor-owned electric utility systems in the nation, providing electricity to some 10 million people in the Southeast. The Southern Company ranks near the top in the electric utility industry in terms of the number of common shares outstanding. The Southern Company's service area covers over 120,000 square miles and includes most of Alabama and Georgia as well as northwest Florida and southeast Mississippi.

Officers

DOUGLAS L. McCRARY
President and Chief Executive Officer

JACOB F. HORTON
Senior Vice President

BEN F. KICKLITER
Vice President — Division Operations

EARL B. PARSONS, JR.
Vice President — Electric Operations

ARLAN E. SCARBROUGH
Vice President — Finance

EARL V. LEE
Controller

BONNIE B. SPRINKLE
Corporate Secretary

WARREN E. TATE
Treasurer and Director of Information Services

JACK L. HASKINS
Director of Rates and Regulatory Matters
and Assistant Secretary

RICHARD E. FOWLER
Assistant Treasurer

Directors

EDWARD L. ADDISON
President and Chief Executive Officer
The Southern Company
Atlanta, Georgia

REED BELL*
Medical Doctor
Children's Medical Services
Pensacola, Florida

JACOB F. HORTON
Senior Vice President
Gulf Power Company
Pensacola, Florida

W. DECK HULL, JR.*
President
Sun Commercial Bank in Panama City
Panama City, Florida

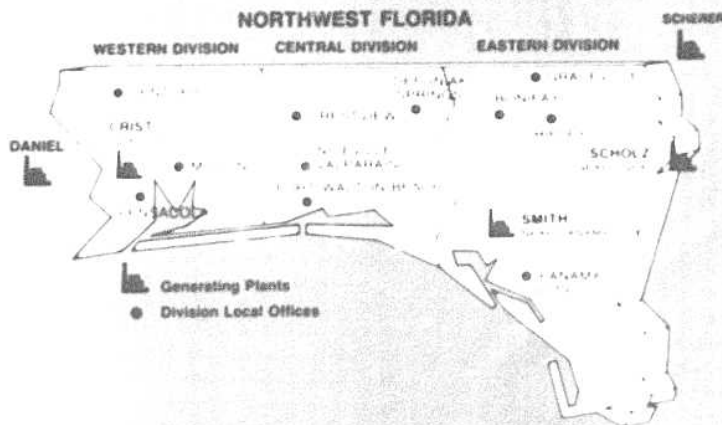
DOUGLAS L. McCRARY
President and Chief Executive Officer
Gulf Power Company
Pensacola, Florida

C. WALTER RUCKEL*
Chairman of the Board
Vanguard Bank and Trust Company
President and Owner
Ruckel Properties, Inc.
Valparaiso, Florida

JOSEPH K. TANNEHILL*
President and Chief Executive Officer
Stock Equipment Company
Group Executive
General Signal Corporation
Chagrin Falls, Ohio

VINCE WHIBBS, SR.*
Chairman of the Board
Vince Whibbs Pontiac Company
Pensacola, Florida

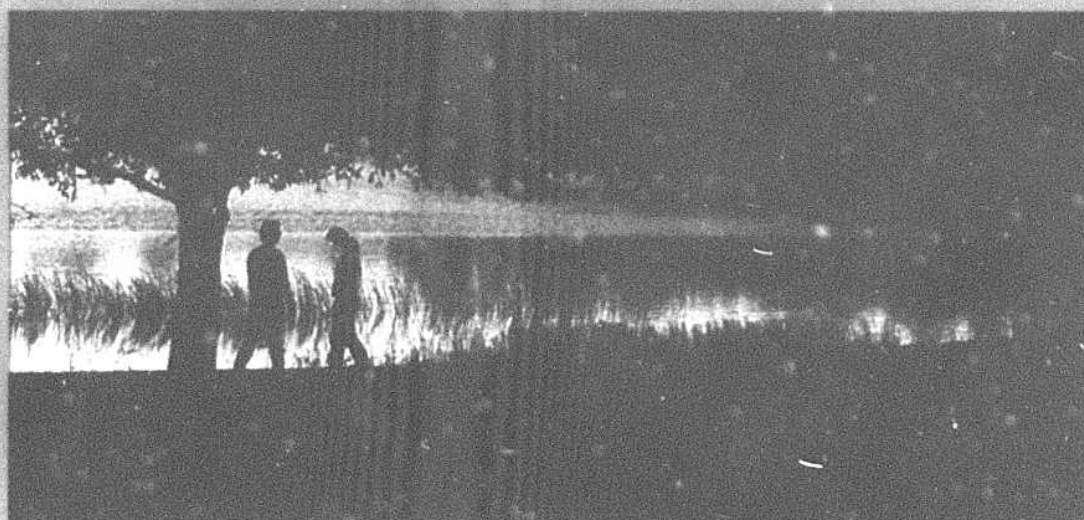
*Member of Audit Committee



REGISTRAR & TRANSFER AGENT
For Preferred Stock
Continental Stock Transfer
and Trust Company
72 Reade Street
New York, New York 10007

CORPORATE OFFICE
500 Bayfront Parkway
Pensacola, Florida 32501

Post. Box
U.S. Postage
PAID
Pensacola, Florida
32509
Permit No. 263



SCHEDULE F-2

Financial Statements - Opinion of Independent CPAs

Page 1 of 1

FLORIDA PUBLIC SERVICE COMMISSION

Company: GULF POWER COMPANY

Docket No. 001345-81

Explanation: Provide the opinion of the independent Certified Public Accountants and other sections of the consolidated financial statements not elsewhere filed for the most recent 2 years.

Type of data shown:
Projected Test Year 1990
Prior Year 1989
Witness A. E. Scarbrough

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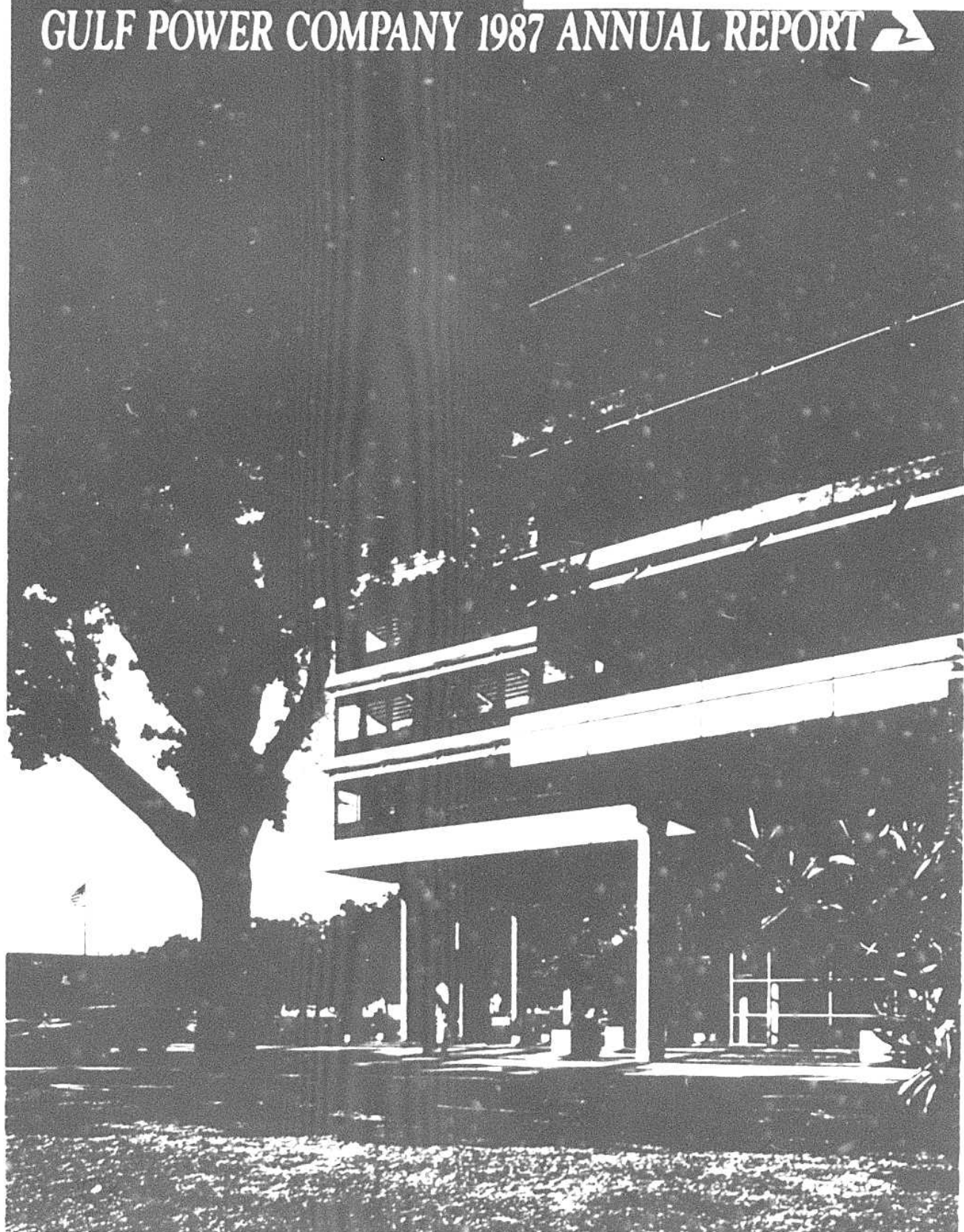
Please refer to Schedule F-1 for 1989 opinion.
1987 Annual Report is attached for 1987 opinion.

Supporting Schedules:

Support Schedules:

986

GULF POWER COMPANY 1987 ANNUAL REPORT



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This annual report is submitted for stockholders' information. It is not intended for use in connection with any sale or purchase of, or any other solicitation of offers to buy or sell, any securities of the company.

A copy of Form 10-K as filed with the Securities and Exchange Commission will be provided upon written request to the office of the Corporate Secretary. A copy of the company's Financial and Statistical Review is also available upon request to the office of the Controller.

GULF POWER 1987 HIGHLIGHTS

	1987	1986	Percent Increase (Decrease)
(Dollar Amounts In Thousands)			
Operating Revenues	\$ 531,905	\$ 515,806	3.1
Operating Expenses	\$ 447,893	\$ 439,410	1.9
Net Income After Dividends on Preferred Stock	\$ 42,217	\$ 46,421	(9.1)
Kilowatthour Sales (In Thousands)			
Within Service Area			
(Territorial Sales)	7,213,011	6,952,014	3.8
Off System Sales (Non-Territorial)	1,821,924	1,294,750	40.8
Total	9,034,935	8,246,764	9.6
Customers Served (Year End)	273,544	266,740	2.6
Fuel Cost Per Net Kilowatthour Generated (Cents)	2.08	2.55	(18.4)
Return on Average Common Equity (Percent)	13.23	15.06	(12.2)
Gross Property Additions	\$ 97,511	\$ 90,160	8.2
Gross Utility Plant (Year End)	\$1,345,766	\$1,257,957	7.0

About The Cover — In 1987 Gulf Power Company completed a major construction program which was begun in 1978 to upgrade all of its facilities. The cover photograph features the new Corporate Office building in Pensacola. The L-shaped structure serves as the administrative headquarters for the company and houses a variety of support services for electric generating plants, division offices, and line-service facilities which are located throughout Northwest Florida.

President's Letter

I am pleased to report that 1987 marked another good year for Gulf Power Company. The company today is in excellent position to face the challenge of a more competitive environment in its growing service area of Northwest Florida.

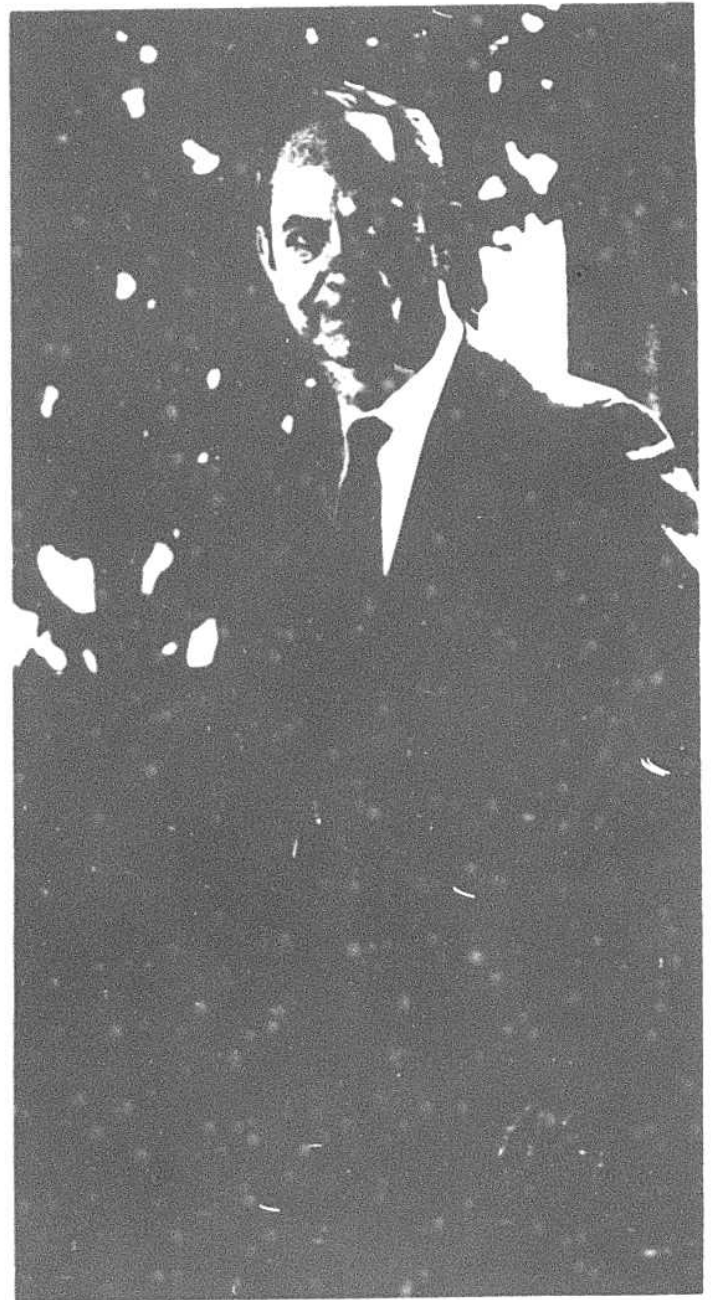
It is important to point out, however, that we are in good shape today, not only because of our accomplishments in 1987, but also because we began taking a hard look at every aspect of our business at the beginning of this decade.

Certainly, a measure of our success in 1987 was our financial performance. Net income for the year was \$42.2 million. With these earnings, the company achieved a return on average common equity of 13.23 percent. This good earnings record was accomplished while we maintained electric rates among the lowest in the Southeast.

Another significant performance factor is that through renegotiation of fuel contracts and spot purchases of coal, the cost of fuel has been reduced. This has enabled us to keep our rates low, and in the early part of 1988, the charge for 1000 kilowatthours of electricity will be at its lowest rate since 1980.

Naturally, by being able to keep our rates low, we have also increased our public confidence level, as monitored by an independent research firm. The rates, however, are not the sole factor in boosting this level. Our employees are providing quality service for our customers in all aspects of their association with Gulf Power.

A major accomplishment of 1987 was completion of the company's corporate



headquarters which is now centrally located in the Gateway District of Pensacola overlooking Pensacola Bay. This move brought together almost 500 employees who had been working at seventeen different leased facilities. Renovation of the Pace Boulevard building, which had formerly housed corporate offices, was also completed in 1987. This structure now serves Western Division employees.

Additionally, a satellite line service facility in Destin, and a new appliance showroom in Panama City were opened, thus enabling us to better serve our coastal communities' commercial and residential needs.

With the completion of these projects, a \$50 million construction program undertaken in 1978 to upgrade all of our facilities was concluded. Today, in looking across our system, all of our offices, warehouses, shops, and line service facilities are relatively new and with only slight renovations should serve our needs, and those of our customers, well into the 21st Century.

In addition to completing this construction program, we made the final payment for our 25 percent ownership of Georgia Power's Plant Scherer Unit 3. This added capacity will serve our customers' needs for electricity into the 1990s, which means we should not face any large power plant construction in the near future.

Within the company, we continue to stress the importance of efficiency and productivity in all areas and we continue our commitment to "work smarter." We have completed organizational reviews in all major areas of the company. This study is helping

ensure that we have people in jobs suited to their talents and that the structure of the organization is streamlined.

As we come to the end of the 1980s, it is our vision as a company to be the competitive energy supplier of choice in Northwest Florida. In order to remain the competitive choice, I believe it is imperative for us to keep our rates low, while providing quality service. This mission requires that we utilize cost effective technology in all areas of electricity supply and demand.

Our growth as a company is directly tied to the growth of the area we serve. This annual report highlights the growth of Gulf Power Company over the years and features significant projects completed in 1987 — projects which affect the sales of electricity today and in years to come. We believe that we are, indeed, partners in the growth of our service area.

As I have stated on numerous occasions the strength of our company is in our very fine and dedicated employees. They are the ones who, day in and day out, work to make it possible for our customers to have the conveniences of life which electricity affords.

My sincere appreciation to our employees, the officers of the company and our board of directors for their continued support and help in making 1987 another fine year in Gulf's history.



Douglas L. McCrary
President and Chief Executive Officer
March 9, 1988

Partners in Growth

The history of a service organization is essentially a history of the community it serves. In the case of an electric utility, there is an even more intimate association. Electricity not only serves the community, but in many ways, also changes it and contributes to its fibre.

Gulf Power's contribution of electricity to the growth of Northwest Florida began on February 10, 1925, when Southeastern Power and Light Company, a holding company operating street railway systems and electric and gas firms in Alabama, Georgia and Mississippi, acquired the properties of Pensacola Electric Company, then operating under receivership by Stone and Webster.

Gulf Power Company was organized October 29, 1925, as a subsidiary of the holding company and became an actual operating public utility February 6, 1926, through the acquisition of Chipley Light and Power Company in Chipley, Florida.

The Pensacola Electric Company was merged into Gulf Power in May 1926. At that time, Northwest Florida counted a score of isolated and individually-operated generating facilities which had been created to provide electricity for ice plants, lumber yards and electric transit systems. Each one was severely limited in capacity, reliability and expansion capability.

Despite inheriting an active public transit system with 30 cars annually transporting over a million passengers, the company's goals were detached from such limited markets.

Company objectives were to increase production efficiency, and thus lower rates; to increase the geographical service area by constructing new transmission lines; to acquire smaller, less efficient electric companies; and to encourage and promote a wider, more comprehensive appreciation and utilization of electricity. In 1926, this was an ambitious undertaking.

The residential rate was 13¢ per kilowatthour in Pensacola, which did little to encourage greater usage; the service area was limited to Pensacola and Chipley, with virtually no generating capacity or transmission facilities; and the average home had only a few light bulbs, perhaps a radio or an iron, and consumed less than 300 kilowatthours per year.

Today, the company's original goals are being realized. Gulf power has grown into a strong, efficient organization of 1,603 employees who are actively involved in their communities. Gulf Power, a subsidiary of The Southern Company, serves over 273,544 customers in ten Northwest Florida counties.

Our service-oriented employees, sales of energy and capacity to neighboring utilities, service to record numbers of new customers, guidance by a board of directors from throughout Northwest Florida and continued support by retirees and employees' families are making Gulf Power a vital part of the Sunshine State's present and future growth.

Partners in Growth

Throughout Gulf Power's history of expansion across Northwest Florida, small offices and warehouses were leased in communities as needed. Generally, these buildings were located in the "downtown" area for easy access by customers. In those early days of the company's history, the Gulf Power office was a place where people came to pay their bills and visit. Customer service representatives and electric servicemen knew customers not only by name, but also knew their families.

For thirty years, the company continued to maintain leased facilities. However, customer growth continued with greatest gains in the Pensacola area.

In 1955, the decision was made to purchase property at 75 North Pace Boulevard in Pensacola for a building to house the administrative functions of the company and all of the Pensacola district operations. The building, completed in 1958, met and served space requirements until the mid-70s.

By 1974, it was apparent that the building was not large enough to accommodate growth needs for both Western Division and General Office Administration functions. In 1978, the first in a series of construction projects was undertaken.

What was to begin a decade of construction was initiated with a Western Division line service and engineering facility at Pine Forest and the renovation of the old Chase Street building for a Western Division commercial office.

With Western Division employees relocated, the Pace Boulevard facility was remodeled to accommodate general office employees and functions. Even then, the installation of open office partitions was just a stop-gap

measure. By the early 80s, general office employees began moves to leased facilities.

In the meantime, smaller leased facilities across the service area merited attention. Buildings were in poor repair, space had become inadequate, and leases were facing renewal. After thorough study, it was apparent that it would be more cost-effective and efficient for Gulf to own its facilities.

One by one, Crestview, DeFuniak Springs, Chipley, Graceville, Bonifay, Panama City, Milton, and Niceville operations were moved into new offices with warehouses and line service facilities where needed. In addition, these new facilities were equipped with sophisticated computers, improved communications systems, and drive-in windows for customer convenience. Each building was planned to maximize the use of space, while providing customers with easy access to apply for electric service and pay their bills.

Director of general services and purchasing, Charles Jordan, who was actively involved in overseeing the construction program, states, "Gulf Power is the first contact most people have with a community. It is important for us to make a good first impression because sometimes that first impression is the only chance we'll have."

Part of that first impression is the building. Without exception, the new Gulf Power structures are simple and efficient, but aesthetically pleasing. Another factor contributing to that first impression is the attitude of the Gulf Power representative who meets with a new customer. By making the company's facilities efficient and pleasant, employee morale is greatly increased and the work environment encourages top quality service.

The gallery of the Corporate Headquarters features artifacts unearthed during the archaeological exploration of the site prior to construction. Archaeologists discovered relics dating back to a 2,000 year-old Indian camp site.



Partners in Growth

While these customer service facilities were being completed, space at the Pace Boulevard office and in the Western Division commercial office was becoming a problem. By the mid-80s, general office employees were working in leased facilities which by 1987 numbered 17 different locations.

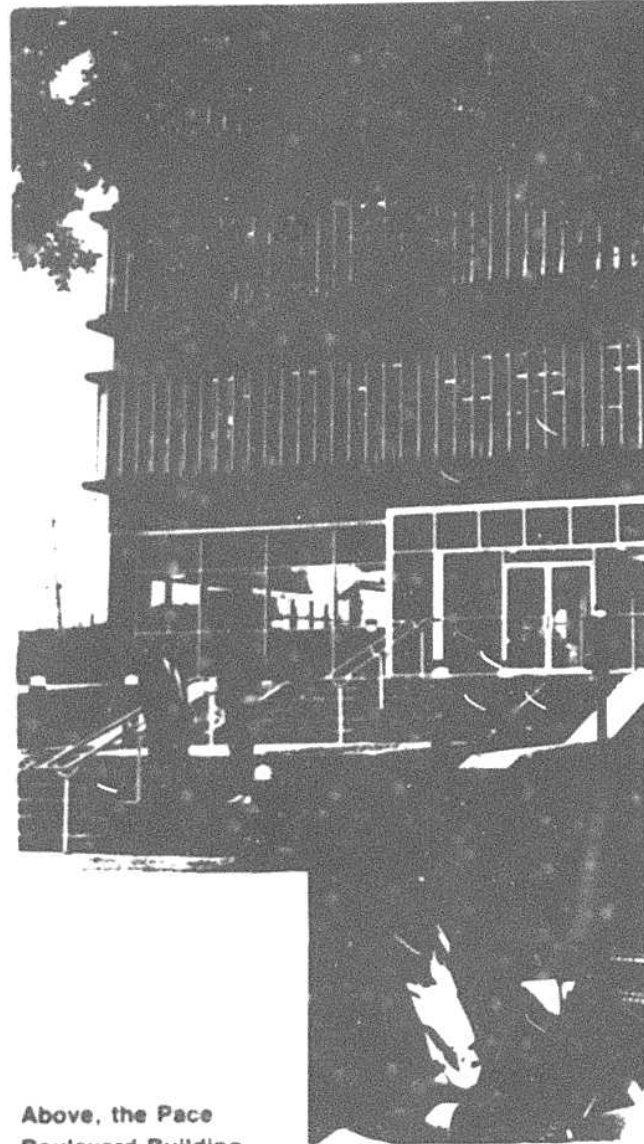
On July 23, 1983, the Gulf Power Board of Directors approved construction of a new corporate headquarters in Pensacola. In March of 1987, employees moved into their new L-shaped complex overlooking the Bayfront in Pensacola.

Renovation was begun on the 30-year-old Pace Boulevard building to accommodate Western Division commercial office personnel. By the end of 1987, this project was completed, thus culminating a significant period of expansion in Gulf Power Company's history.

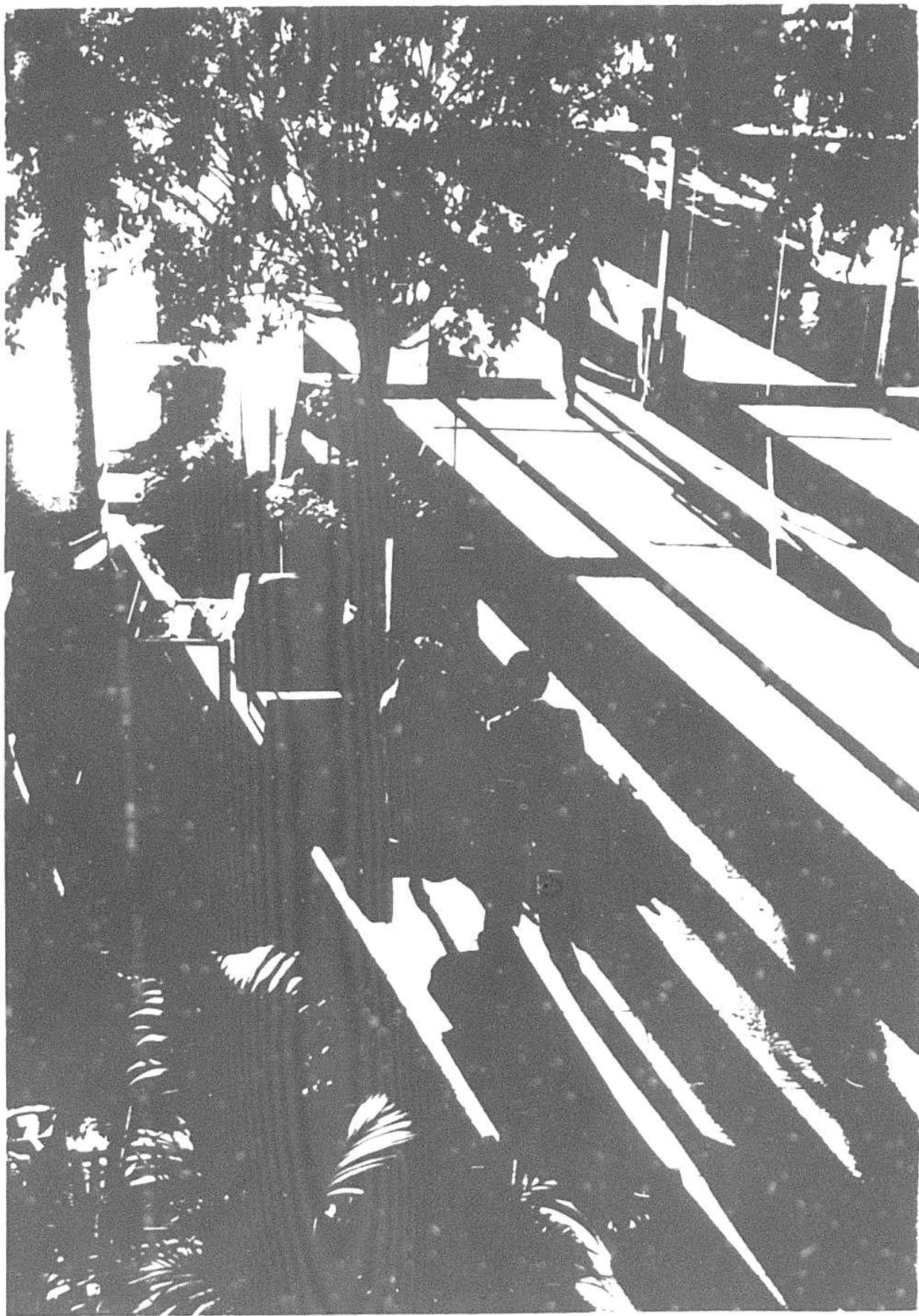
Gulf's Corporate Office, as well as its other facilities, reflect the company's 62 years of service and commitment to the people across Northwest Florida who depend upon reliable electric service. This substantial investment further symbolizes the company's firm belief in the growth potential of the area.

The growth of any electric utility in our rapidly expanding Southeastern economy is limited only by its ability to serve a growing customer base. At Gulf Power, we are proud that we have had, and will continue to have in the foreseeable future, the electric generating capacity necessary to serve the needs of our ever-increasing customers.

The availability of adequate generating capacity for Northwest Florida is no accident. While we have not experienced construction of new and expensive generating plants within our service territory since 1973, we have also been fortunate



Above, the Pace Boulevard Building, renovated for Western Division Commercial Offices, was completed in 1987. More spacious headquarters have improved the work environment for customer assistants. Opposite page, the inviting entrance to the new Corporate Headquarters is enclosed in glass and lined with large trees and plants.



Partners in Growth

enough in recent years to buy portions of generating plants already under construction by sister Southern Company utilities.

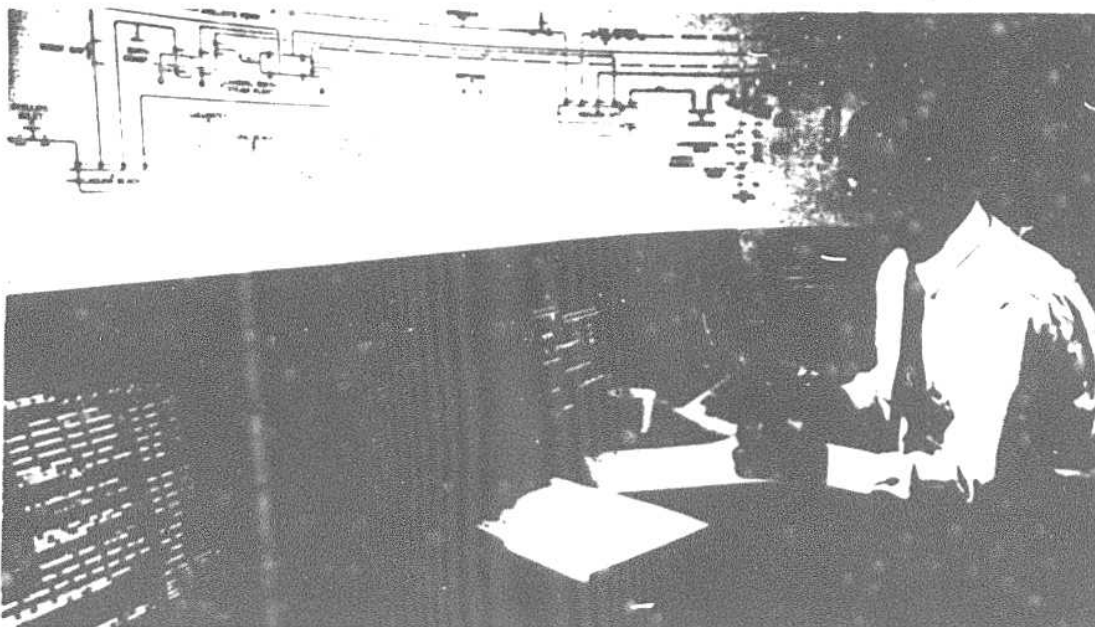
Gulf Power took advantage of the opportunity to buy into a plant with Mississippi Power in 1976, when slower than expected customer growth in Mississippi provided us an opportunity to purchase a portion of the then-unfinished Daniel Electric Generating Plant just north of Pascagoula. Because all of Gulf's Plant Daniel capacity wasn't immediately required by our own customers, some of the capacity was marketed to utilities outside the Southern electric system in the form of firm power sales until it is needed to serve Northwest Floridians.

Our 50 percent, undivided interest in Plant Daniel provides an additional 500,000 kilowatts of generation. That's energy for today and tomorrow purchased at yesterday's prices. And, because larger generating plants are typically cheaper per kilowatt to construct than smaller plants, we benefited from the economies of scale.

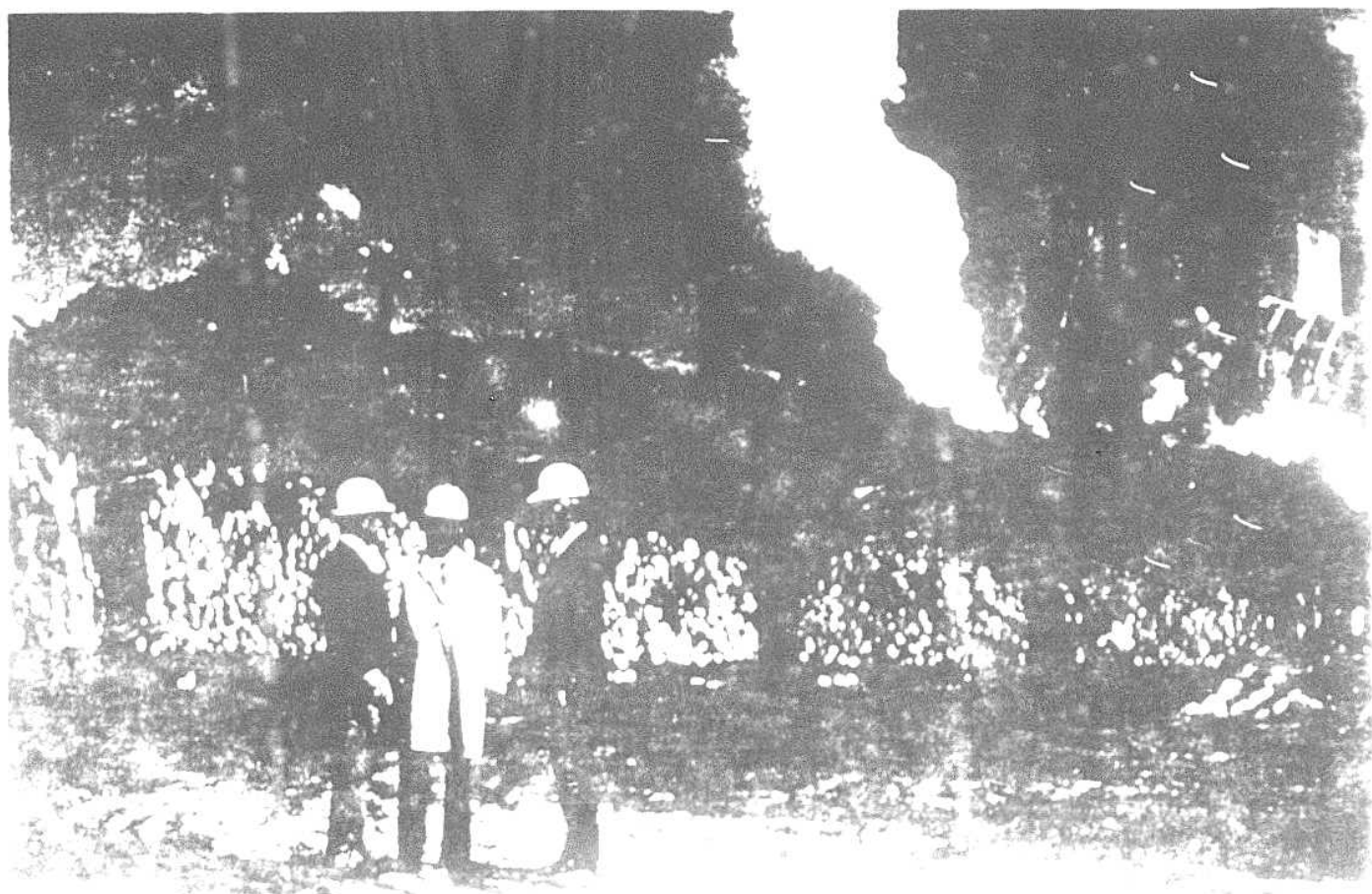
The Scherer Electric Generating Plant north of Macon, Georgia operated by Georgia

Power Company is another facility in which Gulf Power maintains partial ownership. Our 25 percent interest in Unit 3 of Plant Scherer added 204,500 kilowatts to our total generating capability when it began commercial operation on January 1, 1987. Once again we were able to realize tremendous cost savings through economies of scale, while at the same time purchasing only that additional generating capacity necessary to serve our steadily increasing customer loads. At the present time, a portion of that capacity is also being marketed off-system to other utilities.

With Scherer Unit 3 on line, 1987 marked the first year since World War II that Gulf Power did not have any generating units under design or construction. Improvements in operating techniques and auxiliary equipment upgrade resulted in a gain in demonstrated capability of our existing generating units in Gulf's service territory. The capability increased from 1,572,000 kilowatts to 1,577,200 kilowatts during 1987. This significant achievement was accomplished through the demonstration and hard work of our employees.



A new System Control Center in the Corporate Office monitors electrical transmission and distribution for the company's entire service area.



As an electric utility serving the northwest region of one of the nation's fastest growing states, Gulf Power Company was fortunate enough to once again experience an annual increase in the number of customers served. In 1987, customer gains in our service area equated to an annual growth rate of 2.6 percent. That's slightly below the 3.5 percent growth rate recorded for 1986, but it was a healthy increase highlighted by the addition or expansion of some long-term and diverse customers in all three divisions.

During 1987, construction was begun on a new 115 kilovolt transmission line to serve the Pensacola Naval Air Station (NAS). The \$3 million Western Division project, which also included the construction of a new substation on base, represents just part of our commitment to better serve the base's long-term energy needs. Electrical demand there is expected to increase by 25 percent over the next five years.

Above, Jim Stewart and Gary Nellis, executives with Stone Container, meet with Stan Sexton, a senior power management representative in Gulf's Eastern Division.

Contributing to that 25 percent increase will be the scheduled relocation of an active-duty aircraft carrier to Pensacola in 1991. The U.S.S. Kitty Hawk is being sent to replace a training carrier, the U.S.S. Lexington, as part of the Navy's homeporting efforts to redistribute its fleet of cruisers, destroyers and carriers around the country.

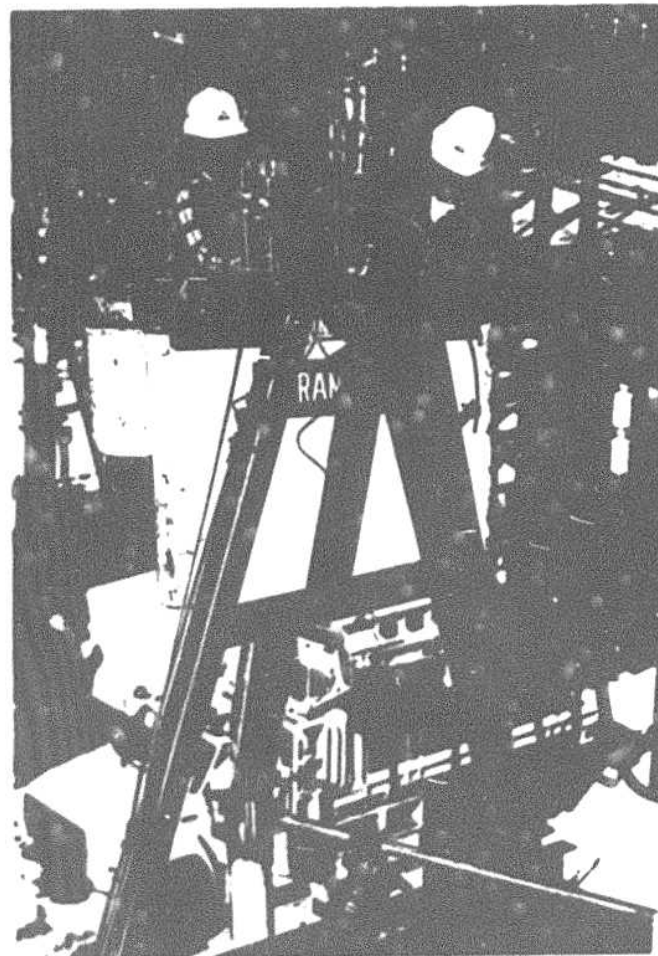
Arrival of the Kitty Hawk will mean more than just increased revenues for Gulf Power. It will bring an additional 2,000 military personnel to Pensacola and create another 200 civilian jobs at NAS thereby boosting the local military payroll by \$40-\$45 million annually. Secondary expansion in areas such as retail business and home building is expected to bring even more new jobs to the local area and impact the economy by an additional \$10-\$15 million.

Partners in Growth

Our Western Division wasn't the only division to benefit from a military relocation in 1987. In the Central Division, Hurlburt Air Force Base began accommodating early arrivals from a 23rd Air Force Special Operations Command Headquarters move which is scheduled for completion in 1990. At that time, more than 5,000 military, dependent and civilian support personnel will have relocated to the Ft. Walton Beach area from Scott Air Force Base in Illinois. Overall, the 23rd's move to Northwest Florida will mean the creation of an additional 645 secondary jobs and an estimated economic impact of \$93 million. The base's current 10,000 kilowatt electrical load is expected to double by 1993 due to the increase in activities there.

In the Eastern Division, a couple of industrial expansions are typical of the non-residential growth which is taking place in Northwest Florida. During 1987, Stone Container Corporation bought out an existing Southwest Forest Industries pulp and paper products operation in Panama City. As part of the buy-out and mill modernization program, Stone and Gulf Power signed a new 30,000 kilowatt power contract, and the electrical facilities necessary to serve the plant's increasing electrical needs were constructed. This new "power tie" is expected to bring Gulf Power an additional \$12 million annually in after-fuel revenues and increase Stone's annual energy usage more than 70 million kilowatthours.

In late 1987, construction was begun on a substation to serve increasing electrical loads associated with the Hugh Nelson Industrial Park. The park is also located within our Eastern Division, just north of Panama City. Contributing to those load increases was the opening of an Allied Bendix operation. In



Clockwise from upper left,
Parisians Department Store
opened at Pensacola's
Cordova Mall, a new 115
kilovolt transmission line to
serve Pensacola Naval Air
Station was begun. Allied
Bendix located in Gulf's
Eastern Division and Central
Division realizes growth of
Good Cents residential
construction at Bob Hope
Village

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Partners in Growth

The year, 1987, was one of slow but steady growth for Northwest Florida. Yet, Chamber of Commerce leaders across the region echo the same refrain. "Growth is inevitable."

With Florida growing at the fourth fastest pace in the nation, it's just a matter of time before a lot of the growth moves to the northwest region of the state. The three major cities in Gulf's service territory, Pensacola, Fort Walton, and Panama City continue to experience growth.

However, the northern section of our region is now experiencing unexpected population growth. In fact, over the past decade the growth rate has been approximately 18%. Factors contributing to this growth include:

- Graceville's recent growth with the opening of a new outlet center featuring 25 major apparel manufacturers.
- Blountstown's aggressiveness in pursuing the development of a new agricultural park.
- Milton's ability to secure Burnside-Ott and Acoustical Screens as new tenants in the Santa Rosa Industrial Park along with the expansion of their airport to meet the growing air transportation needs of the region.
- Chipley's continued progress in promoting commercial activity in its downtown area through redevelopment and the expansion plans of Westpoint Pepperell.
- Marianna's selection as a site for both federal and state prisons, employing approximately 400 workers.
- Defuniak Springs and South Walton County being targeted for new commercial and resort development as well as possibilities for a new commercial airport.

- Crestview's fast residential and commercial growth coupled with new growth in the industrial park.

- Bonifay's construction of a new state prison and the ground work preparation for possibilities of a new industrial park

Steady growth is reflected in the service area and Gulf's economic development department continues its efforts to recruit manufacturing business and industry to this region. Last year eighteen new industries resulted in 1,825 new jobs and an increase in sales of electricity of 12 million kilowatthours.

With Gulf's industrial rates being among the lowest in the Southeast, the area is becoming even more attractive to large industries. Since the cost of electricity is an important part of operational expenses, lower rates place this area in a more competitive posture.

Population-wise, projections indicate that by the year 2000 there will be 928,700 people living within Gulf's service area.

Gulf Power has planned and continues to plan for this growth. To meet the service needs of this projected growth, Gulf will have the generating capacity, a reliable transmission and distribution system, line service facilities, efficiently run offices and well-trained employees.

Gulf Power will continue an active role in the planning in the communities we serve in order to ensure that growth is orderly and that we have in place the infrastructure needed to support added population.

"Growth is inevitable" and Gulf Power is a full partner in this growth. Gulf's investment in electric facilities area-wide, and our investment in the communities we serve symbolizes that the sun is rising over Northwest Florida.

Partners in Growth



Financial Information

Report of Management

The Management of Gulf Power Company has prepared and is responsible for the financial statements and related information included in this report. These statements were prepared in accordance with generally accepted accounting principles appropriate in the circumstances and necessarily include amounts that are based on the best estimates and judgments of management. Financial information throughout this annual report is consistent with the financial statements.

The company maintains a system of internal accounting controls to provide reasonable assurance that assets are safeguarded and that books and records reflect only authorized transactions of the company. Limitations exist in any system of internal controls, however, based on a recognition that the cost of the system should not exceed its benefits. The company believes its system of internal accounting controls, together with its internal auditing function, maintains an appropriate cost/benefit relationship.

The independent public accountants provide an objective assessment of how well management meets its responsibility for fair financial reporting. They regularly review the system of internal accounting controls and perform such tests and other procedures they deem necessary to reach and express an opinion on the fairness of the financial statements.

The audit committee of the board of directors, composed of the directors who are not employees, provides a broad overview of management's financial reporting and control functions. Periodically, this committee meets with management, the internal auditors, and the independent public accountants to ensure that these groups are fulfilling their obligations and to discuss auditing, internal control, and financial reporting matters. The internal auditors and independent public accountants have access to the members of the audit committee at any time.

Management believes that its policies and procedures provide reasonable assurance that the company's operations are conducted with a high standard of business ethics. In management's opinion, the financial statements present fairly the financial position, results of operations, and sources of funds for gross property additions of Gulf Power Company.

Auditors' Report

To the Board of Directors of
Gulf Power Company:

We have examined the balance sheets and statements of capitalization of GULF POWER COMPANY (a Maine corporation and a wholly owned subsidiary of The Southern Company) as of December 31, 1987 and 1986, and the related statements of income, earnings retained in the business, other paid-in capital and sources of funds for gross property additions for each of the three years in the period ended December 31, 1987. Our examinations were made in accordance with generally accepted auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the financial statements referred to above present fairly the financial position of Gulf Power Company as of December 31, 1987 and 1986, and the results of its operations and the sources of funds for gross property additions for the periods stated, in conformity with generally accepted accounting principles applied on a consistent basis.

Arthur Andersen & Co.

Atlanta, Georgia,
February 5, 1988

Selected Financial Data

Years Ended December 31	1987	1986	1985
Condensed Statements of Income (Thousands of Dollars):			
Operating Revenues	531,905	515,806	518,224
Operating Expenses:			
Operation and Maintenance	345,325	335,222	339,362
Depreciation and Amortization	44,619	39,386	37,775
Taxes Other Than Income Taxes	26,246	24,854	22,886
Federal and State Income Taxes	31,703	39,948	40,061
Total Operating Expenses	447,893	439,410	440,084
Operating Income	84,012	76,396	78,140
Other Income, Net	3,516	8,529	8,135
Income Before Interest Charges	87,528	84,925	86,275
Net Interest Charges	39,286	32,291	34,500
Net Income	48,242	52,634	51,775
Dividends on Preferred Stock	6,025	6,213	6,291
Net Income After Dividends on Preferred Stock	42,217	46,421	45,484
Cash Dividends on Common Stock (Thousands of Dollars)	34,200	33,100	30,800
Return on Average Common Equity (Percent)	13.23	15.06	15.61
Total Assets (Thousands of Dollars)	1,051,182	1,028,864	921,635
Gross Property Additions (Thousands of Dollars)	97,511	90,160	92,541
Capitalization (Thousands of Dollars):			
Common Stock Equity	323,012	314,995	301,674
Preferred Stock	55,162	55,162	55,162
Preferred Stock Subject to Mandatory Redemption	14,000	16,500	18,250
Long-Term Debt	474,640	482,869	410,917
Total Capitalization	866,814	869,526	786,003
Kilowatthour Sales (In Thousands):			
Residential	3,055,041	2,963,502	2,736,432
Commercial	1,986,332	1,913,139	1,777,418
Industrial	1,839,931	1,745,074	1,770,587
Sales for Resale	316,466	315,396	345,450
Other	15,241	14,903	14,702
Total Territorial Sales	7,213,011	6,952,014	6,644,589
Sales to Utilities Outside Territory	1,821,924	1,293,750	2,043,141
Total Kilowatthour Sales	9,034,935	8,245,764	8,687,730
Operating Revenues (Thousands of Dollars):			
Residential	199,701	200,725	186,415
Commercial	116,057	116,253	109,631
Industrial	80,295	79,873	81,621
Sales for Resale	14,213	15,705	17,936
Other	1,357	1,343	1,346
Total Revenues from Territorial Sales	411,623	413,899	396,949
Revenues from Sales to Utilities Outside Territory	120,243	91,187	108,853
Total Revenues from Sales of Electricity	531,866	505,086	505,802
Other Revenues	39	10,720	12,422
Total Operating Revenues	531,905	515,806	518,224
Customers (Year End)	273,544	266,730	257,693
Employees (Year End)	1,603	1,544	1,509
Average Revenue per Kilowatthour - Total Sales (Cents)	5.89	6.13	5.82
Average Cost of Fuel Per Net Kilowatthour Generated (Cents)	2.08	2.55	2.70

Gulf Power Company

1984	1983	1982	1981	1980	1979	1978	1977
470,100	433,410	357,355	321,197	268,714	229,062	214,220	183,929
303,567	272,038	204,853	193,152	180,926	148,817	135,309	116,703
33,061	31,479	31,010	27,636	23,687	21,498	16,836	15,239
21,696	21,370	20,080	17,223	13,146	11,429	11,489	10,019
35,831	34,434	32,716	25,666	13,124	14,952	17,571	14,935
394,155	359,321	288,659	263,677	230,883	196,696	181,205	156,896
75,945	74,089	68,696	57,520	37,831	32,366	33,015	27,033
7,426	4,044	2,523	3,505	6,147	5,149	3,844	3,638
83,371	78,133	71,219	61,025	43,978	37,515	36,859	30,671
36,695	36,087	33,559	30,195	23,815	17,701	15,104	13,844
46,676	42,046	37,660	30,830	20,163	19,814	21,755	16,827
6,340	6,535	6,571	6,694	6,660	5,402	4,770	4,611
40,336	35,511	31,089	24,136	13,503	14,412	16,985	12,216
27,200	24,900	23,600	20,500	19,600	16,800	15,650	14,800
15,11	14,70	13,79	11,37	7,18	8,93	11,68	9,13
892,924	841,628	787,146	755,238	711,194	612,459	555,940	510,197
156,443	51,131	50,300	64,996	94,231	69,614	50,969	82,295
280,990	252,831	230,231	220,625	203,812	172,074	150,647	140,312
55,162	55,162	55,162	55,162	55,162	55,162	45,162	45,162
19,000	21,250	22,000	22,750	23,500	14,250	15,000	15,000
394,859	382,293	377,578	352,166	339,276	281,316	251,691	227,809
750,011	711,536	684,971	650,703	621,750	522,802	462,500	428,283
2,560,648	2,471,714	2,363,615	2,360,619	2,334,747	2,225,026	2,243,479	2,156,383
1,559,344	1,498,762	1,431,670	1,352,499	1,292,833	1,269,356	1,253,550	1,206,666
1,771,100	1,612,393	1,431,738	1,482,275	1,494,425	1,552,363	1,529,743	1,494,138
317,666	297,247	273,967	353,905	531,897	519,216	530,266	535,482
14,555	14,637	14,507	14,383	14,693	14,396	14,314	13,958
6,223,313	5,894,753	5,515,497	5,563,681	5,668,595	5,580,357	5,571,352	5,406,627
1,865,965	1,273,351	571,675	326,102	258,069	-	-	-
8,089,278	7,168,104	6,087,172	5,889,783	5,926,664	5,580,357	5,571,352	5,406,627
174,302	169,127	157,794	143,011	113,233	96,425	90,660	78,397
98,406	95,426	90,590	80,207	67,925	60,136	55,870	48,239
83,538	77,035	67,463	64,205	55,003	49,387	45,219	38,715
16,630	15,449	14,330	16,359	18,777	16,413	15,957	13,050
1,334	1,334	1,311	1,136	1,106	1,021	940	844
374,212	358,371	331,488	304,918	256,044	223,382	208,646	179,245
90,172	68,885	17,713	10,444	7,140	-	-	-
464,384	427,256	349,201	315,362	263,184	223,382	208,646	179,245
5,716	6,154	8,154	5,835	5,530	5,680	5,574	4,684
470,100	433,410	357,355	321,197	268,714	229,062	214,220	183,929
245,317	231,750	221,175	213,626	205,831	196,956	191,775	186,565
1,460	1,463	1,412	1,410	1,347	1,287	1,195	1,108
5,74	5,96	5,74	5,35	4,44	4,00	3,74	3,32
2,60	2,57	2,49	2,23	1,99	1,72	1,67	1,38

Management's Discussion and Analysis of Results of Operations and Financial Condition

Results of Operations

Net Income

Gulf Power Company's net income after dividends on preferred stock for 1987 totaled \$42.2 million. This is a decrease of 9.1 percent under 1986 earnings and 7.2 percent under 1985.

Revenues

The increase in operating revenues during 1987 was attributable mainly to an increase in off-system energy sales. In 1986, a decline in off-system energy sales caused a slight decrease in operating revenues. Increases in operating revenues during 1985 were attributable primarily to increased energy sales to residential and commercial customers and off-system utilities. Kilowatt-hour sales increased 9.6 percent in 1987, compared to a 5.1 percent decrease in 1986 and a 7.4 percent increase in 1985. Total territorial sales increased by 3.8 percent in 1987, and non-territorial sales increased by 40.8 percent. The company and the other operating affiliates of the Southern electric system have entered into agreements for the sale of capacity and energy from specific fossil generating units (unit power sales) and capacity and energy from system fossil units for sales which call for the delivery of specific amounts of power over a specified time period, if that power is not needed in the four-state service area (other long-term sales). Under these contracts, 1.8 billion, 1.3 billion, and 2.0 billion kilowatt-hours were sold by the company in 1987, 1986, and 1985, respectively, providing revenues of approximately \$120.2 million, \$91.2 million, and \$108.9 million, respectively. (See Note 5 to the financial statements for more information on off-system sales.) The company's maximum demand from customers in 1987 occurred in August and was 1,617,400 kilowatt-hours — 3.6 percent below the all-time maximum demand achieved in 1986. A greater proportion of off-system energy sales to total sales and a reduction in billings due to recovery of lower fuel and purchased power costs caused the average revenue per kilowatt-hour to decrease from 6.13 cents in 1986 to 5.89 cents in 1987. In 1986, a smaller proportion of off-system energy sales to total sales caused the average revenue per kilowatt-hour to increase from 5.82 cents in 1985 to 6.13 cents in 1986.

Expenses

The increase in operation expenses that occurred during 1987 was due primarily to the uncollectable accounts expense related to Gulf States Utilities (Gulf States) off-system energy sales. (See Note 5 to the financial statements for more information on Gulf States.) A rise in fuel expense, which was due to increased generation requirements, partially offset by a decrease in the unit price of coal, also contributed to the increase in operation expenses. In addition, operation expenses related to Plant Scherer Unit No. 3 began when the unit went into service in January, 1987. During 1987, the company was a net seller of interchanged power versus the net purchaser it had been in previous years. As a result, purchased and

interchanged power expenses decreased in 1987. The decrease in operation expenses in 1986 resulted from decreased fuel expense due to decreases in the unit cost of fuel, as well as decreased generation requirements. The rise in operation expenses occurring in 1985 was primarily from increased generation requirements with some increase in the cost of fuel. Fuel costs in cents per kilowatt-hour generated were 2.08 in 1987, 2.55 in 1986, and 2.70 in 1985.

Maintenance expenses increased 9.9 percent in 1987 as compared with 1986 due to a higher level of scheduled maintenance.

The 20.3 percent decrease in income taxes in 1987 can be attributed to lower taxable income and the decrease in the federal income tax rate. (See Note 6 to the financial statements concerning the income tax provisions.)

Allowance for Funds Used During Construction (AFUDC)

AFUDC represents the cost of capital charged to utility plant under construction which is not included in rate base. The equity portion of this credit represents non-cash income. However, the normalization of the income tax effect of the debt portion results in a non-cash charge. In addition, when facilities are completed and included in rate base, previously capitalized amounts significantly increase cash flow since revenues are higher because of the increased rate base and additional depreciation expense. AFUDC, net of income taxes, as a percent of net income after dividends on preferred stock amounted to 3.9 percent, 28.4 percent, and 25.6 percent in 1987, 1986, and 1985, respectively. (A major portion of the amounts in 1986 and 1985 were for the purchase from Georgia Power Company of a 25 percent undivided interest in Plant Scherer Unit No. 3.)

Effects of Inflation

The company is subject to rate regulation and income tax laws that are based on the recovery of historical cost. Therefore, inflation creates an economic loss because the company is recovering its cost of investments in dollars that have less purchasing power. While the rate of inflation has decreased, inflation continues to have an adverse effect on the company due to the large investment in long lived utility plant. Conventional accounting for historical cost does not recognize this economic loss nor the partially offsetting gain that arises through financing facilities with fixed money obligations such as long-term debt and preferred stock. Any recognition of inflation by regulatory authorities is generally reflected in the rate of return allowed.

Future Earnings Potential

The results of operations discussed above are not necessarily indicative of future earnings. It is expected that higher operating costs and carrying charges on increased investment in plant, if not offset by proportionate increases in operating revenues (either by periodic rate increases or increases in sales), will adversely affect future earnings. Future earnings will also

depend upon growth in energy sales which will be subject to a number of factors, including the volume of sales to neighboring utilities, energy conservation practiced by customers, the elasticity of demand, weather, and the rate of economic growth in the service area. (See Note 5 to the financial statements for information concerning attempts by Gulf States to modify or void their obligations under unit power and other long-term power sales contracts with the company.)

The Tax Reform Act of 1986 provides for a reduction in the federal corporate income tax rate, repeal of the investment tax credit, less favorable depreciation rates, a new alternative minimum tax, and other items. The net effect on the company is to reduce income tax expense because of the decrease in the tax rate, to reduce cash flow because of lower deferred taxes and the loss of the investment tax credit, and to increase external financing requirements as a result of reduced cash flow. Under the Florida Public Service Commission (FPSC) Income Tax Rule, when income tax rates are reduced or increased, the utility shall refund or collect those revenues which are associated with any tax savings or tax deficiency which cause the utility to earn in excess of or below the midpoint of the range of the rate of return approved by the FPSC in the utility's last rate case. On January 20, 1987, the FPSC approved a 13.6% return on equity for the company to be used instead of the 15.6% midpoint allowed in the company's last rate case. This new return was to be used for the income tax rule in 1987 only. On December 1, 1987 the FPSC approved a 13.75% return on equity for the company to be used in 1988.

Also, the Financial Accounting Standards Board has issued new rules for accounting for income taxes which become effective in 1989. These rules will require that deferred taxes be provided on the equity component of AFUDC. These rules also require the adjustment of accumulated deferred income tax balances to reflect changes in income tax laws and rates. The accounting for and impact on net income related to these adjustments will depend greatly on future ratemaking treatment. Depreciation-related deferred income taxes will continue to be reversed over the lives of the related assets because of the requirements of the Tax Reform Act of 1986. Other deferred income taxes will be reversed in accordance with regulatory ratemaking treatment.

Financial Condition

The major changes in the company's financial condition in 1987 were additions of \$97.5 million to utility plant. A major portion of these additions was for the continued investment in the company's 25 percent undivided interest in Georgia Power Company's Plant Scherer Unit No. 3 of \$32.3 million.

Funds provided from financing activities were comprised of \$3.9 million from the proceeds of previously issued pollution control obligations offset by \$2.5 million for preferred stock reacquired and maturities of \$4.7 million related to long-term debt. The balance of funds for gross property additions was provided from operations and other sources. (See the Statements of Sources of Funds for Gross Property Additions for further details.)

The company continued to make progress in 1987 toward meeting its long-term goal of increasing common equity as a percent of total capitalization. At year end,

this ratio was 37.2 percent compared to 36.2 percent at the end of 1986. Conversely, the long term debt ratio has decreased from 55.5 percent to 54.8 percent during the same period. The composite interest rate on long term debt has decreased from 8.74 percent at December 31, 1986 to 8.47 percent at December 31, 1987, primarily because the company redeemed \$32 million of 12.60% pollution control bonds by issuing \$32 million of pollution control bonds at 8.25%. The composite dividend rate on preferred stock also decreased from 8.37 percent in 1986 to 8.28 percent in 1987 as a result of reacquiring a portion of the 11.36% and 10.40% preferred stock subject to mandatory redemption. (See the Statements of Capitalization for further details.)

The company's gross property additions are estimated to total \$251 million for the three years 1988 through 1990 (\$74 million in 1988, \$82 million in 1989, and \$95 million in 1990.)

Legislation being considered by Congress concerning acid rain could make additional pollution control equipment necessary for certain coal fired electric power plants. The enactment of legislation mandating reductions in sulfur dioxide emissions in the service areas of the system companies would substantially increase capital requirements and operating costs.

In addition to the funds required for the construction program, approximately \$40.2 million will be required by the end of 1990 in connection with maturities of long term debt and preferred stock subject to mandatory redemption.

The Tax Reform Act of 1986 will significantly increase future external financing requirements because of reductions in capital previously provided through investment tax credits and deferred income taxes. Although lower taxes initially reduce the amount of revenues required to earn a specified return on investment, the cost of the increased capital requirements will ultimately exceed the benefits of reduced tax rates resulting in higher revenue requirements. These factors will also reduce interest and preferred stock dividend coverage ratios.

At December 31, 1987, the company had \$40.2 million of cash and temporary cash investments and \$51.2 million of unused credit arrangements with banks to meet its short-term cash needs. (See Note 3 to the financial statements.)

It is anticipated that the funds required for construction and other purposes will be derived from sources similar to those used in the past. However, in order to issue additional first mortgage bonds and preferred stock, the company must comply with certain earnings coverage requirements contained in its mortgage indenture and corporate charter. The ability to maintain these coverages and to generate adequate amounts of internal funds for construction is dependent upon increasing sales, controlling expenses, and receiving adequate and timely rate increases that will provide an adequate return on investment.

On the basis of the requirements contained in its mortgage indenture and corporate charter, the company's mortgage coverages (2.00 required) were 3.67 and 3.61 at December 31, 1987 and 1986, respectively, and the charter coverages (1.50 required) were 1.81 and 1.85 at December 31, 1987 and 1986, respectively. The amount of securities which the company will be permitted to issue in the future will depend upon conditions prevailing at that time.

Balance Sheets

Gulf Power Company

At December 31	1987	1986
ASSETS		
(In Thousands)		
UTILITY PLANT:		
Plant in service, at original cost (Note 4)	\$1,335,653	\$1,068,991
Less accumulated provision for depreciation	388,248	350,117
Net Plant in Service	947,405	718,874
Construction work in progress (Note 4)	10,113	188,966
Total	957,518	907,840
Less property-related accumulated deferred income taxes (Note 1)	166,707	152,589
Total	790,811	755,251
OTHER PROPERTY AND INVESTMENTS	2,932	2,611
CURRENT ASSETS:		
Cash	5,226	9,901
Temporary cash investments, at cost which approximates market	35,000	27,431
Receivables —		
Customer accounts receivable	32,126	33,789
Accrued utility revenues	9,525	8,914
Affiliated companies	12,000	726
Other accounts receivable (Note 5)	29,998	19,211
Accumulated provision for uncollectable accounts (Note 5)	(21,753)	(3,054)
Refundable income tax	6,539	—
Materials and supplies, at average cost —		
Fuel stock	45,932	69,785
Materials and operating supplies	28,828	26,024
Prepayments	677	788
Vacation pay deferred (Note 1)	3,200	3,000
Total	187,298	196,515
DEFERRED CHARGES:		
Debt expense, being amortized	3,203	2,736
Unamortized loss on reacquired debt	7,210	5,601
Deferred coal contract termination costs (Note 3)	55,889	60,663
Miscellaneous	3,839	5,479
Total	70,141	74,479
TOTAL ASSETS	\$1,051,182	\$1,028,864
CAPITALIZATION AND LIABILITIES		
CAPITALIZATION (see accompanying statements):		
Common stock equity	\$ 323,012	\$ 314,995
Preferred stock	55,162	55,162
Preferred stock subject to mandatory redemption (Note 8)	14,000	16,500
Long-term debt	474,640	482,869
Total	866,814	869,526
CURRENT LIABILITIES:		
Preferred stock to be redeemed within one year (Note 8)	1,750	1,750
Long-term debt due within one year (Note 9)	13,225	4,823
Accounts payable —		
Affiliated companies	10,473	6,296
Other	24,027	17,718
Customer deposits	15,565	14,715
Taxes accrued —		
Federal and state income	287	4,229
Other	7,563	6,757
Interest accrued	9,584	11,024
Fuel cost over recovery	9,330	—
Vacation pay accrued (Note 1)	3,200	3,000
Miscellaneous (Note 1)	2,144	3,869
Total	97,148	74,181
DEFERRED CREDITS AND OTHER LIABILITIES:		
Accumulated deferred income taxes	22,992	23,550
Accumulated deferred investment tax credits	54,597	55,843
Accumulated provision for property insurance (Note 1)	3,770	2,824
Miscellaneous	5,861	2,940
Total	87,220	85,157
Commitments and Contingent Matters (Notes 1, 2, 3, and 5)		
TOTAL CAPITALIZATION AND LIABILITIES	\$1,051,182	\$1,028,864

The accompanying notes are an integral part of these balance sheets.

Statements of Capitalization

Gulf Power Company

At December 31	Amount		Percent of Total	
	1987	1986	1987	1986
(In Thousands)				
COMMON STOCK EQUITY:				
Common stock (no par value) — authorized and outstanding 992,717 shares	\$ 38,060	\$ 38,060		
Other paid-in capital (See accompanying statements)	182,150	182,150		
Premium on preferred stock	399	399		
Earnings retained in the business (Note 10) (See accompanying statements)	102,403	94,386		
Total common stock equity	323,012	314,995	37.2 %	36.2 %
CUMULATIVE PREFERRED STOCK:				
\$10 par value, authorized 10,000,000 shares, outstanding none				
\$100 par value, authorized 551,626 shares, outstanding 551,626 shares —				
4.64% Series	5,102	5,102		
5.16% Series	5,000	5,000		
5.44% Series	5,000	5,000		
7.52% Series	5,000	5,000		
7.88% Series	5,000	5,000		
8.28% Series	15,000	15,000		
8.52% Series	5,060	5,060		
9.52% Series	10,000	10,000		
Total (annual dividend requirement \$4,162,000)	55,162	55,162	6.4	6.4
CUMULATIVE PREFERRED STOCK SUBJECT TO MANDATORY REDEMPTION:				
\$100 par value, authorized 250,000 shares, outstanding 157,500 shares (Note 8) —				
10.40% Series	8,250	9,750		
11.36% Series	7,500	8,500		
Total (annual dividend requirement \$1,710,000)	15,750	18,250		
Less amount to be redeemed within one year	1,750	1,750		
Total excluding amount due within one year	14,000	16,500	1.6	1.9
LONG-TERM DEBT:				
First mortgage bonds —				
Maturity	Interest Rates			
February 1, 1988	4%	8,000	8,000	
April 1, 1989	4%	7,000	7,000	
January 1, 1990	5%	3,890	3,890	
1993 through 1997	4% to 6%	27,000	27,000	
1998 through 2002	7% to 8%	70,123	70,123	
2003 through 2007	7% to 8%	60,000	60,000	
2008 through 2012	9% to 10%	55,000	55,000	
2016	10%	50,000	50,000	
Total first mortgage bonds	281,013	281,013		
Pollution control obligations (Note 7)	153,878	149,932		
Notes payable (Note 7)	55,889	60,663		
Unamortized debt premium (discount), net	(2,915)	(3,916)		
Total long-term debt (annual interest requirement \$41,866,000)	487,865	487,692		
Less amount due within one year (Note 9)	13,225	4,823		
Total long-term debt, excluding amount due within one year	474,640	482,869	54.8	55.5
TOTAL CAPITALIZATION	\$866,814	\$869,526	100.0 %	100.0 %

The accompanying notes are an integral part of these statements.

Statements of Income

Gulf Power Company

For the years ended December 31	1987	1986	1985
		(In Thousands)	
OPERATING REVENUES (Note 5)	\$531,905	\$515,806	\$518,224
OPERATING EXPENSES:			
Operation —			
Fuel	238,176	215,262	230,944
Purchased and interchanged power, net	(25,837)	14,592	12,913
Other	94,238	70,117	59,851
Maintenance	38,748	35,251	35,654
Depreciation and amortization	44,619	39,386	37,775
Taxes other than income taxes	26,246	24,854	22,886
Federal and state income taxes (Note 6)	31,703	39,948	40,061
Total operating expenses	447,893	439,410	440,084
OPERATING INCOME	84,012	76,396	78,140
OTHER INCOME (EXPENSE):			
Allowance for equity funds used during construction	1,013	7,809	6,893
Other, net	2,503	720	1,242
INCOME BEFORE INTEREST CHARGES	87,528	84,925	86,275
INTEREST CHARGES:			
Interest on long-term debt	38,385	39,479	40,769
Allowance for debt funds used during construction	(1,004)	(8,651)	(7,676)
Amortization of debt discount, premium and expense, net	555	488	287
Other interest charges	1,350	975	1,120
Net interest charges	39,286	32,291	34,500
NET INCOME	48,242	52,634	51,775
DIVIDENDS ON PREFERRED STOCK	6,025	6,213	6,291
NET INCOME AFTER DIVIDENDS ON PREFERRED STOCK	\$ 42,217	\$ 46,421	\$ 45,484

Statements of Earnings Retained in the Business

For the years ended December 31	1987	1986	1985
		(In Thousands)	
BALANCE, beginning of period	\$ 94,386	\$ 81,065	\$ 66,381
ADD (DEDUCT):			
Net income after dividends on preferred stock	42,217	46,421	45,484
Cash dividends on common stock	(54,200)	(33,100)	(30,800)
BALANCE, end of period (Note 10)	\$102,403	\$ 94,386	\$ 81,065

Statements of Other Paid-In Capital

For the years ended December 31	1987	1986	1985
		(In Thousands)	
BALANCE, beginning of period	\$182,150	\$182,150	\$176,150
Cash contribution to capital by parent company	—	—	6,000
BALANCE, end of period	\$182,150	\$182,150	\$182,150

The accompanying notes are an integral part of these statements.

Statements of Sources of Funds for Gross Property Additions

Gulf Power Company

For the years ended December 31

1987

1986

1985

(In Thousands)

FUNDS FROM OPERATIONS:

Net Income	\$ 48,242	\$ 52,634	\$ 51,775
Add (deduct) principal noncash items —			
Depreciation and amortization	51,672	41,619	39,595
Deferred income taxes, net	2,377	45,213	18,467
Deferred investment tax credits	868	1,634	5,716
Allowance for equity funds used during construction	(1,013)	(7,809)	(6,893)
	102,146	133,291	108,660
Less —			
Dividends on common stock	34,200	33,100	30,800
Dividends on preferred stock	6,025	6,213	6,291
Net funds provided from operations	61,921	93,978	71,569

FUNDS FROM FINANCINGS AND CAPITAL CONTRIBUTIONS:

First mortgage bonds	—	50,000	—
Bonds retired, reacquired, or refunded at maturity	—	(46,640)	(2,860)
Preferred stock reacquired	(2,500)	(750)	(750)
Capital contributions by the parent company	—	—	6,000
Proceeds from pollution control obligations, net	3,946	9,850	18,726
Other long-term debt	(4,774)	60,663	—
Other long-term debt used for coal contract termination	—	(60,663)	—
Net funds provided from financings and capital contributions	(3,328)	12,460	21,116

FUNDS FROM OTHER SOURCES:

Decrease (increase) in temporary cash investments	(7,569)	(14,431)	16,600
Decrease (increase) in other net current assets (excluding long-term debt and preferred stock due within one year)	31,351	(9,844)	(15,604)
Other, net (including allowance for equity funds used during construction)	15,136	7,997	(1,140)
Net funds provided from other sources	38,918	(16,278)	(144)

GROSS PROPERTY ADDITIONS \$ 97,511 \$ 90,160 \$ 92,541

The accompanying notes are an integral part of these statements.

Notes to Financial Statements

December 31, 1987, 1986 and 1985

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

General —

The company is a wholly owned subsidiary of The Southern Company which is the parent company of four operating companies, a system service company, Southern Electric International, Inc. (SEI), and The Southern Investment Group, Inc. (SIG). The operating companies provide electric service in four southeastern states. Contracts among the companies — dealing with jointly owned generating facilities, interconnecting transmission lines, and the exchange of electric power — are regulated by the Federal Energy Regulatory Commission (FERC) or the Securities and Exchange Commission (SEC). The system service company provides, at cost, specialized services to The Southern Company and to the subsidiary companies. SEI markets to utilities and industrial concerns the technical expertise of the Southern electric system in planning and operating electric power facilities. SIG was formed in 1985 to research and develop new business opportunities.

The parent company is registered as a holding company under the Public Utility Holding Company Act of 1935. Both the parent company and its subsidiaries are subject to the regulatory provisions of the Act. The company is also subject to regulation by the FERC and the Florida Public Service Commission (FPSC). The company follows generally accepted accounting principles and complies with the accounting policies and practices prescribed by these commissions.

Revenues —

Revenues are included in income for energy delivered, whether billed or unbilled, at the end of each fiscal period.

Fuel Costs —

Fuel costs are expensed as the fuel is used. The company's electric rates include fuel cost recovery clauses under which fuel costs are billed to customers. The retail clause is based on a six-month projected cost of fuel and purchased power and a true-up during a succeeding six-month period of the difference between the projected and actual costs and is subject to a public hearing procedure requiring prior approval of a change in the level of the recovery factor.

Energy Conservation Cost Recovery Clause —

The company's retail electric rates include an Energy Conservation Cost Recovery Clause which allows recovery of costs associated with energy conservation programs and their implementation. The charge is applied to all retail kilowatthours sold, similar to the Fuel Charge.

Utility Plant —

Utility plant is stated at original cost. This cost includes appropriate administrative and general costs, payroll-related costs such as taxes, pensions, and other benefits, and the allowance for funds used during construction. The cost of maintenance, repairs, and replacement of minor items of property is charged to maintenance expense. The cost of replacements of property (exclusive of minor items of property) is charged to utility plant.

Allowance for Funds Used During Construction (AFUDC) —

AFUDC represents the estimated debt and equity costs of capital funds which are necessary to finance the construction of new facilities. The FPSC-approved composite rate used to calculate AFUDC was 9.78 percent in 1987 and 1986, and 9.87 percent in 1985.

Depreciation and Amortization —

Depreciation of the original cost of depreciable utility plant in service is provided using composite depreciation rates which approximated 3.9 percent in 1987, and 3.8 percent in 1986 and 1985. When property subject to depreciation is retired or otherwise disposed of in the normal course of business, its cost, together with the cost of removal less salvage, is charged to the accumulated provision for depreciation.

Retirement Plans —

The company has a defined benefit, trustee, non-contributory pension plan which covers substantially all regular employees. Benefits are based on the greater of amounts resulting from two different formulas which consider years of service and either final pay or a flat dollar benefit. The company uses the "entry age normal method with frozen initial liability" actuarial method for funding purposes, subject to limitations under federal income tax regulations. On January 1, 1987, the company implemented FASB Statement No. 87, "Employers' Accounting for Pensions", which requires use of the "projected unit credit" actuarial method for financial reporting purposes. The effect of this change was to increase net income by approximately \$513,000. The funded status of the plan at December 31, 1987 is as follows (in thousands):

Actuarial present value of benefit obligations:	
Vested Benefits	\$ (39,175)
Nonvested Benefits	(2,797)
Accumulated benefit obligation	(41,972)
Additional amounts related to projected salary increases	(29,124)
Projected benefit obligation	(71,096)
Fair value of plan assets, primarily equity and fixed income securities	81,461
Unrecognized net loss	2,782
Unrecognized net transition asset	(13,147)
Prepaid pension cost recognized in the Balance Sheets	\$ 0

The discount rate used to measure the projected benefit obligation was 7.5 percent, the assumed annual rate of salary increases was 6.0 percent, and the assumed long-term rate of return on plan assets was 8.5 percent. The components of net pension cost for 1987 were (in thousands):

Benefits earned during the year	\$ 3,131
Interest cost on projected benefit obligation	4,797
Actual return on plan assets	(3,058)
Net amortization and deferral	(3,286)
Net pension cost	\$1,584

Pension cost amounted to \$3,688,000 in 1986 and \$3,234,000 in 1985. Of pension costs recorded, \$1,126,000 in 1987, \$2,789,000 in 1986, and \$2,374,000 in 1985 were charged to operating expenses, and the balances were charged to construction and other accounts.

The actuarial present value of accumulated plan benefits as of January 1, 1986, based on an eight percent assumed rate of return totaled \$33,289,000, of which \$31,566,000 and \$1,723,000 represented vested and non-vested benefits, respectively. Plan net assets available for benefits at January 1, 1986 were \$68,258,000.

The company also provides certain health care and life insurance benefits for retired employees. Substantially all employees may become eligible for these benefits when they retire. Prior to 1987, the costs of such benefits were recognized as payments were made. In 1987, to reflect the full cost of such benefits, the company began recognizing these benefit costs on an accrual basis using the "aggregate cost" actuarial method, which spreads the expected cost of such benefits over the remaining periods of employees' service as a level percentage of payroll costs. Accrued costs for medical benefits will be funded to the extent deductible under federal income tax regulations; accrued costs of life insurance benefits, other than current cash payments for retirees, are not currently being funded. The effect of the change was to reduce net income by \$1,144,000. The total costs of such benefits was \$2,205,000 in 1987, \$136,000 in 1986, and \$116,000 in 1985.

Provision For Injuries and Damages —

The company is subject to claims and suits arising in the ordinary course of business. As permitted by regulatory authorities, the company is providing for the uninsured costs of injuries and damages by charges to income amounting to \$1.2 million annually. The expense of settling claims is charged to the accumulated provision to the extent available. The accumulated provision is included in miscellaneous current liabilities in the accompanying balance sheets.

Provision For Property Insurance —

As permitted by regulatory authorities, the company is providing for the estimated cost of uninsured property damage by charges to income amounting to \$1.2 million annually. The expense of repairing such damage as occurs from time to time is charged to the accumulated provision to the extent it is available.

Income Taxes —

The company provides deferred income taxes for all income tax timing differences. Investment tax credits utilized are deferred and amortized to income over the average lives of the related property. Provisions for property-related deferred income taxes reflect consumption of part of the value of the plant and equipment to which they relate. Accordingly, the related accumulated deferred income taxes (ADIT) are a valuation reserve which is deducted from plant investment in the Balance Sheets. Other ADIT are included in taxes accrued or deferred credits and other liabilities. FASB Statement No. 96, Accounting for Income Taxes, which must be implemented by 1989, will require among other things, conversion to the liability method of accounting for ADIT. This change will necessitate adjusting ADIT to the rates at which they are expected to be settled. Certain ADIT have been recorded at rates higher than the rates specified in the Tax Reform Act of 1986. The amounts resulting from the change in tax rates will be used to reduce future tax expense for accounting and ratemaking purposes. Tax law requires that these amounts related to accelerated depreciation be used to reduce tax expense over the lives of the related assets. Amounts not related to accelerated depreciation are not covered by normalization requirements and will be reversed in accordance with regulatory ratemaking treatment. The company is included in the consolidated federal income tax return of The Southern Company. (See Note 6 for further information regarding income taxes.)

Vacation Pay —

The company's employees earn vacation in one year and take it in the subsequent year. However, for ratemaking purposes vacation pay is recognized as an allowable expense only when paid. Consistent with this ratemaking treatment, the company accrues a current liability for earned vacation pay and records a current asset representing the future recoverability of this cost. Such amounts were \$3,200,000 and \$3,000,000 at December 31, 1987 and 1986. In 1988, approximately 81 percent of the cost of vacations will be expensed.

2. RATE MATTERS:

The Tax Reform Act of 1986 provided for a reduction in the federal corporate income tax rate from 46 percent to 34 percent in July 1987. Under the Florida Public Service Commission (FPSC) Income Tax Rule, when income tax rates are reduced or increased, the utility shall refund or collect those revenues which cause the utility to earn in excess of or below the return approved by the FPSC. The FPSC approved 13.6 percent return on equity for the company for 1987 and 13.75 percent return on equity for 1988.

On March 1, 1988, the company filed its calculations of the jurisdictional results for 1987 with the FPSC. This calculation, if approved by the Commission, will require a refund of \$1,143,000. The company has proposed that this be refunded through the Fuel Adjustment Clause during the period of October 1988 through March 1989. In the opinion of management, the refund that is ultimately approved by the FPSC would not have caused a material

effect on the results of operations for 1987 and financial position of the company at December 31, 1987.

3. CONSTRUCTION PROGRAM, FINANCING, AND FUEL COMMITMENTS:

The company's gross property additions for 1988, 1989, and 1990, are estimated to be \$74 million, \$82 million, and \$95 million, respectively.

The construction program is subject to periodic review and revisions, and actual construction costs to be incurred may vary from the above estimates because of factors such as changes in environmental regulations, new estimates of costs, revised load estimates and the availability and cost of capital.

To finance a portion of such construction costs, the company plans to sell additional first mortgage bonds and preferred stock to the public and obtain additional paid-in capital from its parent, The Southern Company. In addition, the company plans to use interim financing in the form of notes payable and commercial paper.

As of December 31, 1987, unused credit arrangements with banks totaled \$51.2 million which expire at various times during 1988. In connection with these lines of credit, the company has agreed to pay certain fees and/or maintain compensating balances with the banks. The compensating balances, which represent substantially all the cash of the company except for daily working funds and like items, are not legally restricted from withdrawal.

To supply a portion of the fuel requirements of its generating plants, the company has entered into various long-term commitments for the procurement of fuel. In most cases, such contracts contain provisions for price escalations, minimum production levels and other financial commitments. Additional commitments will be required in the future to supply the company's fuel needs.

In order to take advantage of lower cost coal supplies, agreements were reached in December, 1986, for the termination of two long-term contracts for the supply of coal to Plant Daniel, which is jointly owned by the company and Mississippi Power Company, an operating affiliate. The company's portion of the unamortized amounts of payment made to suppliers totaled \$55,889,000 at December 31, 1987. This amount is being amortized on a per-ton basis to the cost of the replacement coal to match costs with savings achieved. (See Note 7 where the financing of these contract terminations is discussed.)

4. JOINT OWNERSHIP AGREEMENTS:

The company and Mississippi Power Company jointly own Plant Daniel, a 1,000 megawatt steam-electric generating plant, located in Jackson County, Mississippi. In accordance with an operating agreement, Mississippi Power Company acts as the company's agent with respect to the construction, operation, and maintenance of the plant.

The company and Georgia Power Company jointly own Plant Scherer Unit No. 3 which has a total nameplate capacity of 818 megawatts. In accordance with an operating agreement, Georgia Power Company acts as the company's agent with respect to the construction, operation, and maintenance of the unit. Unit No. 3 began commercial operation on January 1, 1987.

The company's pro rata share of expenses related to both plants is included in the corresponding operating expense account in the Statements of Income.

At December 31, 1987, the company's percentage ownership and investment in these jointly owned facilities were as follows:

Generating Plant	Total Megawatt Capacity	Percent Ownership	Plant In Service	Construction Work in Progress
(In Thousands)				
Scherer Unit No. 3 (coal)	818	25	\$187,985	\$ 0
Daniel (coal)	1,000	50	\$211,385	\$1,619

5. OFF-SYSTEM SALES AGREEMENTS:

The company and the other operating affiliates of the Southern electric system have entered into long term contractual agreements for the sale of capacity and energy to certain nonaffiliated utilities located outside of the Southern electric system's service territory. Certain of these agreements are nonfirm and are based on capacity of the system in general. Other agreements are firm and pertain to capacity related to specific generating units. Since the energy is generally sold at cost under these agreements, revenues from capacity sales primarily impact profitability. Off-system capacity revenues have been as follows:

Year	Unit Power	Other Long Term Power	Total
(In Thousands)			
1987	\$73,938	\$2,281	\$76,219
1986	\$45,098	\$7,934	\$53,032
1985	\$39,754	\$8,136	\$47,890

Other long-term power has been sold to Florida Power & Light Company (FPL), Jacksonville Electric Authority (JEA), Florida Power Corporation, and Mississippi Power & Light Company. These contracts expired at the end of 1986. Similar contracts with Gulf States and the City of Tallahassee, Florida, expire in 1992 and 2000, respectively. The Gulf States contract represented 87 percent of the total capacity under these two contracts in 1987.

Unit power from specific generating plants is being sold to FP&L, JEA, and Gulf States. The company's portion of these contracted sales was 594 megawatts in 1987. The sales will peak at 660 megawatts in 1988 with substantially lesser amounts from February, 1989 through May, 1995.

Capacity and energy sales to FP&L, the company's largest single customer, provided revenues of \$77.4 million in 1987, \$55.8 million in 1986 and \$66.8 million in 1985 or 14.6, 10.8 and 12.9 percent, respectively, of the company's revenues.

On July 2, 1986, Gulf States filed suit in the United States District Court for the Eastern District of Texas against The Southern Company, its operating subsidiaries, and the system service company. The complaint seeks a judgment declaring that Gulf States is excused from further obligation under its unit power and other long-term power sales contracts with the company and the other operating affiliates and awarding Gulf States unspecified damages. Gulf States alleges, among other things, that the Southern electric system failed to negotiate and renegotiate in good faith to reduce the amount of capacity purchases under the contracts and engaged in fraudulent conduct in entering into the contracts. The court permitted Gulf States to make payments due under such contracts by depositing funds with the court pending the outcome of the suit. However, during October and November of 1986, Gulf States received orders from the Public Utility Commission of Texas and the Louisiana Public Service Commission which disallowed the recovery of the capacity charges to Gulf States under the unit power and other long-term power sales contracts. As a result of this action, Gulf States has advised the company and the other operating affiliates that the capacity charges for unit power and other long-term power sales allocated to the Texas and Louisiana jurisdictions would not be deposited with the court or paid to the company. The case is still pending before the U.S. District Court in Texas.

By order dated May 12, 1987, an administrative law judge of the FERC, in consolidated proceedings initiated by Gulf States and The Southern Company's operating subsidiaries, found the contracts not to be unjust or unreasonable, granted the declaratory relief sought by The Southern Company's operating subsidiaries, and dismissed the complaint filed by Gulf States. This decision has been appealed by Gulf States to the full commission where it is pending. The FERC had previously ruled it does not have jurisdiction over the question of whether The Southern Company negotiated in good faith to reduce the amount of capacity purchases and engaged in fraudulent conduct in entering into the contracts.

Revenues for 1987 and 1986 include sales to Gulf States for unit power and other long-term power sales amounting to \$22.4 million and \$17.6 million, respectively. Of these amounts, a total of \$26 million was deposited with the court or withheld by Gulf States. Because of disclosure in reports filed with the SEC by Gulf States concerning its financial condition, a total of \$18.5 million (\$10.5 million, after taxes) and \$2.4 million

(\$1.2 million, after taxes) has been excluded from net income through charges to the provision for uncollectable accounts in 1987 and 1986, respectively. In management's opinion, the outcome of the lawsuit will not have a material impact on the company's 1987 financial statements, however, the ultimate outcome of this matter cannot now be determined.

6. INCOME TAXES:

A detail of the federal and state income tax provisions is shown below:

	1987	1986	1985
	(In Thousands)		
Total provision for income taxes			
Federal —			
Currently payable (refundable)	\$25,189	\$(5,718)	\$13,960
Deferred — current year	22,109	58,640	33,287
Deferred — reversal of prior years	(20,294)	(18,634)	(17,035)
Deferred investment tax credits	868	1,634	5,716
	<u>27,872</u>	<u>35,922</u>	<u>35,928</u>
State —			
Currently payable (refundable)	3,911	(533)	2,780
Deferred — current year	2,888	6,937	3,905
Deferred — reversal of prior years	(2,326)	(1,730)	(1,690)
	<u>4,473</u>	<u>4,674</u>	<u>4,995</u>
Total	<u>32,345</u>	<u>40,596</u>	<u>40,923</u>
Less income taxes charged to other income	642	648	862
Federal and state income taxes charged to operations	<u>\$31,703</u>	<u>\$39,948</u>	<u>\$40,061</u>

Deferred income taxes result primarily from the company's use of accelerated methods of depreciation and other write-offs of property costs, as provided for by the income tax laws, being greater than the book depreciation of such costs. Other deferred income taxes are provided for certain costs or revenues that are recognized for income tax purposes in periods different from those used for book purposes. Income taxes deferred in prior years are reversed (credited to income) when the book depreciation of property costs exceeds the related tax deductions or when other timing differences reverse. As explained in Note 1, certain amounts resulting from the change in tax rates will be reversed in accordance with regulatory ratemaking treatment.

Deferred investment tax credits are amortized over the life of the related property with such amortization applied as a credit to reduce depreciation and amortization in the Statements of Income. The amortization of these credits amounted to \$2,502,000 in 1987, \$1,993,000 in 1986, and \$2,055,000 in 1985. At December 31, 1987, all investment tax credits available to reduce federal income taxes payable had been utilized.

The income taxes currently payable include provisions for the reversal of prior year's timing differences not previously recognized. At December 31, 1987, the remaining balance of such timing differences was approximately \$9.6 million of which deferred income taxes of \$3.6 million (at 1988 tax rate) have not been provided.

The total provision for federal income taxes as a percentage of income before federal income tax amounted to 36.6 percent, 40.6 percent, and 41.0 percent for 1987, 1986, and 1985, respectively. The difference between these rates and the federal statutory rate (40 percent in 1987 and 46 percent in 1986 and 1985) resulted in 1987 primarily from the exclusion from taxable income of amortization of investment tax credit of 1.3 percent, however, in 1986 and 1985, the difference between provisions of 40.6 percent and 41.0 percent, respectively, and the federal statutory rate of 46 percent was attributable mainly to the exclusion from taxable income of the allowance for equity funds used during construction of 5.1 and 4.5 percent, respectively.

7. POLLUTION CONTROL OBLIGATIONS AND NOTES PAYABLE:

Obligations incurred in connection with the sale by public authorities of tax-exempt pollution control revenue bonds are as follows:

	December 31,	
	1987	1986
	(In Thousands)	
Collateralized —		
8% due 2004	\$ 8,930	\$ 8,930
6.75% due 2006	12,800	12,800
6% due 2006	12,500	12,500
11.50% due 2011	21,200	21,200
12.60% due 2012	—	32,000
10% due 2013	20,000	20,000
8.25% due 2017	32,000	—
Noncollateralized —		
5.90%-7.40% due serially		
1987-2003	8,125	8,175
10.50% due 2014	42,000	42,000
Less funds on deposit with trustee	3,677	7,673
Total	\$153,878	\$149,932

Serial maturities applicable to pollution control obligations are \$50,000 for each year 1988 through 2002, with the remaining balance due in 2003.

The company has authenticated and delivered to trustees a like principal amount of first mortgage bonds as security for obligations under collateralized installment agreements. The principal and interest on the first mortgage bonds will be payable only in the event of default under the installment purchase agreements. In June, 1987 the company issued \$32 million of an 8.25 percent series of bonds due in 2017. In turn, the \$32 million of 12.60 percent series due in 2012 was redeemed in August, 1987.

Long-term debt also includes \$55,889,000 for the company's portion of notes payable issued in connection with the termination of Plant Daniel coal contracts (see Note 3 for information on fuel commitments). The notes bear interest at 8.25 percent with the principal being amortized through 1995. Interest on the notes is being charged to fuel stock. The estimated annual maturities of the notes payable through 1992 are as follows: \$5.175 million in 1988, \$5.611 million in 1989, \$6.083 million in 1990, \$6.596 million in 1991, and \$7.151 million in 1992.

8. CUMULATIVE PREFERRED STOCK SUBJECT TO MANDATORY REDEMPTION:

The company has issued two series of preferred stock which are entitled to the benefit of a mandatory sinking fund. The company is required to purchase or redeem at par, five percent of the shares annually commencing in the fifth year of issue. The amount of redemption requirements through 1992 amounts to \$1,250,000 annually. In January, 1988, the company exercised options to redeem additional preferred stock amounting to \$500,000.

9. LONG-TERM DEBT DUE WITHIN ONE YEAR

A summary of the improvement fund requirement and scheduled maturities of long term debt due within one year is as follows:

	December 31,	
	1987	1986
	(In Thousands)	
Bond improvement fund requirement	\$2,860	\$2,860
Less: Portion to be satisfied by bonding property additions	2,860	2,860
Cash improvement fund requirement	—	—
First Mortgage Bonds	8,000	—
Current portion of notes payable (Note 7)	5,175	4,773
Pollution control bond maturity (Note 7)	50	50
Total	\$13,225	\$4,823

The indenture's first mortgage bond improvement (sinking) fund requirement amounts to one percent of each outstanding series of bonds authenticated under the indenture prior to January 1 of each year, other than those securing pollution control obligations. The requirement may be satisfied by depositing cash, reacquiring bonds, or by pledging additional property equal to one and two thirds times the requirement.

10. COMMON STOCK DIVIDEND RESTRICTIONS:

The company's first mortgage bond indenture contains various common stock dividend restrictions which remain in effect so long as the bonds are outstanding. At December 31, 1987, \$43,270,000 of retained earnings was restricted against the payment of cash dividends on common stock under the terms of the mortgage indenture.

The company's charter limits cash dividends on common stock to 50 percent of net income available for such stock during a prior period if the ratio of common stock equity to total capitalization, including retained earnings, adjusted to reflect the payment of the proposed dividend, is below 20 percent and to 75 percent of such net income if such ratio is 20 percent or more but less than 25 percent. At December 31, 1987, the ratio was 37 percent.

11. ASSETS SUBJECT TO LIEN:

The company's mortgage, as amended and supplemented, securing the first mortgage bonds issued by the company, constitutes a direct first lien on substantially all of the company's fixed property and franchises.

12. QUARTERLY FINANCIAL DATA (UNAUDITED):

Summarized quarterly financial data for 1987 and 1986 are as follows:

Quarter Ended	Operating Revenues	Operating Income	Net Income After Dividends on Preferred Stock
			(In Thousands)
March 31, 1987	\$127,244	\$18,508	\$ 7,994
June 30, 1987	138,654	23,175	12,164
Sept 30, 1987	159,855	30,110	19,475
Dec. 31, 1987	106,152	12,219	2,584
March 31, 1986	\$113,626	\$18,219	\$ 8,064
June 30, 1986	126,282	18,484	11,304
Sept 30, 1986	159,546	26,604	19,328
Dec. 31, 1986	116,352	13,089	7,725

The company's business is influenced by seasonal weather conditions and the timing of rate increases.

Officers

DOUGLAS L. McCRARY
President and Chief Executive Officer

JACOB F. HORTON
Senior Vice President

BEN F. KICKLITER
Vice President, Division Operations

EARL B. PARSONS, JR.
Vice President, Electric Operations

ARLAN E. SCARBROUGH
Vice President, Finance

EARL V. LEE
Controller

BONNIE B. SPRINKLE
Corporate Secretary

WARREN E. TATE
Treasurer and Director of Information Services

JACK L. HASKINS
Director of Rates and Regulatory Matters
and Assistant Secretary

RICHARD E. FOWLER
Assistant Treasurer

Directors

EDWARD L. ADDISON
President
The Southern Company
Atlanta, Georgia

REED BELL*
Medical Doctor
Medical Center Clinic, P.A.
Pensacola, Florida

JACOB F. HORTON
Senior Vice President
Gulf Power Company
Pensacola, Florida

W. DECK HULL, JR.*
President
Commercial Bank of Panama City
Panama City, Florida

DOUGLAS L. McCRARY
President and Chief Executive Officer
Gulf Power Company
Pensacola, Florida

C. WALTER RUCKEL*
Chairman of the Board
Vanguard Bank and Trust Company
President and Owner
Ruckel Properties, Inc.
Valparaiso, Florida

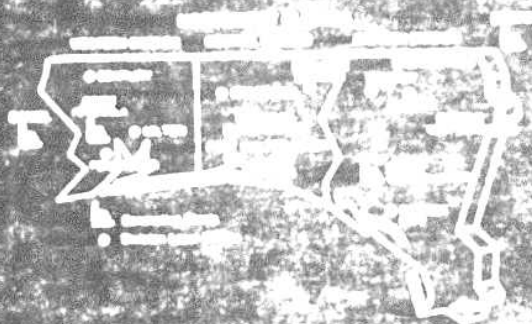
JOSEPH K. TANNEHILL*
President and Chief Executive Officer
Stock Equipment Company
Group Executive
General Signal Corporation
Chagrin Falls, Ohio

VINCE WHIBBS, SR.*
Chairman of the Board
Vince Whibbs Pontiac Company
Pensacola, Florida

*Member of Audit Committee

General Information

Gulf Power Company is a subsidiary of The Southern Company. The other operating subsidiaries of The Southern Company are Alabama Power Company, Georgia Power Company, and Mississippi Power Company. Other subsidiaries include Southern Electric International, Inc., an international consulting firm, The Southern Investment Group, Inc., which researches and develops new business and investment opportunities and Southern Company Service, Inc., an organization which provides engineering and industrial services, at cost, to the other members of the Southern electric system. Together, these companies make up one of the largest, most efficient, and reliable investor-owned electric utility systems in the nation, providing electricity to more than 10 million people in the Southeast. The Southern Company ranks near the top in the electric utility industry in terms of the number of common shares outstanding. The Southern Company's service area covers over 120,000 square miles and includes most of Alabama and Georgia as well as portions of Florida and southeast Mississippi.



SOUTHERN TRUST COMPANY

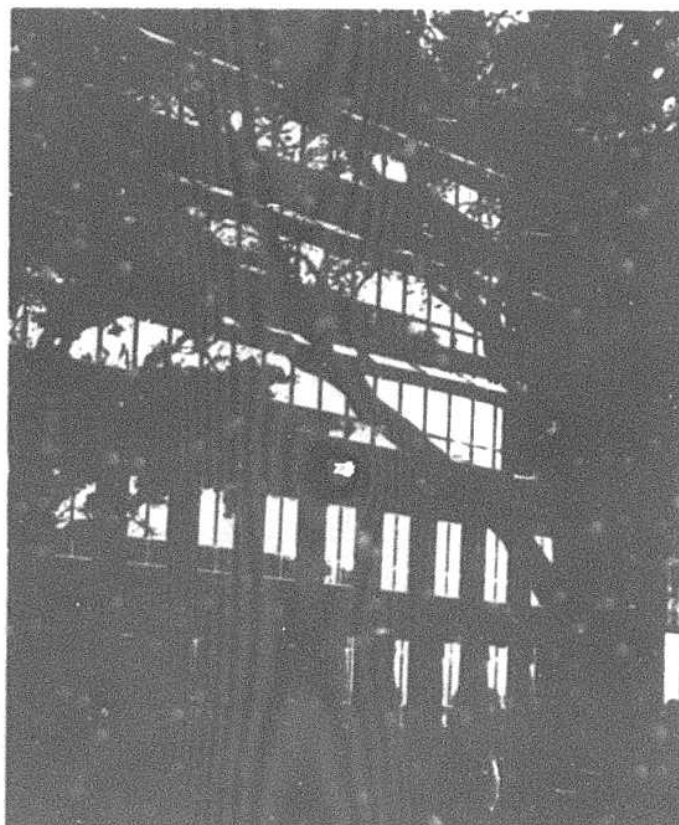
For Preferred Stock
Continental Bank Trust
and Trust Company
72 Broad Street
New York, New York 10004

CONSULTING GROUP
500 Michigan Parkway
Fremont, Florida 32201

Gulf Power



Gulf Power Company
500 Bayfront Parkway
Pensacola, Florida 32501



SCHEDULE F-3

SEC Reports

Page 1 of 1

FLORIDA PUBLIC SERVICE COMMISSION

Explanation: Provide a copy of the most recent Form 10-K annual reports to the Securities and Exchange Commission and all Form 10-Q quarterly reports filed subsequent to the filing of the latest 10-K.

Type of data shown:
Projected Test Year 1990
Prior Year 1989
Witness A. E. Scarbrough

Company: GULF POWER COMPANY

Docket No. 891345-EI

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See Attached.

Supporting Schedules:

Recep Schedules:

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the Fiscal Year Ended December 31, 1988

Commission File Number 0-2429

GULF POWER COMPANY

(Exact name of registrant as specified in its charter)

Maine

(State or other jurisdiction of
incorporation or organization)

59-0276810

(IRS Employer Identification Number)

500 Bayfront Parkway, Pensacola, Florida
(Address of principal executive offices)

32501

(Zip Code)

(904) 444-6111

(Registrant's telephone number, including area code)

Securities registered pursuant to Section 12(b) of the Act

NONE

Securities registered pursuant to Section 12(g) of the Act

Title of each class

Preferred stock, cumulative, \$100 par value

4.64% Series	8.28% Series
5.16% Series	8.52% Series
5.44% Series	9.52% Series
7.52% Series	10.40% Series
7.88% Series	11.36% Series

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ☒ No ☐

Aggregate market value of voting stock held by non-affiliates of the registrant at February 28, 1989. None

Common stock, no par value — 992,717 shares outstanding at February 28, 1989

Documents incorporated by reference. Specified portions of the Gulf Power Company Annual Report to Stockholders for the year ended December 31, 1988, are incorporated by reference into PART II

GULF POWER COMPANY
1988 FORM 10-K ANNUAL REPORT

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PART I

Item 1. BUSINESS

Gulf Power Company

GULF is a corporation which was organized under the laws of the State of Maine on November 2, 1925, and admitted to do business in Florida on January 15, 1926, in Mississippi on October 25, 1976 and in Georgia on November 20, 1984. The principal executive offices of GULF are located at 500 Bayfront Parkway, Pensacola, Florida 32501, and the telephone number is (904) 444-6111.

GULF is a wholly-owned subsidiary of SOUTHERN, a holding company registered under the Holding Company Act. GULF is engaged, within the northwestern portion of Florida, in the generation and purchase of electricity and the distribution and sale of such electricity at retail in 71 communities as well as in rural areas, and at wholesale to a nonaffiliated utility and to a municipality (see Item 1 - BUSINESS - "Competition" herein). GULF also sells electric appliances.

The SOUTHERN System

SOUTHERN owns all the outstanding common stock of the operating affiliates, ALABAMA, GEORGIA, GULF, MISSISSIPPI and, effective March 3, 1988, SAVANNAH, which supply electric service in Alabama, Georgia, Florida, Mississippi and Georgia, respectively. The transmission facilities of each of the operating affiliates and SEGCO are connected to the respective company's own generating plants and other sources of power and are interconnected with the transmission facilities of the other operating affiliates and SEGCO by means of heavy-duty high voltage lines. SOUTHERN also owns all of the outstanding common stock of SEI, a subsidiary established to market to utilities and industrial concerns the technical expertise of the SOUTHERN system in planning and operating electric power facilities; SIG, a company formed for the purpose of researching, developing and investing in new business opportunities; and the system service company.

SOUTHERN has filed an application with the SEC under the Holding Company Act requesting authority to form a new subsidiary. The application requests that the new subsidiary be permitted to operate, maintain and perform other ancillary services for all nuclear generating units within the Southern electric system. The ownership interests in these generating units will not be affected.

Operating contracts covering arrangements in effect with principal neighboring utility systems provide for capacity exchanges, capacity purchases and sales, transfers of economy energy and other similar transactions. Additionally, the operating affiliates of the SOUTHERN system have entered into voluntary reliability agreements with the subsidiaries of Middle South Utilities, Inc., Florida Electric Power Coordinating Group and Tennessee Valley Authority and with Carolina Power & Light Company, Duke Power Company, South Carolina Electric & Gas Company and Virginia Electric

1989, \$68.1 million in 1990 and \$68.3 million in 1991. The foregoing construction estimates include allowance for funds used during construction of \$140,000 in 1989, \$154,000 in 1990 and \$257,000 in 1991. Total construction additions during 1989 are expected to be apportioned as follows:

	Thousands of Dollars
Generating facilities -	
Miscellaneous additions and improvements to existing plants.....	\$16,014
Pollution control equipment for existing plants	4,398
	<u>20,412</u>
New business facilities	13,271
Transmission plant	2,305
Joint line and substation plant	14,846
Distribution plant	11,051
General and miscellaneous plant	7,267
	<u>\$69,152</u>

The construction program is subject to periodic review and revision, and actual construction costs may vary from the above estimates because of factors such as changes in load growth, environmental requirements, equipment delivery schedules, costs of labor, equipment and materials, the cost of capital and the granting of timely and adequate retail and wholesale rate increases by appropriate commissions.

Reference is made to Item 1 - BUSINESS - "Regulation - Environmental Regulation" herein for information with respect to environmental requirements.

Financing Program

GULF's construction programs and other general corporate purposes historically have required significant external financing, including sales of first mortgage bonds and preferred stock and the receipt of additional paid-in capital from SOUTHERN. While GULF expects to meet its capital requirements for the foreseeable future largely from internal sources, external financings will continue to be necessary from time to time. If for any reason, including market conditions or insufficiency of coverages (see Item 1 - BUSINESS - "Limitation on Issuance of First Mortgage Bonds and Preferred Stock" herein), the traditional external sources of funds are unavailable, GULF would have to seek alternative and possibly costlier means of financing or would have to reduce funds requirements by postponing or cancelling capital expenditures or further reducing operating expenses.

Under provisions of its charter, GULF's preferred stockholders have approved an increase in the amount of securities representing short-term unsecured indebtedness which it may have outstanding until January 1, 1990, from 10% of capital, surplus and secured debt to 20% thereof. At December 31, 1988, such 20% limitation amounted to \$187 million. GULF may not issue short-term indebtedness in an amount in excess of 5% of its outstanding securities (other than short-term indebtedness) without specific

GULF POWER COMPANY
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DEFINITIONS

When used herein the following terms will have the meanings indicated:

<u>Term</u>	<u>Meaning</u>
AEC	Alabama Electric Cooperative, Inc.
ALABAMA	Alabama Power Company
EPA	United States Environmental Protection Agency
FERC	Federal Energy Regulatory Commission
GEORGIA	Georgia Power Company
GULF	Gulf Power Company
Gulf States	Gulf States Utilities Company
Holding Company Act	Public Utility Holding Company Act of 1935
MISSISSIPPI	Mississippi Power Company
operating affiliates ...	ALABAMA, GEORGIA, GULF, MISSISSIPPI and SAVANNAH
PSC	Public Service Commission
SAVANNAH.....	Savannah Electric and Power Company
SEC	Securities and Exchange Commission
SESCO	Southern Electric Generating Company
SEI	Southern Electric International, Inc.
SEPA	Southeastern Power Administration
SERC	Southeastern Electric Reliability Council
SIG	The Southern Investment Group, Inc.
SOUTHERN	The Southern Company
SOUTHERN system	SOUTHERN, the operating affiliates, SESCO, SEI, SIG and the system service company
system service company .	Southern Company Services, Inc.

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authorization of the SEC under the Holding Company Act. As of December 31, 1988, this 5% limitation amounted to \$26 million. GULF has received authorization from the SEC under the Holding Company Act to issue from time to time, prior to April 1, 1989, up to \$50 million of short-term unsecured indebtedness and has requested that such authority be extended to April 1, 1991. Unused credit arrangements with banks at the end of 1988 totaled \$51 million. These credit arrangements expire at various times during 1989. As of February 28, 1989, GULF had no short-term borrowings outstanding.

Limitation on Issuance of First Mortgage Bonds and Preferred Stock

The amounts of first mortgage bonds and preferred stock which GULF can issue are subject to the earnings coverage requirements contained in its mortgage and charter, respectively. The most restrictive of these provisions require (i) for the issuance of additional first mortgage bonds (other than for certain refunding purposes), that before income tax earnings, as defined, cover pro forma annual interest charges on first mortgage bonds and indebtedness secured by prior or equal ranking lien at least twice, and (ii) for the issuance of additional preferred stock, that gross income after taxes available for interest cover pro forma annual interest charges and preferred stock dividends at least one and one-half times, in both cases for a period of twelve consecutive calendar months within the fifteen calendar months immediately preceding a proposed new issue. These coverages, for first mortgage bonds and for preferred stock, for the year ended December 31, 1988, were 3.27 and 1.80, respectively. The amount of securities that GULF will be able to issue in the future will depend upon, among other things, its financial condition, market conditions prevailing at the time and the receipt of requisite regulatory approvals.

Fuel Supply

The generation of electricity by GULF is almost entirely from coal, with a minimal amount of oil and gas also used. The sources of generation from various fuels for 1986 through 1988 and the estimate for 1989 are as follows:

	Percent of Total Kilowatthour Generation			
	Actual		Estimated	
	1986	1987	1988	1989
Coal	99%	100%	100%	100%
Oil and Gas	1	*	*	*
Total	<u>100%</u>	<u>100%</u>	<u>100%</u>	<u>100%</u>

*Less than 0.5%.

PART I

Item 1. BUSINESS

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SOUTHERN owns all the outstanding common stock of the operating affiliates, ALABAMA, GEORGIA, GULF, MISSISSIPPI and, effective March 3, 1988, SAVANNAH, which supply electric service in Alabama, Georgia, Florida, Mississippi and Georgia, respectively. The transmission facilities of each of the operating affiliates and SEGCO are connected to the respective company's own generating plants and other sources of power and are interconnected with the transmission facilities of the other operating affiliates and SEGCO by means of heavy-duty high voltage lines. SOUTHERN also owns all of the outstanding common stock of SEI, a subsidiary established to market to utilities and industrial concerns the technical expertise of the SOUTHERN system in planning and operating electric power facilities; SIG, a company formed for the purpose of researching, developing and investing in new business opportunities; and the system service company.

SOUTHERN has filed an application with the SEC under the Holding Company Act requesting authority to form a new subsidiary. The application requests that the new subsidiary be permitted to operate, maintain and perform other ancillary services for all nuclear generating units within the Southern electric system. The ownership interests in these generating units will not be affected.

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and Power Company, each of which provides for the establishment and periodic review of principles and procedures for planning and operation of generation and transmission facilities, maintenance schedules, load retention programs, emergency operations, and other matters affecting the reliability of bulk power supply. The operating affiliates have joined with other utilities in the Southeast (including those referred to above) to form the SERC to augment further the reliability and adequacy of bulk power supply. Through the SERC, the operating affiliates are represented on the National Electric Reliability Council.

An intra-system interchange agreement provides for coordinating operations of the power producing facilities of the SOUTHERN system and the capacities available to such system from nonaffiliated sources and for the pooling of surplus energy available for interchange. Coordinated operation of the entire interconnected system is conducted through a central power supply coordination office maintained by the system service company. The available sources of energy are allocated to the operating affiliates to provide the most economical sources of power consistent with good operation. The resulting benefits and savings are apportioned among the operating affiliates.

The system service company has contracted with each operating affiliate, SEI, SIG and SEGC to furnish, at cost and upon request, the following services: general executive and advisory services, power pool operations, general engineering, design engineering, purchasing, accounting and statistical, finance and treasury, taxes, insurance and pensions, corporate, rates, budgeting, public relations, employee relations, systems and procedures and other services with respect to business and operations. SOUTHERN also has a contract with the system service company for certain of the specialized services.

General Problems of the Industry

In recent years the electric utility industry in general has experienced problems in a number of areas including the high cost of capital needed for construction programs, the cancellation or deferral of major construction projects, difficulty in obtaining sufficient return on invested capital and in securing adequate rate increases when required, difficulty in meeting earnings coverage requirements in mortgages and charters, high costs and licensing and other delays associated with compliance with environmental and nuclear regulations, changes in regulatory climate, prudence audits and the effects of inflation and other factors on the costs of operations and construction expenditures. GULF and the other operating affiliates have been experiencing certain of these problems in varying degrees and GULF is unable to predict the future effect of these or other factors upon its operations and financial condition. The electric utility industry is expected to become increasingly competitive in the future as a result of deregulation, competing technologies and other factors.

Construction Program

GULF is engaged in a continuous construction program to accommodate existing and estimated future loads on its system. Planned construction additions and/or acquisitions of property are expected to approximate \$69.2 million in

The average costs of fuel in cents per net kilowatthour generated for 1986 through 1988 are as follows:

	Average Costs of Fuel in Cents Per Net Kilowatthour Generated		
	1986	1987	1988
Coal	2.53	2.07	1.86
Oil and Gas	*	*	*
Weighted Average	2.55	2.08	1.86

*Not meaningful because of the minimal amount of oil and gas used as a source of generation.

GULF had on hand at its plants as of March 10, 1989, an estimated 64-day recoverable supply of coal, based on projected 1989 nameplate burn requirements. This estimate includes GULF's portion of the coal stockpile at Plant Daniel and at Plant Scherer (see Item 2 - PROPERTIES herein). It is estimated that approximately 3.7 million tons of coal will be consumed by GULF's generating units (including GULF's ownership interests in Plant Daniel and Plant Scherer) during 1989. GULF has contracts and commitments providing for coal in quantities which are adequate in the opinion of GULF's management, absent unforeseen emergencies.

In order to take advantage of lower cost coal supplies, MISSISSIPPI in December, 1986, terminated two contracts for the supply of coal to Plant Daniel. Payments totaling \$121 million were made to the suppliers. GULF is responsible for one-half of such payments as the owner of a 50% undivided interest, as a tenant in common, in Plant Daniel. This amount will be amortized on a per-ton basis to the cost of replacement coal through 1995 to match costs with savings achieved. As of December 31, 1988, GULF's remaining obligation for the contract terminations totaled \$50.7 million. MISSISSIPPI has signed contracts for 80% of the annual requirement at Plant Daniel. The remainder will come from spot market or additional long-term contract purchases.

In March, 1988, GULF entered into a contract which lowered its cost of coal. The contract required a \$60-million prepayment relating to coal deliveries to be received over the ensuing 10 years. The prepayment is being amortized to fuel expense over the life of the contract. At December 31, 1988, the unamortized amount of the prepayment totaled \$55.5 million.

The average price per ton of coal delivered during 1988 was approximately \$43. Changes in fuel prices are reflected in a fuel cost recovery clause contained in the rate schedules applicable to all energy sales. (See Item 1 - BUSINESS - "Rate Matters - Rate Structure" herein.)

Territory Served

The territory in which GULF provides electric service has an area of approximately 7,400 square miles with a population of approximately

675,000. The largest communities served are Pensacola, Panama City and Fort Walton Beach with estimated populations, including suburbs, of 257,000, 113,000 and 129,000, respectively.

During the year ended December 31, 1988, GULF derived approximately 37% of its revenues from residential sales, 21% from commercial sales, 14% from industrial sales and 28% from other sources, primarily sales to nonassociated utilities outside its service territory (see Item 1 - BUSINESS - "Off-System Power Sales" herein). During the same period, the percentages of total revenues from industry by industrial classification were: chemicals and allied products, 33%; government, 33%; oil and gas extraction, 8%; paper and allied products, 8%; and for all other industrial classifications, 18%.

Capacity and energy sales to Florida Power & Light Company, GULF's largest single customer, provided revenues of \$76.7 million during 1988, or 15.3% of GULF's total operating revenues.

Competition

Four electric cooperative associations, financed by the Rural Electrification Administration, operate within GULF's service area. Two of these cooperatives purchased a portion of their requirements from GULF during 1988. Sales to these two cooperative associations during the year amounted to 32.1 million kilowatthours, with related revenues of \$1.3 million. On May 31, 1988, these two cooperative associations began purchasing their full requirements from AEC.

A nonaffiliated utility also operates within GULF's service area. This utility purchases a portion of its requirements from GULF. For the year 1988, GULF's sales to this utility totaled 216.7 million kilowatthours, with related revenues of \$9.1 million. GULF also provides the requirements for one municipal system. This municipality in 1988 purchased 24.0 million kilowatthours from GULF, with related revenues of \$1.0 million.

GULF and AEC have entered into an interconnection agreement which provides for interconnection at two points between the respective electric systems and provides the terms and conditions of power supply between the parties, including provisions for supply of short-term power, economy energy transactions and emergency service. In addition, transmission service is also supplied by GULF to AEC. The rates for such services are based on a formula approach which results in the charges being updated annually. GULF's rates for service to AEC are subject to FERC approval.

GULF has a contract with SEPA (a federal marketing agency) providing for the use of GULF's facilities at government expense to deliver to certain cooperatives, entitled by statute to preference in the purchase of power from SEPA, quantities of power equivalent to the amounts of power allocated to them by SEPA from certain United States Government hydroelectric projects. GULF also purchases certain amounts of capacity from SEPA pursuant to such contract.

GULF and its operating affiliates may experience increasing competition for available off-system sales of capacity and energy as neighboring utilities add significant amounts of generating capacity and as the costs of

alternative sources of energy decline. Additionally, the future effect of cogeneration and small-power production facilities on GULF's system cannot currently be determined but may be adverse.

The competition for retail energy sales among competing suppliers of energy is influenced by various factors, including price, availability, technological advancements and reliability. These factors are, in turn, affected by, among other influences, political and environmental considerations, taxation and supply.

Regulation

State Commission - GULF is subject to the jurisdiction of the Florida PSC which has broad powers of supervision and regulation over public utilities operating in Florida, including their rates, sales of securities and service regulations.

Holding Company Act - SOUTHERN is registered as a holding company under the Holding Company Act and it and its subsidiary companies, including GULF, are subject to the regulatory provisions of the Act, including provisions relating to the issuance of securities, sales and acquisitions of securities and utility assets and services performed by the system service company.

Federal Power Act - The Federal Power Act subjects GULF to regulation by the FERC as a company engaged in the transmission or sale at wholesale of electric energy in interstate commerce, including regulation of accounting policies and practices.

Environmental Regulation - GULF is subject to federal, state and local air and water quality requirements which, among other things, control emissions of particulates, sulfur dioxide and nitrogen oxides into the air; transportation, storage and disposal of hazardous and toxic wastes; and discharges of pollutants, including thermal discharges, into waters of the United States. GULF expects to comply with such requirements, which generally are becoming increasingly stringent, through appropriate combinations of low sulfur fuel and chemicals, addition of environmental control facilities, changes in control techniques and reduction of the operating levels of generating facilities. Failure to comply with such requirements could result in the complete shutdown of individual generating units not in compliance, as well as the imposition of civil and criminal penalties.

GULF's capital expenditures for pollution control facilities were approximately \$5.7 million in 1986, \$7.8 million in 1987 and \$4.3 million in 1988. GULF estimates that its capital expenditures for such facilities, which are included in its current construction program, responsive to specific environmental requirements will be approximately \$4.4 million in 1989, \$6.3 million in 1990 and \$1.1 million in 1991.

Changes in environmental regulations could substantially increase GULF's capital requirements and operating costs. Passage of acid rain legislation or the tightening of existing regulations governing power plant emissions has a significant chance of occurring by the end of 1989. Legislation amending the Clean Water Act; the Resource Conservation and

Recovery Act; the Comprehensive Environmental Response, Compensation, and Liability Act; and the Emergency Planning and Community Right-to-Know Act affects many areas of the SOUTHERN system's operations, including the generation, transmission, and distribution of electric energy. The full impact of these requirements cannot be determined at this time, pending the development and implementation of applicable regulations. In 1985, the EPA promulgated air quality control regulations related to stack height requirements of the Clean Air Act. The U.S. Court of Appeals for the District of Columbia Circuit issued a decision in litigation concerning the EPA's stack height rules in January, 1988. The decision, which the U.S. Supreme Court has declined to review, remands the matter to the EPA for reconsideration of certain of the stack height rules. At this time, the impact of the court's decision on final rules and the ultimate impact on GULF cannot be determined.

GULF has received for each of its operating plants all state and federal air and water quality permits, licenses or variances presently necessary for their operation. GULF continues to meet current air quality standards of the State of Florida pursuant to air operating permits.

GULF cannot determine at this time what additional steps it may be required to take as a result of the implementation of existing or future quality control requirements for air, water and hazardous or toxic materials, but such steps could adversely affect GULF's operations and result in substantial additional costs.

Rate Matters

Rate Structure - The rates and service regulations of GULF are uniform for each class of retail service throughout its service area. All of GULF's system-wide rates contain provisions for increasing or decreasing the amounts billed to customers by the amount of any changes in local taxes assessed against the service, and adjustments, up or down, for any fluctuations in the cost of fuel or the energy component of purchased power. The fuel cost recovery clause is based on a uniform formula ordered by the Florida PSC for all electric utility companies in the State of Florida. This clause provides for a six-month projected cost of fuel and purchased power and the true-up, including interest, in a succeeding six-month period of the difference between projected and actual costs, and is subject to a public hearing procedure requiring prior approval of a change in the level of the adjustment factor.

GULF's standard residential rate and general service non-demand rate are in straight-line meter form, each with a stated customer charge and summer-winter differentials. GULF's general service demand and large power service rates contain flat demand and energy charges with a separately stated customer charge. GULF makes available optional time-of-use rates for all classes of metered retail service.

Rate Proceedings - On November 14, 1988, GULF filed with the Florida PSC a request to increase retail revenues by approximately \$25.8 million annually effective February 1, 1989. The Florida PSC is expected to render a decision by the fall of 1989.

Off-System Power Sales

GULF and its operating affiliates (excluding SAVANNAH) have entered into unit power sales contracts with Jacksonville Electric Authority and Florida Power & Light Company and, beginning in 1994, Florida Power Corporation regarding sales of capacity from specific coal-fired generating plants. GULF's portion of these capacity sales comes from its ownership interests in Plant Scherer and, through January, 1989, Plant Daniel. Sales will fluctuate from 511 megawatts in January, 1989, to between 149 and 201 megawatts from February, 1989 through May, 1995, and, unless reduced by the customers after the year 1999, to 212 megawatts thereafter through 2010, when the contracts expire. Similar contracts for these capacity sales and other long-term power sales were entered into with Gulf States but subsequently suspended as discussed below. GULF's revenues under unit power sales contracts in 1988 were approximately \$101.6 million (including \$33.9 million of associated energy charges, which were substantially offset by energy expense).

The operating affiliates of SOUTHERN also have a contract with the City of Tallahassee, Florida, for the sale of other long-term power from system fossil units on a system availability basis. This contract expires in 2000. During 1988 approximately 20.0 million kilowatthours were sold by GULF under other long-term power contracts, providing revenues of approximately \$1.4 million (including \$404,000 of associated energy charges, which were substantially offset by energy expense).

On July 2, 1986, Gulf States filed suit in the United States District Court for the Eastern District of Texas against GULF, the other operating affiliates (other than SAVANNAH) and the system service company. The complaint seeks a judgment declaring that Gulf States is excused from further obligation under its unit power and other long-term power sales contracts with GULF and its operating affiliates and an award to Gulf States for unspecified damages. Gulf States alleges, among other things, that GULF and the other defendants failed to renegotiate in good faith to reduce the amount of capacity purchases under the contracts and engaged in fraudulent conduct in entering into the contracts. The court permitted Gulf States to make payments due under the contracts by depositing funds with the court pending the outcome of the suit. Subsequently, Gulf States received orders from the Texas and Louisiana PSCs disallowing the recovery of the capacity charges under these contracts. As a result of these actions, Gulf States advised SOUTHERN's operating affiliates that capacity charges applicable to these jurisdictions would not be deposited with the court or paid to SOUTHERN's operating affiliates. Because of Gulf States' refusal to pay, the operating affiliates suspended performance under the contracts effective July 1, 1988. Revenues recorded after July 1, 1988, do not include any amounts for sales to Gulf States under these contracts. On December 5, 1988, the operating affiliates filed a counterclaim against Gulf States in the proceeding seeking recovery of all past due payments and damages for breach of the contracts. The case is pending before the U. S. District Court in Texas.

In consolidated proceedings initiated by Gulf States and SOUTHERN's operating subsidiaries, the FERC in 1988 found the contracts not to be unjust or unreasonable, granted the declaratory relief sought by SOUTHERN

and its operating affiliates and dismissed the complaint filed by Gulf States. Gulf States has appealed this decision to the U. S. Court of Appeals for the District of Columbia Circuit. The FERC had previously ruled that it does not have jurisdiction over the question of whether SOUTHERN negotiated in good faith to reduce the amount of capacity purchases and engaged in fraudulent conduct in entering into the contracts.

Revenues for 1988, 1987 and 1986 include unit power and other long-term power sales to Gulf States amounting to \$11.5 million, \$22.4 million and \$17.6 million, respectively. Of these amounts some \$9.9 million, \$18.6 million and \$7.4 million, respectively, were deposited with the court or withheld by Gulf States. Because of disclosure in reports filed with the SEC by Gulf States concerning its financial condition, approximately \$6.2 million, \$10.5 million and \$1.2 million, after taxes, for 1988, 1987 and 1986, respectively, has been excluded from GULF's net income after dividends on preferred stock through charges to the provision for uncollectible accounts. In management's opinion, the outcome of the lawsuit will not have a material impact on GULF's financial statements (incorporated by reference herein); however, the ultimate outcome of this matter cannot now be determined.

See Item 1 - BUSINESS - "Territory Served" and "Operating Statistics" herein for additional information regarding nonterritorial energy sales.

Employee Relations

GULF had 1,601 employees on its payroll at December 31, 1988.

GULF has an agreement with a local union of the International Brotherhood of Electrical Workers. This agreement is applicable to certain employees in manual classifications. The agreement provides for rates of pay, hours of work and other conditions of employment for such employees. The agreement is a three-year contract extending to August 15, 1989. A separate agreement with the union subjects the terms of the pension plan of GULF to collective bargaining with the union at five-year intervals.

Operating Statistics

	Year Ended December 31,				
	1984	1985	1986	1987	1988
Electricity Generated and Received (Millions of Kilowatthours):					
Fuel generation - after station loss and use	8,264	8,552	8,457	11,470	11,209
Purchased and net interchanged energy:					
Associated companies	392	549	75	(1,986)	(1,609)
Others	(134)	44	188	49	45
Total	<u>8,522</u>	<u>9,145</u>	<u>8,720</u>	<u>9,533</u>	<u>9,645</u>
Electricity Disposed of (Millions of Kilowatthours):					
Energy sold	8,089	8,688	8,246	9,035	9,139
Company use and loss	433	457	474	498	506
Total	<u>8,522</u>	<u>9,145</u>	<u>8,720</u>	<u>9,533</u>	<u>9,645</u>
Cost of Energy Generated and Received (Thousands of Dollars):					
Fuel generation	\$248,927	\$270,975	\$254,602	\$280,366	\$253,669
Purchased and net interchanged energy:					
Associated companies	7,258	11,281	10,061	(27,628)	(21,010)
Others	(3,701)	1,632	4,531	1,791	1,415
Other production expenses	1,002	(3,677)	3,829	3,037	(3,451)
Total	<u>\$253,486</u>	<u>\$280,211</u>	<u>\$273,023</u>	<u>\$255,566</u>	<u>\$230,623</u>
Average Cost of Fuel per Net Kilowatthour Generated (Cents)					
	<u>2.60</u>	<u>2.70</u>	<u>2.55</u>	<u>2.08</u>	<u>1.86</u>
Sales (Millions of Kilowatthours):					
Residential	2,561	2,736	2,964	3,055	3,155
Commercial	1,559	1,777	1,913	1,986	2,088
Industrial	1,771	1,771	1,745	1,840	1,968
Sales for resale	317	346	315	316	273
Other	15	15	15	16	16
Total territorial energy sales	<u>6,223</u>	<u>6,645</u>	<u>6,952</u>	<u>7,213</u>	<u>7,500</u>
Nonterritorial energy sales	1,866	2,043	1,294	1,822	1,639
Total energy sales	<u>8,089</u>	<u>8,688</u>	<u>8,246</u>	<u>9,035</u>	<u>9,139</u>
Operating Revenues (Thousands of Dollars):					
Residential	\$174,302	\$186,415	\$200,725	\$199,701	\$184,036
Commercial	98,408	109,631	116,253	116,057	107,615
Industrial	83,538	81,621	79,873	80,295	72,634
Sales for resale	16,630	17,936	15,705	14,213	11,369
Other	1,334	1,346	1,343	1,357	1,402
Total revenues from territorial sales	<u>374,212</u>	<u>396,949</u>	<u>413,899</u>	<u>411,623</u>	<u>377,056</u>
Revenues from nonterritorial sales	90,172	108,853	91,187	120,243	106,044
Total revenues from sales	<u>464,384</u>	<u>505,802</u>	<u>505,086</u>	<u>531,866</u>	<u>483,100</u>
Other revenues	5,716	12,422	10,720	39	19,397
Total operating revenues	<u>\$470,100</u>	<u>\$518,224</u>	<u>\$515,806</u>	<u>\$531,905</u>	<u>\$502,497</u>
Customers (End of Period):					
Residential	217,138	227,845	235,329	241,138	246,450
Commercial	27,939	29,603	31,142	32,139	33,030
Industrial	177	183	197	206	206
Other	63	62	62	61	61
Total	<u>245,317</u>	<u>257,693</u>	<u>266,730</u>	<u>273,544</u>	<u>279,747</u>
Average Annual Use per Residential Customer (Kilowatthours)					
	<u>12,057</u>	<u>12,221</u>	<u>12,729</u>	<u>12,763</u>	<u>12,8</u>
Average Revenue per Kilowatthour (Cents):					
Residential	6.81	6.81	6.77	6.54	5.83
Commercial	6.31	6.17	6.08	5.84	5.15
Industrial	4.72	4.61	4.58	4.36	3.69
Total	<u>5.74</u>	<u>5.82</u>	<u>6.13</u>	<u>5.89</u>	<u>5.29</u>

Item 2. PROPERTIES

The location, type of fuel and nameplate capacity of GULF's generating stations as of December 31, 1988, are summarized as follows:

<u>Generating Station</u>	<u>Location</u>	<u>Nameplate Capacity (Kilowatts)</u>
<u>Fossil Steam Plants</u>		
Crist	Near Pensacola, Fla.	1,045,000
Lansing Smith	Near Panama City, Fla.	305,000
Scholz	Near Chattahoochee, Fla.	80,000
Daniel	Near Pascagoula, Miss.	500,000(1)
Scherer Unit No. 3	Near Macon, Ga.	204,500(2)
		<u>2,134,500</u>
<u>Gas Turbine</u>		
Lansing Smith Unit A	Near Panama City, Fla.	<u>39,400</u>
Total		<u>2,173,900</u>

(1) Owned by GULF and MISSISSIPPI as tenants in common in the proportion of 50% each. The capacity shown is GULF's portion.

(2) GULF and GEORGIA own this generating unit as tenants in common in the proportion of 25% and 75%, respectively. The capacity shown is GULF's portion.

Through December 31, 1988, the all-time maximum demand from customers of GULF was 1,677,800 kilowatts and occurred on August 1, 1986. The maximum demand for 1988, which occurred on June 28, was 1,613,200 kilowatts.

During the period from January 1, 1984, to December 31, 1988, GULF made gross property additions of \$503.7 million to, and property retirements of \$51.3 million from, its utility plant.

It is the opinion of the management of GULF that its operating properties are adequately maintained and are in good operating condition.

Titles to Property - GULF's interests in the steam-electric generating plants and other important units of GULF's property are owned in fee by GULF, subject only to the mortgage lien created by the Indenture dated as of September 1, 1941, between GULF and The Chase Manhattan National Bank (National Association) and The Citizens & Peoples National Bank of Pensacola, as Trustees, as supplemented and amended, and to excepted encumbrances as defined therein. GULF's electric transmission and distribution lines are constructed principally either under franchises or permits from governmental authorities or on rights of way held by GULF by easement from apparent owners.

Item 3. LEGAL PROCEEDINGS

Gulf States v. GULF, et al.
(U.S. District Court, Eastern District of Texas)

(See Item 1 - BUSINESS - "Off-System Power Sales" herein.)

See Item 1 - BUSINESS - "Rate Matters - Rate Proceedings" herein for a description of certain retail rate matters.

The United States Attorney for the Northern District of Georgia and the Internal Revenue Service are conducting an investigation of certain tax accounting practices of SOUTHERN's operating subsidiaries, including GULF. Management is informed that the investigation was initiated regarding tax accounting for emergency spare parts, but has been expanded to include other matters, including political contributions. The full extent of the investigation and its ultimate outcome cannot now be determined; however, in management's opinion, the outcome will not have a material effect on GULF's financial statements.

In late March, 1989 the SEC authorized entry of an order for a private investigation to determine whether SOUTHERN, its operating subsidiaries (except SAVANNAH) and SEGCO may have violated federal securities laws and the Holding Company Act in connection with certain disclosures in or omissions from securities offering materials, proxy statements, reports and documents filed with the SEC, and which were also provided to investors and others, relating to certain tax and financial accounting practices, spare parts accounting, tax deductions and liabilities, contingent liabilities and other matters affecting the net income and financial condition of SOUTHERN and its subsidiaries, maintenance of books and records, internal accounting controls and political contributions. Management believes that this investigation is related to the United States Attorney and the Internal Revenue Service investigations referred to in the preceding paragraph. The final outcome of this matter cannot now be determined; however, in management's opinion the outcome will not have a material adverse effect on GULF's financial statements.

Item 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

None.

PART II

Item 5. MARKET FOR REGISTRANT'S COMMON EQUITY AND RELATED STOCKHOLDER MATTERS

- (a) There is no market for GULF's common stock, all of which is owned by SOUTHERN.
- (b) Number of common stockholders at February 28, 1989:
One.
- (c) Common dividends are payable at the discretion of GULF's Board of Directors. The common dividends paid by GULF for the past two years were as follows:

(In Thousands)

March, 1987	\$8,500	March, 1988	\$8,600
June, 1987	8,600	June, 1988	8,900
September, 1987	8,500	September, 1988	8,900
December, 1987	8,600	December, 1988	9,000

The amount of common dividends that may be paid is restricted in accordance with GULF's first mortgage bond indenture and charter. At December 31, 1988, GULF had \$112,701,000 of earnings retained in the business, of which \$62,021,000 was restricted against the payment of cash dividends on common stock. (See Note 10 to the financial statements incorporated by reference herein.)

Item 6. SELECTED FINANCIAL DATA

Incorporated by reference to page numbers 18 and 19 in GULF's Annual Report to Stockholders for the year ended December 31, 1988.

Item 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Incorporated by reference to page numbers 20 through 22 in GULF's Annual Report to Stockholders for the year ended December 31, 1988.

Item 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

Incorporated by reference to page numbers 17 and 23 through 32 in GULF's Annual Report to Stockholders for the year ended December 31, 1988.

Item 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None.

PART III

Item 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT

(a) Identification of directors.

<u>Name</u>	<u>Age</u>	<u>Positions and Offices (Other than Director) Held With GULF</u>	<u>Served as Director Since</u>
D. L. McCrary	59	President	4-28-83
J. F. Horton	57	Senior Vice President	9-21-77
Edward L. Addison	58	None	3-20-78(1)
Reed Bell (2)	62	None	1-17-86
W. D. Hull, Jr. (2)	56	None	10-14-83
C. W. Ruckel (2)	61	None	4-20-62
J. K. Tannehill (2)	55	None	7-19-85
V. J. Whibbs, Sr. (2)	68	None	1-21-77

Notes to Item 10(a):

- (1) Previously served as a director of GULF from July, 1973, to June, 1977.
- (2) Member of 1989 Audit Committee.

Each of the above is currently a director of GULF, serving a term running from the last annual meeting of GULF's stockholder (June 28, 1988) for one year until the next annual meeting or until a successor is elected and qualified.

There are no arrangements or understandings between any of the individuals listed above and any other person pursuant to which he was or is to be selected as a director or nominee, other than any arrangements or understandings with directors or officers of GULF acting solely in their capacities as such.

(b) Identification of executive officers.

<u>Name</u>	<u>Age</u>	<u>Positions and Offices Held With GULF</u>	<u>Served as Executive Officer Since</u>
D. L. McCrary	59	President and Director	5-1-83
J. F. Horton	57	Senior Vice President and Director	7-27-72
B. F. Kickliter	59	Vice President - Division Operations	4-14-78
Earl B. Parsons, Jr.	50	Vice President - Electric Operations	4-14-78
A. E. Scarbrough	52	Vice President - Finance	9-21-77
Earl V. Lee	59	Controller	12-17-76
Bonnie B. Sprinkle	59	Corporate Secretary	10-19-84
Warren E. Tate	46	Treasurer	10-19-84

Each of the above is currently an officer of GULF, serving a term running from the last annual meeting of the directors (July 15, 1988), for one year until the next annual meeting or until his/her successor is elected and qualified.

There are no arrangements or understandings between any of the individuals listed above and any other person pursuant to which he was or is to be selected as an officer, other than any arrangements or understandings with directors or officers of GULF acting solely in their capacities as such.

(c) Identification of certain significant employees.

None.

(d) Family relationships.

None.

(e) Business experience. The following includes: (1) a brief account of the business experience during the past five years of each director, executive officer, and each person nominated or chosen to become a director or executive officer, including his principal occupations and employment during that period and the name and principal business of any corporation or other organization in which such occupations and employment were carried on; and (2) an indication of any other directorships held by each director or person nominated or chosen to become a director in any company with a class of securities registered pursuant to Section 12 of the Securities Exchange Act of 1934 or subject to the requirements of Section 15(d) of that Act or

any company registered as an investment company under the Investment Company Act of 1940, and directorships in certain other companies.

D. L. McCrary - Elected President and Chief Executive Officer in 1983; responsible primarily for formation of overall corporate policy. Director of SOUTHERN and Citizens & Builders Federal Savings Bank.

J. F. Horton - Elected Senior Vice President in 1975; responsible for appliance sales and service, marketing, employee relations, governmental affairs and economic development.

Edward L. Addison - President of SOUTHERN since 1983. Director of SOUTHERN, ALABAMA, GEORGIA, MISSISSIPPI, SAVANNAH, SEACO, Phelps Dodge Corporation, Protective Life Corporation, First Atlanta Corporation, The First National Bank of Atlanta and CSX Corporation.

Reed Bell - Medical Doctor, private practice. Previously he served with the U.S. Department of Health and Human Services, Olney, Maryland and as Medical Director, Sacred Heart Children's Hospital, Pensacola, Florida.

W. D. Hull, Jr. - President and Director of the SunCommercial Bank in Panama City, Florida.

C. W. Ruckel - Chairman of the Board of The Vanguard Bank and Trust Company and Vanguard Banks, Inc., Valparaiso, Florida. President and owner of Ruckel Properties, Inc., Valparaiso, Florida.

J. K. Tannehill - President and Chief Executive Officer of Stock Equipment Company, Chagrin Falls, Ohio. Director of Lynn Haven SunCommercial Bank, Lynn Haven, Florida.

V. J. Whibbs, Sr. - Chairman of the Board of Vince Whibbs Pontiac-GMC Trucks, Inc., Vince Whibbs Mazda Company, Pensacola, Florida. Director of Southwestern Dealers Insurance Co., SOUTHERN, GEORGIA, AmSouth Bank of Florida and AmSouth Bancorporation.

B. F. Kickliter - Elected Vice President - Division Operations in 1978; responsible for all division operations and general services of GULF.

Earl B. Parsons, Jr. - Elected Vice President - Electric Operations in 1978; responsible for electric operations, including production and distribution of electrical energy.

A. E. Scarbrough - Elected Vice President - Finance in 1980; responsible for all accounting and financial services of GULF.

Earl V. Lee - Elected Controller in 1980; responsible for the Controller's duties in accordance with the By-laws.

Bonnie B. Sprinkle - Elected Corporate Secretary in 1984; responsible for the Secretary's duties in accordance with the By-laws.

Warren E. Tate - Elected Treasurer in 1984. Also serves as Director of Information Services. Responsible for the Treasurer's duties in accordance with the By-laws and the information services function of the company.

- (f) Involvement in certain legal proceedings.
None.

Item 11. EXECUTIVE COMPENSATION

(a) Cash compensation. The following table gives the aggregate compensation of the five most highly compensated executive officers whose cash compensation exceeds \$60,000 and all executive officers of GULF as a group for services in all capacities for GULF for the year 1988:

<u>Name of Individual or Number in Group</u>	<u>Capacities in which Served</u>	<u>Cash Compensation(1)</u>
D. L. McCrary	President and Director	\$ 379,860
Earl B. Parsons, Jr.	Vice President	177,021
J. F. Horton	Senior Vice President and Director	161,461
A. E. Scarbrough	Vice President	148,343
B. F. Kickliter	Vice President	146,233
All Executive Officers as a Group (8 persons)		\$1,261,103

Note to Item 11(a):

(1) Included in this column are salaries, the vested amounts of GULF's contributions for 1988 to the Employee Savings Plan, awards made pursuant to the Productivity Improvement Program and amounts accrued during 1988 under the separate supplemental benefit plans, as described herein.

Employee Savings Plan

The Employee Savings Plan permits eligible employees who elect to participate to contribute, or have contributed by their employing company or their behalf, any whole percentage - but not more than 16 percent - of their compensation on an after-tax basis and/or a before-tax basis. Contributions of up to six percent of the participant's compensation are supplemented by matching contributions by the employing company in an amount ranging from 50 to 75 percent, based on length of service. The total before-tax contributions made on behalf of a participant under the plan and all other 401(k) plans, simplified employee pension plans, and 403(b) annuity plans in which he participates, could not exceed \$7,313 in 1988. The Internal Revenue Code imposes additional restrictions on the amount of contributions

that may be contributed by or on behalf of certain "highly compensated employees" as defined by the Internal Revenue Code. Participants are fully vested in all amounts contributed to the plan.

Employee Stock Ownership Plan

In 1977, the SOUTHERN system implemented an Employee Stock Ownership Plan. Under the plan as amended effective January 1, 1987, the employing companies may make tax deductible contributions to the plan in an amount or under such formula determined at the sole discretion of Southern Company Services, Inc. Such contributions are used to purchase shares of common stock of SOUTHERN for the respective accounts of eligible employees and are allocated to the accounts of participants in proportion to their compensation. Participants are fully vested in all amounts contributed to the plan. No contributions were made under the plan in 1988.

Productivity Improvement Plan

Upon recommendation of the SOUTHERN'S Compensation Committee, the boards of directors of SOUTHERN and its subsidiaries adopted a Productivity Improvement Plan, effective January 1, 1982. This plan is designed to provide certain key employees with incentives to achieve goals which will have a direct and significant influence on corporate performance. Eligibility to participate in the plan depends upon the level of position held. For the year 1988, six executive officers of GULF participated in the plan.

Cash awards may be granted to a participant under the plan based on the individual performance component, which rewards achievement of individual objectives, and the corporate financial component, which rewards achievement of corporate objectives. Awards under the two components are computed and granted independently. No awards will be made under either component unless SOUTHERN's earnings are sufficient to pay the current dividend. No awards will be made under the corporate financial component unless the dividend is earned throughout the four-year computation period. Also SOUTHERN's return on its common equity must meet certain criteria relative to that achieved by a peer group of other electric utilities in the Southeastern United States before awards may be granted.

Individual performance component awards may be made annually and are based on the degree that individual objectives are achieved in the preceding year. These objectives are set annually for each participant and are tailored to the job responsibilities. A performance component award potential ranges from zero to 20 percent of the individual's salary range midpoint. Actual awards within this range are based on the degree of achievement of objectives and SOUTHERN's return on common equity relative to that of the peer group companies. The amount available for all individual awards is limited to a maximum of 10 percent of the total salary range midpoints of all participants. A participant may receive payment of the award after each calendar year or may defer receipt until termination of employment with the SOUTHERN system.

Awards under the corporate financial component may be made annually. The computations are based on consecutive overlapping four-calendar-year periods. The award potential under this component ranges in eight gradations from five to 50 percent of salary range midpoint, based upon the individual's job level. The amount paid to participants depends on SOUTHERN's return on common equity ranking with respect to the peer group companies. A participant may receive payment after the computation period or may defer receipt until termination of employment with the SOUTHERN system.

Pursuant to the plan as amended effective January 1, 1988, in the discretion of the Compensation Committee, awards may be calculated without regard to certain expenses incurred by SOUTHERN system companies, except for the single calendar year determined by the Compensation Committee. The Compensation Committee determined that the expense incurred by SOUTHERN as a result of the write-off in 1987 of \$229 million (after taxes) of the cost of Plant Vogtle would be considered in calculating awards paid only in calendar year 1988 and therefore was not considered in calculating awards paid in calendar year 1989.

Executive Stock Plan

The Southern Company Executive Stock Plan was approved by SOUTHERN's stockholders at the 1988 annual stockholders meeting. The plan is administered by the Compensation Committee of the board of directors of SOUTHERN. The Committee is permitted to grant, in its discretion, Incentive Stock Options and Nonqualified Stock Options (collectively, "Stock Options"), Stock Appreciation Rights, and/or Restricted Stock to certain key employees of the SOUTHERN system recommended by the president of SOUTHERN and approved by the Committee. In 1988, three GULF executive officers participated in the plan. The plan will terminate December 7, 1997, unless terminated sooner by SOUTHERN's board of directors.

Stock Options must be paid in full when exercised by the participant. The Committee, in its discretion, may permit the option price to be paid in whole or in part through the transfer to SOUTHERN of shares of SOUTHERN's common stock previously acquired by the participant; provided, however, that the shares transferred must have been held by the participant for longer than six months and no Restricted Stock may be transferred as payment.

A total of 3 million shares of common stock is available for grants by the Committee under the plan. The Committee initially granted Nonqualified Stock Options only; however, the other types of awards provided for in the plan may be granted in the future. The maximum number of shares of common stock that a participant may purchase under such a Stock Option is based on the participant's base salary level. Participants may be granted the option to purchase up to the number of shares of common stock having a total fair market value on the date of the grant ranging from 50 to 135 percent of a participant's base salary level.

The grants made in 1988 will become 25 percent vested one year from the date granted and will vest 25 percent per year, thereafter, until fully vested. Participants also will become fully vested upon their termination

of employment with the SOUTHERN system by reason of death, disability, or retirement. The Committee may eliminate all vesting requirements in the event applicable accounting principles require that the Stock Options be charged against the earnings of SOUTHERN in the year in which they are granted.

The table below presents information with respect to nonqualified Stock Options granted in 1988. The price at which the options may be exercised is \$21.75 per share. No options were granted in 1988 in tandem with Stock Appreciation Rights.

<u>Person or Group</u>	<u>Number of Shares</u>
D. L. McCrary	6,527
Earl B. Parsons, Jr.	2,132
J. F. Horton	1,561
3 Executive Officers as a group	10,220

(b) Compensation pursuant to plans. GULF provides its employees with pension benefits under a separate pension plan. A separate supplemental benefit plan was adopted effective January 1, 1983. This plan provides benefits which are restricted from being paid under any of the qualified defined contribution and defined benefit plans as a result of limitations set forth under Sections 401(a)(17), 401(k), 401(m), 402(g) and 415 of the Internal Revenue Code.

The following table sets forth the estimated combined annual pension benefits under the pension and supplemental benefit plans in effect during 1988 which are payable by GULF to employees upon retirement at the normal retirement age after designated periods of accredited service and at a specified compensation level. As of December 31, 1988, the applicable compensation level for Messrs. McCrary, Parsons, Horton, Scarbrough and Kickliter would have been \$283,920, \$142,656, \$135,792, \$122,748 and \$122,628, respectively. As of December 31, 1988, Messrs. McCrary, Parsons, Horton, Scarbrough and Kickliter have 34, 26, 31, 25 and 37 years, respectively, of accredited service under the pension plan of GULF.

Years of Accredited Service Under Plans	<u>Estimated Pension Benefits</u>				
	Estimated Annual Life Annuity Payable at Normal Retirement Date Based on Indicated Salary(1) (Before Reduction for Social Security Offset)				
	<u>\$100,000</u>	<u>\$200,000</u>	<u>\$300,000</u>	<u>\$400,000</u>	<u>\$500,000</u>
10 ...	16,000	32,000	48,000	64,000	80,000
20 ...	32,000	64,000	96,000	128,000	160,000
30 ...	48,000	96,000	144,000	192,000	240,000
40 ...	64,000	128,000	192,000	256,000	320,000

- (1) Employee compensation covered by the pension and supplemental benefit plans for pension purposes is limited to base salaries and wages.

The amounts shown in the foregoing table were calculated pursuant to the terminal pay formula and are based on a single life annuity without reduction for joint and survivor annuities (although married employees are required to have their pension benefits paid in one of various joint and survivor annuity forms, unless the employee elects otherwise with his/her spouse's consent) or computation of the Social Security offset which would apply in most cases. This offset amounts to one-half of the estimated Social Security benefit (primary insurance amount) in excess of \$168 per month times the number of years of accredited service, divided by the total possible years of accredited service to the normal retirement age.

(c) Other compensation.

None.

(d) Compensation of directors. (1) During 1988, directors of GULF were compensated at the rate of \$8,000 per year, plus \$500 for each meeting of the board of directors attended, and, on authorization by the board of directors, \$500 for each meeting attended as a member of a committee of the board of directors, except that employee directors received no fees or compensation for service as a member of the board of directors or any board committee. (2) No director received compensation for services as a director during the year ending December 31, 1988, in addition to or in lieu of that specified by the standard arrangements specified above.

(e) Termination of employment and change of control arrangement.

None.

Item 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

(a) Security ownership of certain beneficial owners.

<u>Title of Class</u>	<u>Name and Address of Beneficial Owner</u>	<u>Amount and Nature of Beneficial Ownership</u>	<u>Percent of Class</u>
Common Stock	The Southern Company 64 Perimeter Center East Atlanta, Georgia 30346	992,717 Shares Directly	100%

(b) Security ownership of management. The following table shows the number of shares of SOUTHERN common stock and GULF preferred stock owned by the directors, nominees and officers as of December 31, 1988. It is based on information furnished by the directors, nominees and officers. The shares owned by all directors, nominees and officers as a group constitute less than one percent of the total number of shares of the respective classes outstanding on December 31, 1988.

<u>Name of Director or Nominee or Number of Persons in Group</u>	<u>Title of Class</u>	<u>Number of Shares Beneficially Owned(1)</u>
D. L. McCrary	SOUTHERN Common	20,922 shares
J. F. Horton	SOUTHERN Common	8,564 shares
Edward L. Addison	SOUTHERN Common	21,849 shares
W. D. Hull, Jr.	SOUTHERN Common	500 shares
J. K. Tannehill	SOUTHERN Common	2,000 shares
V. J. Whibbs, Sr.	SOUTHERN Common	1,380 shares
The 14 Directors, Nominees and Officers as a Group	SOUTHERN Common GULF Preferred	94,968 shares 15 shares

Note to Item 12(b):

(1) As used in this table, "beneficial ownership" means the sole or shared power to vote, or to direct the voting of, a security and/or investment power with respect to a security (i.e., the power to dispose of, or to direct the disposition of, a security).

(c) Changes in control.

GULF knows of no arrangements which may at a subsequent date result in a change in control of GULF.

Item 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

(a) Transactions with management and others. During 1988, GULF paid a total of \$344,792 for equipment and supplies to Stock Equipment Company, a company in which Mr. Tannehill, a director of GULF, serves as President and Chief Executive Officer.

(b) Certain business relationships.
None.

(c) Indebtedness of management.
None.

(d) Transactions with promoters.
None.

PART IV

Item 14. EXHIBITS, FINANCIAL STATEMENT SCHEDULES, AND REPORTS ON FORM 8-K

(a) The following documents are filed as a part of this report on Form 10-K:

(1) The financial statements listed below are incorporated by reference to page numbers 17 and 23 through 32 in GULF's Annual Report to Stockholders for the year ended December 31, 1988:

Report of Independent Public Accountants
Balance Sheets at December 31, 1988 and 1987
Statements of Capitalization at December 31, 1988 and 1987
Statements of Income for the Years Ended December 31, 1988, 1987 and 1986
Statements of Earnings Retained in the Business for the Years Ended December 31, 1988, 1987 and 1986
Statements of Other Paid-in Capital for the Years Ended December 31, 1988, 1987 and 1986
Statements of Cash Flows for the Years Ended December 31, 1988, 1987 and 1986
Notes to Financial Statements

(2) Financial Statement Schedules:

Report of Independent Public Accountants on Schedules
V Utility Plant, Including Intangibles
VI Accumulated Provision for Depreciation of Utility Plant
VIII Valuation and Qualifying Accounts and Reserves
IX Short-term Borrowings
X Supplementary Income Statement Information

Schedules I through XIII not listed above are omitted as not applicable or not required.

(3) Exhibits:

Exhibit
Number

- 3(a) - Articles of Incorporation of GULF and amendments thereto through October 22, 1982. (Designated in Registration No. 2-63764 as Exhibit 2(a)-2, in Registration No. 2-65199 as Exhibit 2(a)-3, in Certificate of Notification, File No. 70-6383, as Exhibit F and in Certificate of Notification, File No. 70-6747, as Exhibits A and B.)
- 3(b) - By-laws of GULF as amended effective April 16, 1986, and as presently in effect. (Designated in Form 10-K for the year ended December 31, 1986, File No. 0-2429 as Exhibit 3(b).)

(3) Exhibits: (Continued)

Exhibit
Number

- 4 - Indenture dated as of September 1, 1941, between GULF and The Chase Manhattan Bank (National Association) and The Citizens & Peoples National Bank of Pensacola, as Trustees, and indentures supplemental thereto through June 1, 1987. (Designated in Registration No. 2-4833 as Exhibit B-3, in Registration No. 2-62319 as Exhibit 2(a)-3, in Registration No. 2-63765 as Exhibit 2(a)-3, in Registration No. 2-66260 as Exhibit 2(a)-3, in Registration No. 33-2809 as Exhibit 4(a)-2, in Certificate of Notification, File No. 70-7132, as Exhibit D and in Certificate of Notification, File No. 70-7374, as Exhibit A.)
- 10(a) - Service contracts dated as of January 1, 1984, between Southern Company Services, Inc. and ALABAMA, GEORGIA, GULF, MISSISSIPPI, SEGC0 and SOUTHERN. (Designated in SOUTHERN's Form 10-K for the year ended December 31, 1984, File No. 1-3526, as Exhibit 10(a).)
- 10(b) - Interchange contract dated October 28, 1988, effective January 1, 1989, between ALABAMA, GEORGIA, GULF, MISSISSIPPI, SAVANNAH and Southern Company Services, Inc. (Designated in SAVANNAH's Form 10-K for the year ended December 31, 1988, File No. 1-5072, as Exhibit 10(b).)
- 10(c)(1) - Plant Robert W. Scherer Unit No. Three Purchase and Ownership Participation Agreement dated as of March 1, 1984, between GEORGIA and GULF. (Designated in Form U-1, File No. 70-6573, as Exhibit B-4.)
- 10(c)(2) - Amendment Number One to the Plant Robert W. Scherer Unit Number Three Purchase and Ownership Participation Agreement between GEORGIA and GULF, dated as of July 1, 1986. (Designated in SOUTHERN's Form 10-K for the year ended December 31, 1987, File No. 1-3526 as Exhibit 10(c)(2).)
- 10(c)(3) - Plant Robert W. Scherer Unit No. Three Operating Agreement dated as of March 1, 1984, between GEORGIA and GULF. (Designated in Form U-1, File No. 70-6573, as Exhibit B-5.)

(3) Exhibits: (Continued)

Exhibit
Number

- 10(d)(1) - Amended and Restated Unit Power Sales Agreement dated February 18, 1982, between Florida Power & Light Company and ALABAMA, GEORGIA, GULF, MISSISSIPPI and Southern Company Services, Inc. (Designated in MISSISSIPPI's Form 10-K for the year ended December 31, 1981, File No. 0-6849, as Exhibit 10(c)(2).)
- 10(d)(2) - Amendment No. 1, dated May 18, 1982, to Amended and Restated Unit Power Sales Agreement, dated February 18, 1982, between Florida Power & Light Company and ALABAMA, GEORGIA, GULF, MISSISSIPPI and Southern Company Services, Inc. (Designated in GEORGIA's Form 10-K for the year ended December 31, 1982, File No. 1-6468, as Exhibit 10(r)(3).)
- 10(e)(1) - Amended and Restated Unit Power Sales Agreement dated May 19, 1982, between Jacksonville Electric Authority and ALABAMA, GEORGIA, GULF, MISSISSIPPI and Southern Company Services, Inc. (Designated in GEORGIA's Form 10-K for the year ended December 31, 1982, File No. 1-6468, as Exhibit 10(s)(2).)
- 10(e)(2) - Amendment No. 1, dated August 30, 1984, to Amended and Restated Unit Power Sales Agreement, dated May 19, 1982, between Jacksonville Electric Authority and ALABAMA, GEORGIA, GULF, MISSISSIPPI and Southern Company Services, Inc. (Designated in SOUTHERN's Form 10-K for the year ended December 31, 1984, File No. 1-3526, as Exhibit 10(r)(2).)
- 10(f)(1) - Unit Power Sales Agreement dated February 25, 1982, between Gulf States Utilities Company and ALABAMA, GEORGIA, GULF, MISSISSIPPI and Southern Company Services, Inc. (Designated in MISSISSIPPI's Form 10-K for the year ended December 31, 1981, File No. 0-6849, as Exhibit 10(e).)
- 10(f)(2) - Amendment No. 1, dated May 12, 1982, to Unit Power Sales Agreement, dated February 25, 1982, between Gulf States Utilities Company and ALABAMA, GEORGIA, GULF, MISSISSIPPI and Southern Company Services, Inc. (Designated in GEORGIA's Form 10-K for the year ended December 31, 1982, File No. 1-6468, as Exhibit 10(t)(2).)

(3) Exhibits: (Continued)

Exhibit
Number

- 10(f)(3) - Amendment No. 2, dated December 6, 1983, to Unit Power Sales Agreement, dated February 25, 1982, between Gulf States Utilities Company and ALABAMA, GEORGIA, GULF, MISSISSIPPI and Southern Company Services, Inc. (Designated in GEORGIA's Form 10-K for the year ended December 31, 1983, File No. 1-6468, as Exhibit 10(t)(3).)
- 10(g) - Unit Power Sales Agreement dated July 19, 1988, between Florida Power Corporation and ALABAMA, GEORGIA, GULF, MISSISSIPPI, SAVANNAH and Southern Company Services, Inc. (Designated in SAVANNAH's Form 10-K for the year ended December 31, 1988, File No. 1-5072 as Exhibit 10(d).)
- 10(h) - Unit Power Sales Agreement dated July 20, 1988, between Florida Power & Light Company and ALABAMA, GEORGIA, GULF, MISSISSIPPI, SAVANNAH and Southern Company Services, Inc. (Designated in SAVANNAH's Form 10-K for the year ended December 31, 1988, File No. 1-5072 as Exhibit 10(e).)
- 10(i) - Unit Power Sales Agreement dated August 17, 1988, between Jacksonville Electric Authority and ALABAMA, GEORGIA, GULF, MISSISSIPPI, SAVANNAH and Southern Company Services, Inc. (Designated in SAVANNAH's Form 10-K for the year ended December 31, 1988, File No. 1-5072 as Exhibit 10(f).)
- 10(j) - Agreement between Gulf and AEC, effective August 1, 1985. (Designated in Form 10-K for the year ended December 31, 1985, File No. 0-2429 as Exhibit 10(g).)
- 13 - Copy of Annual Report to Stockholders of GULF for the year ended December 31, 1988.
- 25 - Power of Attorney and resolution.

Exhibits listed above which have heretofore been filed with the SEC, and which were designated as noted above, are hereby incorporated herein by reference and made a part hereof with the same effect as if filed herewith.

(b) No reports on Form 8-K were filed during the fourth quarter of 1988.

ARTHUR ANDERSEN & CO.

ATLANTA, GEORGIA

REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS ON SCHEDULES

To Gulf Power Company:

We have audited in accordance with generally accepted auditing standards, the financial statements included in Gulf Power Company's annual report to stockholders incorporated by reference in this Form 10-K, and have issued our report thereon dated February 10, 1989. Our audits were made for the purpose of forming an opinion on those statements taken as a whole. The schedules listed under Item 14(a)(2) are presented for purposes of complying with the Securities and Exchange Commission's rules and are not part of the basic financial statements. These schedules have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, fairly state in all material respects the financial data required to be set forth therein in relation to the basic financial statements taken as a whole.

ARTHUR ANDERSEN & CO.

February 10, 1989.

GULF POWER COMPANY

SCHEDULE V--UTILITY PLANT, INCLUDING INTANGIBLES

FOR THE YEAR ENDED DECEMBER 31, 1988
(Stated in Thousands of Dollars)

Col. A	Col. B	Col. C	Col. D	Col. E	Col. F
Classification	Balance at Beginning of Period	Additions at Cost	Retirements (Note 1)	Other Changes --Debit or (Credit) (Note 2)	Balance at End of Period
Electric plant:					
Plant in service--					
Intangibles--					
Organization	\$ 7	\$ -	\$ -	\$ -	\$ 7
Franchises and consents	1	-	-	-	1
Production plant--					
Steam	797,450	8,094	11,431	(2,213)	791,900
Other	4,150	2	-	-	4,152
Transmission plant	106,352	5,971	617	1,471	113,177
Distribution plant	325,037	20,955	4,961	2,390	343,421
General plant--					
Transportation equipment	13,900	1,541	668	7	14,780
Other	85,745	4,483	54	(1,273)	88,901
Construction work in progress	10,113	25,514	-	(6,055)	29,572
Plant held for future use	3,014	482	-	(337)	3,159
Electric plant acquisition	(3)	-	-	8,428	8,425
Total utility plant	<u>\$1,345,766</u>	<u>\$67,042</u>	<u>\$17,731</u>	<u>\$ 2,418</u>	<u>\$1,397,495</u>

Notes:

(1) Retirements charged to accumulated provision for depreciation (Schedule VI).

(2) The net debit of other changes represents:

Transfers to plant in service	\$ 5,689
Transfers from construction work in progress	(5,689)
Transfer to electric plant acquisition adjustment	8,680
Transfer from electric plant purchased	(8,680)
Transfer to nonutility property	(1,414)
Amortization of electric plant acquisition adjustment	(252)
Adjustment for depreciation of electric plant purchased	3,796
Miscellaneous adjustments	288
	<u>\$ 2,418</u>

GULF POWER COMPANY

SCHEDULE V--UTILITY PLANT, INCLUDING INTANGIBLES

FOR THE YEAR ENDED DECEMBER 31, 1987
(Stated in Thousands of Dollars)

Col. A	Col. B	Col. C	Col. D	Col. E	Col. F
Classification	Balance at Beginning of Period	Additions at Cost	Retirements (Note 1)	Other Changes --Debit or (Credit) (Note 2)	Balance at End of Period
Electric plant:					
Plant in service--					
Intangibles--					
Organization	\$ 7	\$ -	\$ -	\$ -	\$ 7
Franchises and consents	1	-	-	-	1
Production plant--					
Steam	604,190	43,283	3,502	153,479	797,450
Other	4,150	-	-	-	4,150
Transmission plant	99,507	3,459	453	3,839	106,352
Distribution plant	295,052	19,663	3,537	13,859	325,037
General plant--					
Transportation equipment	12,223	2,128	451	-	13,900
Other	47,674	14,610	1,076	24,537	85,745
Construction work in progress	188,966	13,616	-	(192,469)	10,113
Plant held for future use	6,177	752	-	(3,915)	3,014
Electric plant acquisition	10	-	-	(13)	(3)
Total utility plant	<u>\$1,257,957</u>	<u>\$97,511</u>	<u>\$9,019</u>	<u>\$ (683)</u>	<u>\$1,345,766</u>

Notes:

(1) Retirements charged to accumulated provision for depreciation (Schedule VI).

(2) The net credit of other changes represents:

Transfers to plant in service	\$ 192,203
Transfers from construction work in progress	(192,203)
Miscellaneous adjustments	(683)
	<u>\$ (683)</u>

GULF POWER COMPANY

SCHEDULE V--UTILITY PLANT, INCLUDING INTANGIBLES

FOR THE YEAR ENDED DECEMBER 31, 1986
(Stated in Thousands of Dollars)

Col. A	Col. B	Col. C	Col. D	Col. E	Col. F
Classification	Balance at Beginning of Period	Additions at Cost	Retirements (Note 1)	Other Changes --Debit or (Credit) (Note 2)	Balance at End of Period
Electric plant:					
Plant in service--					
Intangibles--					
Organization	\$ 7	\$ -	\$ -	\$ -	\$ 7
Franchises and consents	1	-	-	-	1
Production plant--					
Steam	595,415	7,048	3,144	4,871	604,190
Other	4,198	-	42	(6)	4,150
Transmission plant	98,683	1,178	269	(85)	99,507
Distribution plant	274,656	17,243	2,957	6,110	295,052
General plant--					
Transportation equipment	11,970	1,635	1,459	77	12,223
Other	38,035	4,799	450	5,290	47,674
Construction work in progress	148,969	57,378	-	(17,381)	188,966
Plant held for future use	6,392	879	-	(1,094)	6,177
Electric plant acquisition	22	-	-	(12)	10
Total utility plant	<u>\$1,178,348</u>	<u>\$90,160</u>	<u>\$8,321</u>	<u>\$ (2,230)</u>	<u>\$1,257,957</u>

Notes:

(1) Retirements charged to accumulated provision for depreciation (Schedule VI).

(2) The net credit of other changes represents:

Transfers to plant in service	\$ 17,174
Transfers from construction work in progress	(17,174)
FERC audit adjustment	(1,759)
Miscellaneous adjustments	(471)
	<u>\$ (2,230)</u>

GULF POWER COMPANY

SCHEDULE VI--ACCUMULATED PROVISION FOR DEPRECIATION OF UTILITY PLANT

FOR THE YEAR ENDED DECEMBER 31, 1988
(Stated in Thousands of Dollars)

Col. A	Col. B	Col. C			Col. D		Col. E	Col. F
Description	Balance at Beginning of Period	Additions			Deductions		Other Changes --Debit or (Credit) (Note 4)	Balance at End of Period
		Amounts Charged to			Retirements, Renewals and Replacements (See Note 1, Schedule V)	Removal Lost		
		Operating Expenses (Note 2)	Other Accounts (Note 3)	Salvage Recoveries				
Accumulated provision for depreciation:								
Electric plant--								
Production plant--								
Steam	\$231,567	\$28,383	\$ 503	\$2,273	\$11,431	\$ 865	\$(3,701)	\$254,131
Other	3,131	77	-	-	-	-	-	3,208
Transmission plant	42,945	3,327	-	-	617	220	3,928	41,507
Distribution plant	96,024	13,468	-	1,142	4,961	2,286	(3,608)	106,995
General plant--								
Transportation equipment	4,183	-	1,195	120	668	-	(346)	5,176
Other	10,398	4,308	94	2	54	16	229	14,503
Total accumulated provision for depreciation	<u>\$388,248</u>	<u>\$49,563</u>	<u>\$1,792</u>	<u>\$3,537</u>	<u>\$17,731</u>	<u>\$3,387</u>	<u>\$(3,498)</u>	<u>\$425,520</u>

Notes:

(1) See Note 1 to financial statements incorporated by reference herein for the policy of GULF with respect to depreciation.

(2) Amounts charged to electric operation as "Depreciation and amortization" on the statements of income are as follows:

Depreciation	\$49,563
Amortization of deferred investment tax credit	(2,285)
Amortization of preliminary survey and investigation charges	252
	<u>\$47,530</u>

(3) Represents provisions applicable to the following:

Coal car depreciation	\$ 503
Transportation equipment charged to transportation expense clearing account	1,195
Merchandise and appliance service	94
	<u>\$1,792</u>

(4) The net credit of other changes represents prior year adjustments (salvage, correcting entries, etc.).

GULF POWER COMPANY

SCHEDULE VI--ACCUMULATED PROVISION FOR DEPRECIATION OF UTILITY PLANT

FOR THE YEAR ENDED DECEMBER 31, 1987
(Stated in Thousands of Dollars)

Col. A	Col. B	Col. C			Col. D		Col. E	Col. F
Description	Balance at Beginning of Period	Additions			Deductions		Other Changes --Debit or (Credit) (Note 4)	Balance at End of Period
		Amounts Charged to			Retirements, Renewals and Replacements (See Note 1, Schedule V)			
		Operating Expenses (Note 2)	Other Accounts (Note 3)	Salvage Recoveries	Removal Cost			
Accumulated provision for depreciation:								
Electric plant--								
Production plant--								
Steam	\$208,082	\$27,316	\$ 485	\$ 3	\$3,502	\$ 837	\$(20)	\$231,567
Other	2,846	285	-	-	-	-	-	3,131
Transmission plant	40,483	3,021	-	-	453	106	-	42,945
Distribution plant	86,829	13,514	-	940	3,537	1,754	(32)	96,024
General plant--								
Transportation equipment	3,331	-	1,190	112	450	-	-	4,183
Other	8,546	2,928	94	48	1,077	111	30	10,398
Total accumulated provision for depreciation	<u>\$350,117</u>	<u>\$47,064</u>	<u>\$1,769</u>	<u>\$1,103</u>	<u>\$9,019</u>	<u>\$2,808</u>	<u>\$(22)</u>	<u>\$388,248</u>

Notes:

(1) See Note 1 to financial statements incorporated by reference herein for the policy of GULF with respect to depreciation.

(2) Amounts charged to electric operation as "Depreciation and amortization" on the statements of income are as follows:

Depreciation	\$47,064
Amortization of deferred investment tax credit	(2,445)
	<u>\$44,619</u>

(3) Represents provisions applicable to the following:

Coal car depreciation	\$ 485
Transportation equipment charged to transportation expense clearing account	1,190
Merchandise and appliance service	94
	<u>\$1,769</u>

(4) The net credit of other changes represents prior year adjustments (salvage, correcting entries, etc.).

GULF POWER COMPANY

SCHEDULE VI--ACCUMULATED PROVISION FOR DEPRECIATION OF UTILITY PLANT

FOR THE YEAR ENDED DECEMBER 31, 1986
(Stated in Thousands of Dollars)

Col. A	Col. B	Col. C			Col. D		Col. E	Col. F
Description	Balance at Beginning of Period	Additions			Deductions		Other Changes --Debit or (Credit) (Note 4)	Balance at End of Period
		Amounts Charged to			Retirements, Renewals and Replacements (See Note 1, Schedule V)	Removal Cost		
		Operating Expenses (Note 2)	Other Accounts (Note 3)	Salvage Recoveries				
Accumulated provision for depreciation:								
Electric plant--								
Production plant--								
Steam	\$190,790	\$21,395	\$ 485	\$ 57	\$3,144	\$ 799	\$ 702	\$208,082
Other	2,605	288	-	-	42	-	5	2,846
Transmission plant	37,552	3,528	-	3	268	143	189	40,483
Distribution plant	77,457	14,071	-	780	2,958	1,187	1,334	86,829
General plant--								
Transportation equipment	3,081	-	1,185	524	1,459	-	-	3,331
Other	6,823	2,097	68	5	450	20	(23)	8,546
Total accumulated provision for depreciation	<u>\$318,308</u>	<u>\$41,379</u>	<u>\$1,738</u>	<u>\$1,369</u>	<u>\$8,321</u>	<u>\$2,149</u>	<u>\$2,207</u>	<u>\$350,117</u>

Notes:

(1) See Note 1 to financial statements incorporated by reference herein for the policy of GULF with respect to depreciation.

(2) Amounts charged to electric operation as "Depreciation and amortization" on the statements of income are as follows:

Depreciation	\$41,379
Amortization of deferred investment tax credit	(1,993)
	<u>\$39,386</u>

(3) Represents provisions applicable to the following:

Coal car depreciation	\$ 485
Transportation equipment charged to transportation expense clearing account	1,185
Merchandise and appliance service	68
	<u>\$1,738</u>

(4) The net debit of other changes represents prior year adjustments (salvage, correcting entries, etc.).

GULF POWER COMPANY

SCHEDULE VIII--VALUATION AND QUALIFYING ACCOUNTS AND RESERVES

FOR THE YEAR ENDED DECEMBER 31, 1988
(Stated in Thousands of Dollars)

Col. A	Col. B	Col. C	Col. D	Col. E
Description	Balance at Beginning of Period	Additions		Balance at End of Period
		Charged to Income	Charged to Other Accounts	
			Deductions	
Deducted in the balance sheet from the asset to which it applies:				
Provision for uncollectible accounts:				
Gulf States	\$20,940	\$ 9,943	\$ -	\$30,883
Other	813	1,545	1,334 (1)	1,024
	<u>21,753</u>	<u>11,488</u>	<u>1,334</u>	<u>31,907</u>
Included in the current liabilities section of the balance sheet:				
Provision for injuries and damages	642	1,200	-	923
Included in the deferred credit section of the balance sheet:				
Provision for property insurance	3,770	1,200	-	4,970
Provision for pensions and benefits	-	-	-	-

Notes:

(1) Represents write-off of accounts considered to be uncollectible,
less recoveries of amounts previously written off.

(2) The deductions from this reserve were charged to:

Operations	\$918
Utility Plant	1
	<u>\$919</u>

GULF POWER COMPANY

SCHEDULE VIII--VALUATION AND QUALIFYING ACCOUNTS AND RESERVES

FOR THE YEAR ENDED DECEMBER 31, 1987
(Stated in Thousands of Dollars)

Col. A	Col. B	Col. C	Col. D	Col. E
<u>Description</u>	<u>Balance at Beginning of Period</u>	<u>Additions</u>		<u>Balance at End of Period</u>
		<u>Charged to Income</u>	<u>Charged to Other Accounts</u>	
			<u>Deductions</u>	
Deducted in the balance sheet from the asset to which it applies:				
Provision for uncollectible accounts				
Gulf States	\$2,437	\$18,503	\$ -	\$20,940
Other	617	1,848	-	813
	<u>3,054</u>	<u>20,351</u>	<u>-</u>	<u>21,753</u>
Included in the current liabilities section of the balance sheet:				
Provision for injuries and damages	2,107	1,200	-	642
Included in the deferred credit section of the balance sheet:				
Provision for property insurance	2,824	1,200	-	3,770
Provision for pensions and benefits	<u>354</u>	<u>-</u>	<u>-</u>	<u>-</u>

Notes:

(1) Represents write-off of accounts considered to be uncollectible,
less recoveries of amounts previously written off.

(2) Represents various claims and suits charged against the reserve.

GULF POWER COMPANY

SCHEDULE VIII--VALUATION AND QUALIFYING ACCOUNTS AND RESERVES

FOR THE YEAR ENDED DECEMBER 31, 1986
(Stated in Thousands of Dollars)

Col. A	Col. B	Col. C	Col. D	Col. E
Description	Balance at Beginning of Period	Additions		Balance at End of Period
		Charged to Income	Charged to Other Accounts	
			Deductions	
Deducted in the balance sheet from the asset to which it applies:				
Provision for uncollectible accounts				
Gulf States	\$ -	\$2,437	\$ -	\$2,437
Other	461	1,276	1,120 (1)	617
	<u>461</u>	<u>3,713</u>	<u>1,120</u>	<u>3,054</u>
Included in the current liabilities section of the balance sheet:				
Provision for injuries and damages	3,115	1,200	2,208 (2)	2,107
Included in the deferred credit section of the balance sheet:				
Provision for property insurance	3,138	1,200	1,514	2,824
Provision for pensions and benefits	<u>232</u>	<u>122</u>	<u>-</u>	<u>354</u>

Notes:

(1) Represents write-off of accounts considered to be uncollectible,
less recoveries of amounts previously written off.

(2) The deductions from this reserve were charged to:

Operations
Utility plant

\$2,207
1
\$2,208

GULF POWER COMPANY

SCHEDULE IX--SHORT-TERM BORROWINGS

DECEMBER 31, 1988, 1987 AND 1986
(Stated in Thousands of Dollars)

	<u>Col. A</u>	<u>Col. B</u>	<u>Col. C</u>	<u>Col. D</u>	<u>Col. E</u>	<u>Col. F</u>
	<u>Category of Aggregate Short-term Borrowings</u>	<u>Balance at End of Period</u>	<u>Weighted Average Interest Rate</u>	<u>Maximum Amount Outstanding During This Period</u>	<u>Average Amount Outstanding During This Period(1)</u>	<u>Weighted Average Interest Rate During the Period(1)</u>
IV-15	<u>1988</u> Notes Payable to Banks	-	-	\$20,000	\$2,374	7.67%
	<u>1987</u>			---NONE---		
	<u>1986</u> Notes Payable to Banks	\$1	7.50%	\$7,500	\$1,460	7.25%

Notes:

- (1) Average based on daily borrowings during period (averages and rates quoted on an actual day year basis).
- (2) See Note 3 to the financial statements incorporated by reference herein for details regarding GULF's lines of credit and general terms of commitment agreements.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

GULF POWER COMPANY

By D. L. McCrary, President

By Wayne Boston
(Wayne Boston, Attorney-in-fact)

Date: March 24, 1989

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

<u>Signature</u>	<u>Title</u>	<u>Date</u>
D. L. McCrary	President and Director (Principal Executive Officer)	
A. E. Scarbrough	Vice President - Finance (Principal Financial and Accounting Officer)	
E. L. Addison		
Reed Bell		
J. F. Horton	Directors	
W. D. Hull, Jr.		
C. W. Ruckel		
J. K. Tannehill		
V. J. Whibbs, Sr.		

By Wayne Boston
(Wayne Boston, Attorney-in-fact)

March 24, 1989

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

☒ QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934

For the Quarter Ended September 30, 1989

OR

☐ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934

For the Transition Period from to

Commission File Number 0-2429

GULF POWER COMPANY

(Exact name of registrant as specified in its charter)

Maine
(State or other jurisdiction of
incorporation or organization)

59-0276810
(IRS Employer Identification Number)

500 Bayfront Parkway, Pensacola, Florida
(Address of principal executive offices)

32501
(Zip Code)

(904) 464-6111
(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports); and (2) has been subject to such filing requirements for the past 90 days: Yes ☒ No ☐

Common stock, no par value — 892,767 shares outstanding as of October 1, 1989

GULF POWER COMPANY
INDEX TO QUARTERLY REPORT ON FORM 10-Q
September 30, 1989

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GULF POWER COMPANY

MANAGEMENT'S OPINION AS TO FAIR STATEMENT OF RESULTS

The condensed financial statements included herein have been prepared by Gulf Power Company (GULF), without audit, pursuant to the rules and regulations of the Securities and Exchange Commission (SEC). As more fully discussed in Note (C) to the Condensed Financial Statements herein, an uncertainty exists with respect to a civil suit filed against GULF. In the opinion of management, subject to the effect of such adjustments, if any, resulting from the uncertainty, the information furnished herein reflects all adjustments (which included only normal recurring adjustments) necessary to present fairly the results for the periods ended September 30, 1989 and 1988. Certain information and footnote disclosures normally included in financial statements prepared in accordance with generally accepted accounting principles have been condensed or omitted pursuant to such rules and regulations, although GULF believes that the disclosures are adequate to make the information presented not misleading. It is suggested that these condensed financial statements be read in conjunction with the financial statements and the notes thereto included in GULF's latest annual report to stockholders as incorporated and filed with Form 10-K.

GULF POWER COMPANY

CONDENSED STATEMENTS OF INCOME (UNAUDITED)
(Stated in Thousands of Dollars)

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,		For the Twelve Months Ended September 30,	
	1989	1988	1989	1988	1989	1988
OPERATING REVENUES	\$144,059	\$144,061	\$375,836	\$385,985	\$492,348	\$492,137
OPERATING EXPENSES:						
Operation--						
Fuel	58,183	61,234	140,580	169,161	180,141	218,963
Purchased and interchanged power, net	1,885	(1,320)	5,497	(23,168)	9,069	(32,098)
Other	12,513	11,551	48,887	57,371	73,084	79,859
Maintenance	8,073	8,833	30,461	27,187	45,192	40,120
Depreciation and amortization	12,436	12,127	36,722	35,566	48,687	47,133
Taxes, other than income taxes	7,725	6,917	21,825	19,934	28,979	26,304
Federal and state income taxes	12,153	12,821	22,726	24,804	24,161	24,507
Total operating expenses	112,968	112,163	306,698	310,855	409,313	404,788
OPERATING INCOME	31,091	31,898	69,138	75,130	83,035	87,349
OTHER INCOME (EXPENSE):						
Allowance for equity funds used during construction	34	110	109	419	147	618
Other, net	(83)	157	71	322	103	1,684
INCOME BEFORE INTEREST CHARGES	31,042	32,165	69,318	75,871	83,285	89,651
INTEREST CHARGES:						
Interest on long-term debt	9,150	9,234	27,535	27,728	36,769	37,042
Allowance for debt funds used during construction	(60)	(153)	(193)	(588)	(413)	(710)
Amortization of debt discount, premium and expense, net	147	147	440	440	587	585
Other interest charges	385	348	1,155	1,215	1,578	1,580
Net interest charges	9,622	9,576	28,937	28,795	38,521	38,497
NET INCOME	21,420	22,589	40,381	47,076	44,764	51,154
DIVIDENDS ON PREFERRED STOCK	1,406	1,439	4,227	4,328	5,655	5,822
NET INCOME AFTER DIVIDENDS ON PREFERRED STOCK (See Notes)	\$ 20,014	\$ 21,150	\$ 36,154	\$ 42,748	\$ 39,109	\$ 45,332

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() Denotes red figure.

The accompanying notes are an integral part of these condensed statements.

GULF POWER COMPANY

CONDENSED STATEMENTS OF CASH FLOWS (UNAUDITED)
(Stated in Thousands of Dollars)

	For the Nine Months Ended September 30,	
	1989	1988
OPERATING ACTIVITIES:		
Net income	\$ 40,381	\$ 47,076
Adjustments to reconcile net income to net cash provided by operating activities--		
Depreciation and amortization	48,113	43,663
Deferred income taxes	3,730	9,181
Allowance for equity funds used during construction	(109)	(419)
Other, net	(5,310)	6,821
Changes in current assets and liabilities--		
(Increase) decrease receivables, net	(9,133)	4,736
(Increase) decrease fuel stock	15,853	(14,565)
Increase materials and operating supplies	(186)	(3,074)
Increase (decrease) operating accounts payable	3,293	(6,076)
Increase (decrease) other, net	9,639	(2,715)
Net cash provided from operating activities	<u>106,271</u>	<u>84,628</u>
INVESTING ACTIVITIES:		
Gross property additions	(50,379)	(46,404)
Adjustments to gross property additions, net	2,554	(715)
Changes in construction payables	(4,500)	(3,487)
Deferred coal contract costs	-	(60,000)
Other investing activities	498	(2,705)
Net cash used in investing activities	<u>(51,827)</u>	<u>(113,311)</u>
FINANCING ACTIVITIES:		
Proceeds:		
First mortgage bonds	-	35,000
Pollution control bonds	-	3,677
Capital contributions from parent company	7,000	25,000
Add (deduct): Bond discount and debt expenses, net	17	(224)
Redemptions:		
Preferred stock	(500)	(1,000)
First mortgage bonds	(8,146)	(8,000)
Other long term debt	(4,080)	(4,707)
Payment of common stock dividends	(27,900)	(26,400)
Payment of preferred stock dividends	(4,222)	(4,328)
Net cash provided from (used in) financing activities	<u>(37,831)</u>	<u>19,018</u>
NET INCREASE (DECREASE) IN CASH AND TEMPORARY CASH INVESTMENTS	16,613	(9,665)
CASH AND TEMPORARY CASH INVESTMENTS AT BEGINNING OF PERIOD	<u>14,242</u>	<u>40,226</u>
CASH AND TEMPORARY CASH INVESTMENTS AT END OF PERIOD	<u>\$ 30,855</u>	<u>\$ 30,561</u>
SUPPLEMENTAL CASH FLOW INFORMATION:		
Cash paid during the period for:		
Interest (net of amount capitalized)	\$ 27,337	\$ 25,558
Income taxes	12,162	4,704

The accompanying notes are an integral part of these condensed statements.

GULF POWER COMPANY

CONDENSED BALANCE SHEETS
(Stated in Thousands of Dollars)ASSETS

	At September 30, 1989 (Unaudited)	At December 31, 1988
UTILITY PLANT:		
Plant in service, at original cost	\$1,421,832	\$1,367,923
Less accumulated provision for depreciation	455,310	425,520
Net plant in service	966,522	942,403
Construction work in progress	13,860	29,572
Total	980,382	971,975
Less property-related accumulated deferred income taxes	184,665	178,657
Total	795,717	793,318
OTHER PROPERTY AND INVESTMENTS	6,258	6,756
CURRENT ASSETS:		
Cash	215	292
Temporary cash investments, at cost which approximates market	30,640	13,950
Receivables--		
Customer accounts receivable	47,448	34,615
Accrued utility revenues	10,126	11,310
Affiliated companies	7,827	6,784
Other accounts receivable	34,447	33,904
Accumulated provision for uncollectible accounts	(31,265)	(31,907)
Refundable income tax	-	4,745
Materials and supplies, at average cost--		
Fuel stock	45,627	61,480
Materials and operating supplies	33,178	32,992
Fuel cost under recovery	4,097	1,218
Prepayments	2,360	3,577
Vacation pay deferred	1,178	3,340
Total	185,878	176,300
DEFERRED CHARGES:		
Debt expense, being amortized	3,158	3,281
Unamortized loss on reacquired debt	6,654	6,892
Deferred coal contract termination costs	99,764	106,263
Miscellaneous	7,377	4,415
Total	116,953	120,851
TOTAL ASSETS	\$1,104,806	\$1,097,225

The accompanying notes are an integral part of these condensed statements

GULF POWER COMPANY
CONDENSED BALANCE SHEETS
(Stated in Thousands of Dollars)

CAPITALIZATION AND LIABILITIES

	At September 30, 1989 <u>(Unaudited)</u>	At December 31, 1988
CAPITALIZATION:		
Common stock equity--		
Common stock (without par value)--authorized and outstanding 992,717 shares	\$ 38,060	\$ 38,060
Other paid-in capital	214,150	207,150
Premium on preferred stock	399	399
Earnings retained in the business	120,961	112,701
	<u>373,570</u>	<u>358,310</u>
Preferred stock	55,162	55,162
Preferred stock subject to mandatory redemption	12,250	12,750
Long-term debt	487,488	497,069
Total	<u>928,470</u>	<u>923,291</u>
CURRENT LIABILITIES:		
Preferred stock to be redeemed within one year	1,250	1,250
Long-term debt due within one year	12,455	15,005
Accounts payable--		
Affiliated companies	11,700	8,360
Other	16,688	21,235
Customer deposits	15,728	15,316
Taxes accrued--		
Federal and state income	5,676	4,061
Other	13,119	6,622
Interest accrued	12,442	10,247
Vacation pay accrued	1,178	3,340
Miscellaneous	2,889	2,748
Total	<u>93,125</u>	<u>88,184</u>
DEFERRED CREDITS AND OTHER LIABILITIES:		
Accumulated deferred income taxes	15,839	17,678
Accumulated deferred investment tax credits	50,691	52,451
Accumulated provision for property insurance	5,792	4,970
Miscellaneous	10,889	10,651
Total	<u>83,211</u>	<u>85,750</u>
TOTAL CAPITALIZATION AND LIABILITIES	<u>\$1,104,806</u>	<u>\$1,097,225</u>

The accompanying notes are an integral part of these condensed statements.

GULF POWER COMPANY

NOTES TO CONDENSED FINANCIAL STATEMENTS:

- (A) On November 14, 1988, GULF filed with the Florida Public Service Commission (FPSC) a request to increase retail revenues by approximately \$25.8 million annually. On June 12, 1989, GULF withdrew its request for permanent and interim rate relief before the FPSC. This action was taken because of the current atmosphere created by the investigation discussed in Note (C) below. GULF intends to file a new request for an increase in rates at a later date. On June 28, 1989, the FPSC opened a limited proceeding to investigate alleged "irregularities" at GULF that were primarily related to matters discussed in Note (C) below.
- (B) Reference is made to Item 1 - BUSINESS - "Off-System Power Sales" in GULF's Annual Report on Form 10-K for the year ended December 31, 1988, for a description of the proceedings related to suits filed by Gulf States Utilities Company (Gulf States) and The Southern Company's (SOUTHERN) operating affiliates concerning off-system capacity and energy sales contracts. In consolidated proceedings initiated by Gulf States and SOUTHERN's operating subsidiaries, the Federal Energy Regulatory Commission in 1988 found the contracts not to be unjust or unreasonable, granted the declaratory relief sought by SOUTHERN's operating subsidiaries and dismissed the complaint filed by Gulf States. This decision has been affirmed by the U. S. Court of Appeals for the District of Columbia Circuit.

Because of disclosure in reports filed with the SEC by Gulf States concerning its financial condition, the withheld revenues, after taxes, have been excluded from net income after dividends on preferred stock as shown below. (in thousands)

	Period Ended September 30, 1988	
	<u>9 Months</u>	<u>12 Months</u>
Total Revenues	\$11,532	\$16,506
Revenues Withheld	9,943	14,449
Provision for Uncollectible Accounts	9,943	14,449
Excluded From Net Income After Dividends on Preferred Stock	6,201	8,758

In management's opinion, the outcome of the lawsuit will not have a material impact on GULF's Condensed Financial Statements; however, the ultimate outcome of this matter cannot now be determined.

GULF POWER COMPANY

NOTES TO CONDENSED FINANCIAL STATEMENTS: (Continued)

- (C) Reference is made to Item 3 - LEGAL PROCEEDINGS in GULF's Annual Report on Form 10-K for the year ended December 31, 1988, for information regarding an investigation being conducted by the United States Attorney for the Northern District of Georgia and the Internal Revenue Service (IRS) regarding tax accounting for spare parts and other matters, including political contributions, and the related SEC investigation. See PART II - Item 1 - "Legal Proceedings" herein for a discussion of GULF's guilty plea and fine of \$500,000.

See also PART II - Item 1 - "Legal Proceedings" herein for a discussion of (1) a civil suit filed against GULF and other parties that relate to the aforementioned investigations and (2) the possibility of Arthur Andersen & Co. (AA & Co.), GULF's independent accountants, being required to call attention to this uncertainty at the time of their audit of GULF's 1989 financial statements.

GULF POWER COMPANY

MANAGEMENT'S DISCUSSION AND ANALYSIS OF RESULTS OF OPERATIONS AND FINANCIAL CONDITION

Results of Operations

Net Income---

GULF's net income after dividends on preferred stock for the third quarter of 1989 was \$20.0 million, compared to the \$21.2 million recorded in the third quarter of 1988. The decrease in earnings is due primarily to an increase in operating expenses.

Revenues--

Revenues for the third quarter of 1989 were virtually unchanged from the corresponding period of 1988. Despite relatively mild summer temperatures, retail energy sales increased 3.8% due primarily to an expanding economy within GULF's service territory. Capacity revenues from non-territorial customers decreased in accordance with the contracts. The average revenue per kilowatthour of total sales increased from 4.83 cents for the third quarter of 1988 to 5.18 cents during the corresponding period of 1989.

Expenses--

Fuel expenses in the third quarter of 1989 decreased, compared to the third quarter of 1988, due to a 15.8% decrease in generation, partially offset by an increase in the unit cost of fuel. The average cost of fuel per kilowatthour generated increased from 1.90 cents in the third quarter of 1988 to 2.14 cents in the third quarter of 1989. Generation decreased because, compared to the third quarter of 1988, a greater amount of lower cost generation was available from affiliated companies. During the current year, affiliated companies began commercial operation of three large base load generating units. Maintenance expenses decreased because of the greater amount of scheduled maintenance performed on GULF's generating units during the third quarter of 1988.

Allowance for Funds Used During Construction--

The allowance for funds used during construction (AFUDC) represents the cost of capital charged to utility plant under construction which is not included in rate base. The equity portion of AFUDC represents non-cash income. However, the normalization of the income tax effect of the debt portion currently results in a non-cash charge to income. In addition, when facilities are completed and included in rate base, previously capitalized amounts significantly increase current cash flows since revenues are higher because of increased rate base and additional depreciation expense. AFUDC, net of income taxes, as a percent of net income after dividends on preferred stock amounted to 0.4% in the third quarter of 1989, compared to 1.1% in the third quarter of 1988.

GULF POWER COMPANY

MANAGEMENT'S DISCUSSION AND ANALYSIS OF RESULTS OF OPERATIONS AND FINANCIAL CONDITION

Results of Operations (Continued)

Future Earnings Potential---

The results of operations discussed above are not necessarily indicative of future earnings. It is expected that higher operating costs and carrying charges on increased investment in plant, if not offset by proportionate increases in operating revenues (either by periodic rate increases or increases in sales), will adversely affect future earnings. Future earnings will also depend upon sales of capacity to non-affiliated utilities and growth in energy sales which will be subject to a number of factors, including energy conservation practiced by customers, the elasticity of demand, weather and the rate of economic growth in the service area. See Notes (A) and (C) to the Condensed Financial Statements herein for information regarding the respective issues of GULF's petition for a retail rate increase and the subsequent withdrawal of this petition and the resolution of the investigation by the IRS and U. S. Attorney as it relates to GULF. The fine of \$500,000 referred to Note (C) was charged against earnings in October, 1989.

The dedication of substantial amounts of Plant Daniel and Plant Scherer generating capacity and the associated operating expenses to GULF's retail customers will adversely affect GULF's earnings until GULF obtains adequate retail rate recognition.

Also, the Financial Accounting Standards Board has issued new rules for accounting for income taxes which are expected to be implemented in 1991. These rules will require that deferred taxes be provided on the equity component of AFUDC. These rules also require the adjustment of accumulated deferred income tax balances to reflect changes in income tax laws and rates. The accounting for and impact on net income related to these adjustments will depend greatly on future ratemaking treatment. Depreciation-related deferred income taxes will continue to be reversed over the lives of the related assets because of the requirements of the Tax Reform Act of 1986. Other deferred income taxes will be reversed in accordance with regulatory ratemaking treatment.

Financial Condition

The major change in GULF's financial condition during the first nine months of 1989 was gross property additions of \$50.4 million. The principal sources of funds for these additions and the maturity or redemption of \$12.7 million of long-term debt and preferred stock were funds provided from operations and capital contributions by the parent company. See the Condensed Statements of Cash Flows for further details.

GULF's common equity ratio at September 30, 1989, was 40.2%, compared to 38.8% at December 31, 1988.

GULF POWER COMPANY

MANAGEMENT'S DISCUSSION AND ANALYSIS OF RESULTS OF OPERATIONS AND FINANCIAL CONDITION

Financial Condition (Continued)

GULF's gross property additions are estimated to total approximately \$205 million for the three years 1989 through 1991 (\$73 million in 1989, \$68 million in 1990 and \$64 million in 1991). The construction program is subject to revision because of factors such as the granting of timely and adequate rate increases, new estimates of increased costs, revised load projections and the availability and cost of capital.

Changes in environmental regulations could substantially increase GULF's capital requirements and operating costs. Passage of acid rain legislation or the tightening of existing regulations governing power plant emissions has a significant chance of occurring. Legislation amending the Clean Water Act; the Resource Conservation and Recovery Act; the Comprehensive Environmental Response, Compensation, and Liability Act, and the Emergency Planning and Community Right-to-Know Act affects many areas of GULF's operations, including the generation, transmission, and distribution of electric energy. The full impact of these requirements cannot be determined at this time, pending the development and implementation of applicable regulations. In 1985, the Environmental Protection Agency (EPA) promulgated air quality control regulations related to stack height requirements of the Clean Air Act. The U.S. Court of Appeals for the District of Columbia Circuit issued a decision in litigation concerning the EPA's stack height rules in January, 1988. The decision, which the U.S. Supreme Court has declined to review, remands the matter to the EPA for reconsideration of certain of the stack height rules. At this time, the impact of the court's decision on final rules and the ultimate impact on GULF cannot be determined.

The Tax Reform Act of 1986 will significantly decrease the amount of capital provided through investment tax credits and deferred income taxes compared with amounts in prior years. Although lower tax rates initially reduce the amount of revenues required to earn a specified return on investment, the cost of the increased capital requirements will ultimately exceed the benefits of reduced tax rates, resulting in higher revenue requirements. These factors will also reduce interest and preferred stock dividend coverage ratios.

In addition to the funds required for the construction program, \$13.7 million will be required by September 30, 1990, in connection with maturities of long-term debt and preferred stock subject to mandatory redemption.

At September 30, 1989, GULF had \$30.9 million of cash and temporary cash investments and \$49.6 million of unused credit arrangements with banks to meet its short-term cash needs. These credit arrangements may not be used in their entirety without additional regulatory approval. GULF had no short-term bank borrowings outstanding at September 30, 1989.

GULF POWER COMPANY

MANAGEMENT'S DISCUSSION AND ANALYSIS OF
RESULTS OF OPERATIONS AND FINANCIAL CONDITION

Financial Condition (Continued)

It is anticipated that the funds required for construction and other purposes will be derived primarily from internal sources. Although no financings are planned, for any future financings GULF must comply with certain earnings coverage requirements contained in its mortgage indenture and corporate charter. On the basis of the requirements contained in its mortgage indenture and corporate charter, GULF's mortgage coverage (2.00 required) and charter coverage (1.50 required) at September 30, 1989, were 3.05 and 1.69, respectively. The amount of securities which GULF will be permitted to issue in the future will depend upon market conditions and other factors prevailing at that time.

GULF POWER COMPANY

PART II - OTHER INFORMATION

Item 1. Legal Proceedings.

- (a) On October 31, 1989, pursuant to an agreement with the U. S. Attorney for the Northern District of Georgia, GULF entered a guilty plea to a two-count information charging that GULF conspired (1) to make political contributions in violation of the Public Utility Holding Company Act of 1935 and (2) to impede the IRS in its collection of income taxes. The U. S. Attorney charged that, through the payment of false or inflated invoices submitted by vendors, GULF reimbursed such vendors for payments they had made to political candidates and certain others at the direction of GULF. In accordance with the plea agreement, GULF paid a fine in the amount of \$500,000, which will reduce its net income by that amount. The plea agreement provides that GULF's plea resolves and concludes any criminal liability that GULF may have for acts committed up to the date of the plea arising out of, or in any way related to any matters in any way connected with any investigations as of such date.

GULF's guilty plea arises from a continuing investigation by the U. S. Attorney and the IRS of certain tax accounting practices and other matters, as described in Item 3 - LEGAL PROCEEDINGS of GULF's Annual Report on Form 10-K for the year ended December 31, 1988, to which reference is hereby made.

- (b) On July 10, 1989, a civil complaint was filed in the U. S. District Court for the Northern District of Florida against GULF, SOUTHERN, Southern Company Services, Inc., Alabama Power Company, Georgia Power Company, Mississippi Power Company and AA & Co. The complaint alleges that GULF obtained excessive rate increases by improper accounting for spare parts and unlawful payments to government officials. The plaintiff seeks actual damages estimated to be in excess of \$10 million, plus treble and punitive damages, on behalf of all ratepayers of GULF for alleged violations of the Federal Racketeer Influenced and Corrupt Organizations Act, federal and state antitrust laws, and other federal and state statutes and common law fraud. A motion to dismiss this action has been filed.

This suit is related to certain matters currently under investigation by the U. S. Attorney for the Northern District of Georgia, the IRS and the SEC as discussed in Note (C) to the Condensed Financial Statements herein. While GULF's management believes that it has not overcharged its customers, the outcome of this lawsuit cannot now be determined. AA & Co. has informed GULF that if this uncertainty still exists at the time of its audit of GULF's annual financial statements, its opinion on such statements will call attention to this uncertainty.

GULF POWER COMPANY

PART II - OTHER INFORMATION

Item 1. Legal Proceedings. (Continued)

- (c) Reference is made to Note (A) to the Condensed Financial Statements herein for information regarding GULF's voluntary withdrawal of its request for a retail rate increase.

Item 6. Exhibits and Reports on Form 8-K.

(a) Exhibits.

Exhibit 25 - Power of Attorney and resolution. (Designated in GULF's Form 10-K for the year ended December 31, 1988, File No. 0-2429, as Exhibit 25, and incorporated herein by reference.)

(b) Reports on Form 8-K.

GULF filed a Form 8-K dated July 10, 1989, in connection with a civil complaint filed by a retail ratepayer in the U. S. District Court for the Northern District of Florida against GULF. For further discussion of this matter see Item 1 - "Legal Proceedings" herein.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

GULF POWER COMPANY

By Douglas L. McCrary, President

By A. E. Scarbrough, Vice President - Finance
(Principal Financial and Accounting Officer)

By /s/ Wayne Boston
(Wayne Boston, Attorney-in-fact)

Date: November 10, 1989

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

☒ QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934

For the Quarter Ended June 30, 1989

OR

☐ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934

For the Transition Period from to

Commission File Number 0-2429

GULF POWER COMPANY

(Exact name of registrant as specified in its charter)

Maine
(State or other jurisdiction of
incorporation or organization)

59-0276810
(IRS Employer Identification Number)

500 Bayfront Parkway, Pensacola, Florida
(Address of principal executive offices)

32501
(Zip Code)

(904) 444-6111
(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ☒ No ☐

Common stock, no par value — 992,717 shares outstanding at July 31, 1989

GULF POWER COMPANY
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June 30, 1989

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GULF POWER COMPANY

MANAGEMENT'S OPINION AS TO FAIR STATEMENT OF RESULTS

The condensed financial statements included herein have been prepared by Gulf Power Company (GULF), without audit, pursuant to the rules and regulations of the Securities and Exchange Commission (SEC). As more fully discussed in Note (C) to the Condensed Financial Statements herein, an uncertainty exists with respect to a civil suit filed against GULF. In the opinion of management, subject to the effect of such adjustments, if any, resulting from the uncertainty, the information furnished herein reflects all adjustments (which included only normal recurring adjustments) necessary to present fairly the results for the periods ended June 30, 1989 and 1988. Certain information and footnote disclosures normally included in financial statements prepared in accordance with generally accepted accounting principles have been condensed or omitted pursuant to such rules and regulations, although GULF believes that the disclosures are adequate to make the information presented not misleading. It is suggested that these condensed financial statements be read in conjunction with the financial statements and the notes thereto included in GULF's latest annual report to stockholders as incorporated and filed with Form 10-K.

GULF POWER COMPANY

CONDENSED STATEMENTS OF INCOME (UNAUDITED)
(Stated in Thousands of Dollars)

	For the Three Months Ended June 30,		For the Six Months Ended June 30,		For the Twelve Months Ended June 30,	
	1989	1988	1989	1988	1989	1988
OPERATING REVENUES	\$124,529	\$124,036	\$231,777	\$241,924	\$492,351	\$507,931
OPERATING EXPENSES:						
Operation--						
Fuel	49,669	56,433	82,397	107,927	183,191	229,978
Purchased and interchanged power, net	(2,917)	(13,415)	3,612	(21,848)	5,865	(39,998)
Other	18,452	22,555	36,374	45,820	72,122	92,837
Maintenance	13,656	10,580	22,388	18,354	45,954	39,704
Depreciation and amortization	12,194	11,722	24,286	23,439	48,376	46,281
Taxes other than income taxes	7,080	6,535	14,100	13,017	28,171	26,515
Federal and state income taxes	5,920	6,311	10,573	11,983	24,829	27,054
Total operating expenses	<u>104,054</u>	<u>100,721</u>	<u>193,730</u>	<u>198,692</u>	<u>408,508</u>	<u>422,371</u>
OPERATING INCOME	<u>20,475</u>	<u>23,315</u>	<u>38,047</u>	<u>43,232</u>	<u>83,843</u>	<u>85,560</u>
OTHER INCOME (EXPENSE):						
Allowance for equity funds used during construction	23	86	75	309	223	717
Other, net	(36)	94	154	165	342	2,096
INCOME BEFORE INTEREST CHARGES	<u>20,462</u>	<u>23,495</u>	<u>38,276</u>	<u>43,706</u>	<u>84,408</u>	<u>88,373</u>
INTEREST CHARGES:						
Interest on long-term debt	9,151	9,234	18,385	18,494	36,852	37,459
Allowance for debt funds used during construction	(42)	(214)	(133)	(435)	(507)	(782)
Amortization of debt discount, premium and expense, net	147	147	293	293	587	582
Other interest charges	449	508	770	867	1,541	1,567
Net interest charges	<u>9,705</u>	<u>9,675</u>	<u>19,315</u>	<u>19,219</u>	<u>38,473</u>	<u>38,826</u>
NET INCOME	<u>10,757</u>	<u>13,820</u>	<u>18,961</u>	<u>24,487</u>	<u>45,935</u>	<u>49,547</u>
DIVIDENDS ON PREFERRED STOCK	<u>1,405</u>	<u>1,440</u>	<u>2,816</u>	<u>2,889</u>	<u>5,689</u>	<u>5,890</u>
NET INCOME AFTER DIVIDENDS ON PREFERRED STOCK (See Notes)	<u>\$ 9,352</u>	<u>\$ 12,380</u>	<u>\$ 16,145</u>	<u>\$ 21,598</u>	<u>\$ 40,246</u>	<u>\$ 43,657</u>

() Denotes red figure.

The accompanying notes are an integral part of these condensed statements.

GULF POWER COMPANY

CONDENSED STATEMENTS OF CASH FLOWS (UNAUDITED)
(Stated in Thousands of Dollars)

	For the Six Months Ended June 30,	
	1989	1988
OPERATING ACTIVITIES:		
Net income	\$ 18,961	\$ 24,487
Adjustments to reconcile net income to net cash provided by operating activities--		
Depreciation and amortization	30,608	28,253
Deferred income taxes	1,316	5,112
Allowance for equity funds used during construction	(75)	(309)
Other, net	(2,328)	3,729
Changes in current assets and liabilities--		
(Increase) decrease receivables, net	(10,522)	3,392
Increase fuel stock	(4,499)	(18,009)
(Increase) decrease materials and operating supplies	41	(2,110)
Increase (decrease) operating accounts payable	5,927	(9,367)
Increase (decrease) other, net	5,834	(3,846)
Net cash provided from operating activities	<u>45,263</u>	<u>31,332</u>
INVESTING ACTIVITIES:		
Gross property additions	(32,681)	(29,664)
Adjustments to gross property additions, net	2,780	(457)
Changes in construction payables	(4,543)	(3,529)
Deferred coal contract costs	-	(60,000)
Other investing activities	169	(2,463)
Net cash used in investing activities	<u>(34,275)</u>	<u>(96,113)</u>
FINANCING ACTIVITIES:		
Proceeds:		
First mortgage bonds	-	35,000
Pollution control bonds	-	3,677
Capital contributions from parent company	4,000	25,000
Notes payable, net	5,000	-
Add: Bond discount and debt expenses, net	11	(198)
Redemptions:		
Preferred stock	(500)	(1,000)
First mortgage bonds	(8,146)	(8,000)
Other long term debt	(2,748)	(2,535)
Payment of common stock dividends	(18,600)	(17,500)
Payment of preferred stock dividends	(2,816)	(2,889)
Net cash provided from (used in) financing activities	<u>(23,799)</u>	<u>31,555</u>
NET DECREASE IN CASH AND TEMPORARY CASH INVESTMENTS	(12,811)	(33,226)
CASH AND TEMPORARY CASH INVESTMENTS AT BEGINNING OF PERIOD	<u>14,242</u>	<u>40,226</u>
CASH AND TEMPORARY CASH INVESTMENTS AT END OF PERIOD	<u>\$ 1,431</u>	<u>\$ 7,000</u>
SUPPLEMENTAL CASH FLOW INFORMATION:		
Cash paid during the period for:		
Interest (net of amount capitalized)	\$ 19,960	\$ 18,373
Income taxes	11,585	4,030

The accompanying notes are an integral part of these condensed statements.

GULF POWER COMPANY
CONDENSED BALANCE SHEETS
(Stated in Thousands of Dollars)

	At June 30, 1989 (Unaudited)	At December 31, 1988
<u>ASSETS</u>		
UTILITY PLANT:		
Plant in service, at original cost	\$1,407,196	\$1,367,923
Less accumulated provision for depreciation	446,282	425,520
Net plant in service	<u>960,914</u>	<u>942,403</u>
Construction work in progress	14,841	29,572
Total	<u>975,755</u>	<u>971,975</u>
Less property-related accumulated deferred income taxes	182,927	178,657
Total	<u>792,828</u>	<u>793,318</u>
OTHER PROPERTY AND INVESTMENTS	<u>6,587</u>	<u>6,756</u>
CURRENT ASSETS:		
Cash	331	292
Temporary cash investments, at cost which approximates market	1,100	13,950
Receivables--		
Customer accounts receivable	37,914	34,615
Accrued utility revenues	15,156	11,310
Affiliated companies	8,021	6,784
Other accounts receivable	33,817	33,904
Accumulated provision for uncollectible accounts	(31,978)	(31,907)
Refundable income tax	7,043	4,745
Materials and supplies, at average cost--		
Fuel stock	65,979	61,480
Materials and operating supplies	32,951	32,992
Fuel cost under recovery	-	1,218
Prepayments	2,438	3,577
Vacation pay deferred	2,006	3,340
Total	<u>174,778</u>	<u>176,300</u>
DEFERRED CHARGES:		
Debt expense, being amortized	3,199	3,281
Unamortized loss on reacquired debt	6,733	6,892
Deferred coal contract termination costs	101,631	106,263
Miscellaneous	5,598	4,415
Total	<u>117,161</u>	<u>120,851</u>
TOTAL ASSETS	<u>\$1,091,354</u>	<u>\$1,097,225</u>

The accompanying notes are an integral part of these condensed statements.

GULF POWER COMPANY
CONDENSED BALANCE SHEETS
(Stated in Thousands of Dollars)

CAPITALIZATION AND LIABILITIES

	At June 30, 1989 (Unaudited)	At December 31, 1988
CAPITALIZATION:		
Common stock equity--		
Common stock (without par value)--authorized and outstanding 992,717 shares	\$ 38,060	\$ 38,060
Other paid-in capital	211,150	207,150
Premium on preferred stock	399	399
Earnings retained in the business	110,247	112,701
	<u>359,856</u>	<u>358,310</u>
Preferred stock	55,162	55,162
Preferred stock subject to mandatory redemption	12,250	12,750
Long-term debt	492,898	497,069
Total	<u>920,166</u>	<u>923,291</u>
CURRENT LIABILITIES:		
Preferred stock to be redeemed within one year	1,250	1,250
Long-term debt due within one year	8,345	15,005
Notes payable to banks	5,000	-
Accounts payable--		
Affiliated companies	12,409	8,360
Other	18,570	21,235
Customer deposits	15,617	15,316
Taxes accrued--		
Federal and state income	1,572	4,061
Other	9,482	6,622
Interest accrued	9,637	10,247
Fuel cost over recovery	889	-
Vacation pay accrued	2,006	3,340
Miscellaneous	2,785	2,748
Total	<u>87,562</u>	<u>88,184</u>
DEFERRED CREDITS AND OTHER LIABILITIES:		
Accumulated deferred income taxes	17,212	17,678
Accumulated deferred investment tax credits	51,278	52,451
Accumulated provision for property insurance	5,570	4,970
Miscellaneous	9,566	10,651
Total	<u>83,626</u>	<u>85,750</u>
TOTAL CAPITALIZATION AND LIABILITIES	<u>\$1,091,354</u>	<u>\$1,097,225</u>

The accompanying notes are an integral part of these condensed statements.

GULF POWER COMPANY

NOTES TO CONDENSED FINANCIAL STATEMENTS:

- (A) On November 14, 1988, GULF filed with the Florida Public Service Commission (FPSC) a request to increase retail revenues by approximately \$25.8 million annually. On June 12, 1989, GULF withdrew its request for permanent and interim rate relief before the FPSC. This action was taken because of the current atmosphere created by the investigation discussed in Note (C) below. GULF intends to file a new request for an increase in rates at a later date. On June 28, 1989, the FPSC opened a limited proceeding to investigate alleged "irregularities" at GULF.
- (B) Reference is made to Item 1 - BUSINESS - "Off-System Power Sales" in GULF's Annual Report on Form 10-K for the year ended December 31, 1988, for a description of the proceedings related to suits filed by Gulf States Utilities Company (Gulf States) and The Southern Company's (SOUTHERN) operating affiliates concerning off-system capacity and energy sales contracts.

Because of disclosure in reports filed with the SEC by Gulf States concerning its financial condition, the withheld revenues, after taxes, have been excluded from net income after dividends on preferred stock as shown below. (in thousands)

	3 Months Ended June		6 Months Ended June		12 Months Ended June	
	1989	1988	1989	1988	1989	1988
Total Revenues	\$ -	\$5,490	\$ -	\$11,519	\$ -	\$22,419
Revenues Withheld	-	4,921	-	9,796	-	18,974
Provision for Uncollectible Accounts	-	4,921	-	9,796	-	18,974
Excluded From Net Income After Dividends on Preferred Stock	-	3,070	-	6,110	-	11,275

In management's opinion, the outcome of the lawsuit will not have a material impact on GULF's Condensed Financial Statements; however, the ultimate outcome of this matter cannot now be determined.

- (C) Reference is made to Item 3 - LEGAL PROCEEDINGS in GULF's Annual Report on Form 10-K for the year ended December 31, 1988, for information regarding an investigation being conducted by the United States Attorney for the Northern District of Georgia and the Internal Revenue Service (IRS) regarding tax accounting for spare parts and other matters, including political contributions, and the related SEC investigation.

GULF POWER COMPANY

NOTES TO CONDENSED FINANCIAL STATEMENTS: (Continued)

See also PART II - Item 1 - "Legal Proceedings" herein for a discussion of a civil suit filed against GULF and other parties that relates to the aforementioned investigations and the possibility of Arthur Andersen & Co. (AA & Co.), GULF's independent accountants, being required to call attention to this uncertainty at the time of their audit of GULF's 1989 financial statements.

GULF POWER COMPANY

MANAGEMENT'S DISCUSSION AND ANALYSIS OF RESULTS OF OPERATIONS AND FINANCIAL CONDITION

Results of Operations

Net Income---

GULF's net income after dividends on preferred stock for the second quarter of 1989 was \$9.4 million, compared to the \$12.4 million recorded in the second quarter of 1988. The decrease in earnings is due primarily to an increase in operating expenses.

Revenues--

Despite an increase of 4.1% in energy sales, revenues only edged up due to lower capacity revenues from non-territorial utilities. Energy sales to retail customers increased 6.9% due to a 2.2% June-to-June increase in residential customers and the healthy economy in GULF's service area. Capacity revenues from non-territorial customers decreased in accordance with the contracts and because of the suspension of performance by the Southern electric system under the Gulf States contracts (see Note (B) to the Condensed Financial Statements herein). The average revenue per kilowatthour of total sales decreased from 5.19 cents for the second quarter of 1988 to 5.13 cents during the corresponding period of 1989.

Expenses--

Fuel expenses in the second quarter of 1989 decreased, compared to the second quarter of 1988, due to a 23.7% decrease in generation. The decrease in generation is due to Plant Crist Unit No. 7, GULF's largest generating unit, being out of service for scheduled maintenance for a portion of the second quarter of 1989. The unavailability of this unit also made less energy available for the sale of purchased and interchanged power and the net credit for this item decreased in the second quarter of 1989, compared to the corresponding period of 1988. The average cost of fuel per kilowatthour generated increased from 1.79 cents in the second quarter of 1988 to 2.07 cents in the second quarter of 1989. Other operation expense in the second quarter of 1988 includes the charges to uncollectible accounts for sales related to Gulf States.

Allowance for Funds Used During Construction--

The allowance for funds used during construction (AFUDC) represents the cost of capital charged to utility plant under construction which is not included in rate base. The equity portion of AFUDC represents non-cash income. However, the normalization of the income tax effect of the debt portion currently results in a non-cash charge to income. In addition, when facilities are completed and included in rate base, previously capitalized amounts significantly increase current cash flows since revenues are higher because of increased rate base and additional depreciation expense. AFUDC, net of income taxes, as a percent of net income after

GULF POWER COMPANY

MANAGEMENT'S DISCUSSION AND ANALYSIS OF RESULTS OF OPERATIONS AND FINANCIAL CONDITION

Results of Operations (Continued)

dividends on preferred stock amounted to 0.5% in the second quarter of 1989, compared to 2.1% in the second quarter of 1988.

Future Earnings Potential---

The results of operations discussed above are not necessarily indicative of future earnings. It is expected that higher operating costs and carrying charges on increased investment in plant, if not offset by proportionate increases in operating revenues (either by periodic rate increases or increases in sales), will adversely affect future earnings. Future earnings will also depend upon sales of capacity to non-affiliated utilities and growth in energy sales which will be subject to a number of factors, including energy conservation practiced by customers, the elasticity of demand, weather and the rate of economic growth in the service area. See Note (A) to the Condensed Financial Statements herein for information regarding GULF's petition for a retail rate increase and the subsequent withdrawal of this petition.

The dedication of substantial amounts of Plant Daniel and Plant Scherer generating capacity and the associated operating expenses to GULF's retail customers will adversely affect GULF's earnings until GULF obtains adequate retail rate recognition.

Also, the Financial Accounting Standards Board has issued new rules for accounting for income taxes which become effective in 1990. These rules will require that deferred taxes be provided on the equity component of AFUDC. These rules also require the adjustment of accumulated deferred income tax balances to reflect changes in income tax laws and rates. The accounting for and impact on net income related to these adjustments will depend greatly on future ratemaking treatment. Depreciation-related deferred income taxes will continue to be reversed over the lives of the related assets because of the requirements of the Tax Reform Act of 1986. Other deferred income taxes will be reversed in accordance with regulatory ratemaking treatment.

Financial Condition

The major change in GULF's financial condition during the first six months of 1989 was gross property additions of \$32.7 million. The principal sources of funds for these additions and the maturity of \$8.1 million of first mortgage bonds were funds provided from operations, an increase in notes payable, capital contributions by the parent company and a decrease in temporary cash investments. See the Condensed Statements of Cash Flows for further details.

GULF's common equity ratio at June 30, 1989, was 39.1%, compared to 38.8% at December 31, 1988.

GULF POWER COMPANY

MANAGEMENT'S DISCUSSION AND ANALYSIS OF RESULTS OF OPERATIONS AND FINANCIAL CONDITION

Financial Condition (Continued)

GULF's gross property additions are estimated to total approximately \$205 million for the three years 1989 through 1991 (\$73 million in 1989, \$68 million in 1990 and \$64 million in 1991). The construction program is subject to revision because of factors such as the granting of timely and adequate rate increases, new estimates of increased costs, revised load projections and the availability and cost of capital.

Changes in environmental regulations could substantially increase GULF's capital requirements and operating costs. Passage of acid rain legislation or the tightening of existing regulations governing power plant emissions has a significant chance of occurring by the end of 1989. Legislation amending the Clean Water Act; the Resource Conservation and Recovery Act; the Comprehensive Environmental Response, Compensation, and Liability Act; and the Emergency Planning and Community Right-to-Know Act affects many areas of GULF's operations, including the generation, transmission, and distribution of electric energy. The full impact of these requirements cannot be determined at this time, pending the development and implementation of applicable regulations. In 1985, the Environmental Protection Agency (EPA) promulgated air quality control regulations related to stack height requirements of the Clean Air Act. The U.S. Court of Appeals for the District of Columbia Circuit issued a decision in litigation concerning the EPA's stack height rules in January, 1988. The decision, which the U.S. Supreme Court has declined to review, remands the matter to the EPA for reconsideration of certain of the stack height rules. At this time, the impact of the court's decision on final rules and the ultimate impact on GULF cannot be determined.

The Tax Reform Act of 1986 will significantly decrease the amount of capital provided through investment tax credits and deferred income taxes compared with amounts in prior years. Although lower tax rates initially reduce the amount of revenues required to earn a specified return on investment, the cost of the increased capital requirements will ultimately exceed the benefits of reduced tax rates, resulting in higher revenue requirements. These factors will also reduce interest and preferred stock dividend coverage ratios.

In addition to the funds required for the construction program, \$9.6 million will be required by June 30, 1990, in connection with maturities of long-term debt and preferred stock subject to mandatory redemption.

At June 30, 1989, GULF had \$1.4 million of cash and temporary cash investments and \$46.4 million of unused credit arrangements with banks to meet its short-term cash needs. These credit arrangements may not be used in their entirety without additional regulatory approval. GULF had \$5.0 million of short-term bank borrowings outstanding at June 30, 1989.

GULF POWER COMPANY

MANAGEMENT'S DISCUSSION AND ANALYSIS OF
RESULTS OF OPERATIONS AND FINANCIAL CONDITION

Financial Condition (Continued)

It is anticipated that the funds required for construction and other purposes will be derived from internal sources. Although no financings are planned, for any future financings GULF must comply with certain earnings coverage requirements contained in its mortgage indenture and corporate charter. On the basis of the requirements contained in its mortgage indenture and corporate charter, GULF's mortgage coverage (2.00 required) and charter coverage (1.50 required) at June 30, 1989, were 3.11 and 1.69, respectively. The amount of securities which GULF will be permitted to issue in the future will depend upon market conditions and other factors prevailing at that time.

GULF POWER COMPANY

PART II - OTHER INFORMATION

Item 1. Legal Proceedings.

- (a) On July 10, 1989, a retail ratepayer of GULF filed a civil complaint in the U. S. District Court for the Northern District of Florida against GULF, SOUTHERN, Southern Company Services, Inc., Alabama Power Company, Georgia Power Company, Mississippi Power Company and AA & Co. The complaint alleges that GULF obtained excessive rate increases by improper accounting for spare parts and unlawful payments to government officials. The plaintiff seeks actual damages estimated to be in excess of \$10 million, plus treble and punitive damages, on behalf of all ratepayers of GULF for alleged violations of the Federal Racketeer Influenced and Corrupt Organizations Act, the Federal Power Act and Florida statutes, as well as common law fraud.

This suit is related to certain matters currently under investigation by the U. S. Attorney for the Northern District of Georgia, the IRS and the SEC as discussed in Note (C) to the Condensed Financial Statements herein. While GULF's management believes that it has not overcharged its customers, the outcome of this lawsuit cannot now be determined. AA & Co. has informed GULF that if this uncertainty still exists at the time of its audit of GULF's annual financial statements, its opinion on such statements will call attention to this uncertainty.

- (b) Reference is made to Note (A) to the Condensed Financial Statements herein for information regarding GULF's voluntary withdrawal of its request for a retail rate increase.

Item 4. Submission of Matters to a Vote of Security Holders.

GULF held its annual stockholder meeting on June 27, 1989 and the following persons were elected to serve as directors of GULF:

Edward L. Addison
Reed Bell
W. D. Hull, Jr.
Douglas L. McCrary

C. Walter Ruckel
J. K. Tannehill
Vince J. Whibbs, Sr.

All of the 992,717 outstanding shares of GULF's common stock are owned by SOUTHERN and were voted for the election of such directors.

Item 6. Exhibits and Reports on Form 8-K.

- (a) Exhibits.

Exhibit 25 - Power of Attorney and resolution. (Designated in GULF's Form 10-K for the year ended December 31, 1988, File No. 0-2429, as Exhibit 25, and incorporated herein by reference.)

GULF POWER COMPANY

PART II - OTHER INFORMATION

Item 6. Exhibits and Reports on Form 8-K. (Continued)

(b) Reports on Form 8-K.

GULF filed a Form 8-K dated June 12, 1989, in connection with its voluntary withdrawal of a request for permanent and interim rate relief. For further discussion of this matter see Note (A) to the Condensed Financial Statements herein.

GULF filed a Form 8-K dated July 10, 1989, in connection with a civil complaint filed by a retail ratepayer in the U. S. District Court for the Northern District of Florida against GULF. For further discussion of this matter see Item 1 - "Legal Proceedings" herein.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

GULF POWER COMPANY

By Douglas L. McCrary, President

By A. E. Scarbrough, Vice President - Finance
(Principal Financial and Accounting Officer)

By /s/ Wayne Boston
(Wayne Boston, Attorney-in-fact)

Date: August 10, 1989

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF
THE SECURITIES EXCHANGE ACT OF 1934

For the Quarter Ended March 31, 1989
Commission File Number 0-2429

GULF POWER COMPANY

(Exact name of registrant as specified in its charter)

Maine

(State or other jurisdiction of
incorporation or organization)

59-0276810

(IRS Employer Identification Number)

500 Bayfront Parkway, Pensacola, Florida
(Address of principal executive offices)

32501
(Zip Code)

(904) 444-6111

(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ☒ No ☐

Common stock, no par value — 992,717 shares outstanding at April 30, 1989

GULF POWER COMPANY
INDEX TO QUARTERLY REPORT ON FORM 10-Q
March 31, 1989

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GULF POWER COMPANY

MANAGEMENT'S OPINION AS TO FAIR STATEMENT OF RESULTS

The condensed financial statements included herein have been prepared by Gulf Power Company (GULF), without audit, pursuant to the rules and regulations of the Securities and Exchange Commission (SEC). In the opinion of management, the information furnished herein reflects all adjustments (which included only normal recurring adjustments) necessary to present fairly the results for the periods ended March 31, 1989 and 1988. Certain information and footnote disclosures normally included in financial statements prepared in accordance with generally accepted accounting principles have been condensed or omitted pursuant to such rules and regulations, although GULF believes that the disclosures are adequate to make the information presented not misleading. It is suggested that these condensed financial statements be read in conjunction with the financial statements and the notes thereto included in GULF's latest annual report to stockholders as incorporated and filed with Form 10-K.

GULF POWER COMPANY

CONDENSED STATEMENTS OF INCOME (UNAUDITED)
(Stated in Thousands of Dollars)

	For the Three Months Ended March 31,		For the Twelve Months Ended March 31	
	1989	1988	1989	1988
OPERATING REVENUES	\$107,248	\$117,888	\$491,857	\$522,548
OPERATING EXPENSES:				
Operation--				
Fuel	32,728	51,494	189,955	240,063
Purchased and interchanged power, net	6,529	(8,433)	(4,633)	(37,909)
Other	17,922	23,265	76,224	95,408
Maintenance	8,732	7,774	42,877	36,858
Depreciation and amortization	12,092	11,717	47,905	45,749
Taxes other than income taxes	7,020	6,482	27,626	26,216
Federal and state income taxes	4,653	5,672	25,220	30,743
Total operating expenses	<u>89,676</u>	<u>97,971</u>	<u>405,174</u>	<u>437,128</u>
OPERATING INCOME	<u>17,572</u>	<u>19,917</u>	<u>86,683</u>	<u>85,420</u>
OTHER INCOME (EXPENSE):				
Allowance for equity funds used during construction	52	223	286	869
Other, net	190	71	472	2,193
INCOME BEFORE INTEREST CHARGES	<u>17,814</u>	<u>20,211</u>	<u>87,441</u>	<u>88,482</u>
INTEREST CHARGES:				
Interest on long-term debt	9,234	9,260	36,935	37,983
Allowance for debt funds used during construction	(91)	(221)	(679)	(824)
Amortization of debt discount, premium and expense, net	146	146	587	570
Other interest charges	321	359	1,601	1,374
Net interest charges	<u>9,610</u>	<u>9,544</u>	<u>38,444</u>	<u>39,103</u>
NET INCOME	<u>8,204</u>	<u>10,667</u>	<u>48,997</u>	<u>49,379</u>
DIVIDENDS ON PREFERRED STOCK	<u>1,411</u>	<u>1,449</u>	<u>5,723</u>	<u>5,938</u>
NET INCOME AFTER DIVIDENDS ON PREFERRED STOCK	<u>\$ 6,793</u>	<u>\$ 9,218</u>	<u>\$ 43,274</u>	<u>\$ 43,441</u>

() Denotes red figure.

The accompanying notes are an integral part of these condensed statements.

GULF POWER COMPANY

CONDENSED STATEMENTS OF CASH FLOWS (UNAUDITED)
(Stated in Thousands of Dollars)

	For the Three Months Ended March 31,	
	1989	1988
OPERATING ACTIVITIES:		
Net income	\$ 8,204	\$ 10,667
Adjustments to reconcile net income to net cash provided by operating activities--		
Depreciation and amortization	14,276	13,636
Deferred income taxes	(890)	1,523
Allowance for equity funds used during construction	(52)	(223)
Other, net	(329)	1,416
Changes in current assets and liabilities--		
Decrease receivables, net	9,101	4,650
Increase fuel stock	(8,532)	(9,844)
(Increase) decrease materials and operating supplies	1,015	(330)
Increase (decrease) operating accounts payable	(373)	107
Increase (decrease) other, net	8,253	(59)
Net cash provided from operating activities	<u>30,673</u>	<u>21,543</u>
INVESTING ACTIVITIES:		
Gross property additions	(11,201)	(13,279)
Adjustments to gross property additions, net	3,380	(48)
Changes in construction payables	(4,791)	(3,533)
Deferred coal contract costs	-	(60,000)
Other investing activities	96	(879)
Net cash used in investing activities	<u>(12,516)</u>	<u>(77,739)</u>
FINANCING ACTIVITIES:		
Proceeds:		
Capital contributions from parent company	2,000	25,000
Notes payable, net	-	20,000
Redemptions:		
Preferred stock	(500)	(1,000)
First mortgage bonds	-	(8,000)
Other long term debt	(1,420)	(2,119)
Payment of common stock dividends	(9,300)	(8,600)
Payment of preferred stock dividends	(1,411)	(1,449)
Miscellaneous	5	(1)
Net cash provided from (used in) financing activities	<u>(10,626)</u>	<u>23,831</u>
NET INCREASE (DECREASE) IN CASH AND TEMPORARY CASH INVESTMENTS	7,531	(32,365)
CASH AND TEMPORARY CASH INVESTMENTS AT BEGINNING OF PERIOD	14,242	40,226
CASH AND TEMPORARY CASH INVESTMENTS AT END OF PERIOD	<u>\$ 21,773</u>	<u>\$ 7,861</u>
SUPPLEMENTAL CASH FLOW INFORMATION:		
Cash paid during the period for:		
Interest (net of amount capitalized)	\$ 7,247	\$ 7,277
Income taxes	453	2,790

The accompanying notes are an integral part of these condensed statements.

GULF POWER COMPANY
CONDENSED BALANCE SHEETS
(Stated in Thousands of Dollars)

ASSETS

	At March 31, 1989 <u>(Unaudited)</u>	At December 31, 1988
UTILITY PLANT:		
Plant in service, at original cost	\$1,380,171	\$1,367,923
Less accumulated provision for depreciation	436,416	425,520
Net plant in service	<u>943,755</u>	<u>942,403</u>
Construction work in progress	22,985	29,572
Total	<u>966,740</u>	<u>971,975</u>
Less property-related accumulated deferred income taxes	180,792	178,657
Total	<u>785,948</u>	<u>793,318</u>
OTHER PROPERTY AND INVESTMENTS	<u>6,660</u>	<u>6,756</u>
CURRENT ASSETS:		
Cash	823	292
Temporary cash investments, at cost which approximates market	20,950	13,950
Receivables--		
Customer accounts receivable	35,033	34,615
Accrued utility revenues	8,180	11,310
Affiliated companies	5,842	6,784
Other accounts receivable	33,256	33,904
Accumulated provision for uncollectible accounts	(31,961)	(31,907)
Refundable income tax	-	4,745
Materials and supplies, at average cost--		
Fuel stock	70,012	61,480
Materials and operating supplies	31,977	32,922
Fuel cost under recovery	-	1,218
Prepayments	3,381	3,577
Vacation pay deferred	2,702	3,340
Total	<u>180,195</u>	<u>176,300</u>
DEFERRED CHARGES:		
Debt expense, being amortized	3,240	3,281
Unamortized loss on reacquired debt	6,813	6,892
Deferred coal contract termination costs	104,067	106,263
Miscellaneous	6,390	4,415
Total	<u>120,510</u>	<u>120,851</u>
TOTAL ASSETS	<u>\$1,093,313</u>	<u>\$1,097,225</u>

The accompanying notes are an integral part of these condensed statements.

GULF POWER COMPANY

CONDENSED BALANCE SHEETS
(Stated in Thousands of Dollars)

CAPITALIZATION AND LIABILITIES

	At March 31, 1989 <u>(Unaudited)</u>	At December 31, 1988
CAPITALIZATION:		
Common stock equity--		
Common stock (without par value)--authorized and outstanding 992,717 shares	\$ 38,060	\$ 38,060
Other paid-in capital	209,150	207,150
Premium on preferred stock	399	399
Earnings retained in the business	110,195	112,701
	<u>357,804</u>	<u>358,310</u>
Preferred stock	55,162	55,162
Preferred stock subject to mandatory redemption	12,250	12,750
Long-term debt	495,610	497,069
Total	<u>920,826</u>	<u>923,291</u>
CURRENT LIABILITIES:		
Preferred stock to be redeemed within one year	1,250	1,250
Long-term debt due within one year	15,075	15,005
Accounts payable--		
Affiliated companies	10,008	8,360
Other	14,423	21,235
Customer deposits	15,558	15,316
Taxes accrued--		
Federal and state income	2,553	4,061
Other	5,776	6,622
Interest accrued	13,149	10,247
Fuel cost over recovery	3,582	-
Vacation pay accrued	2,702	3,340
Miscellaneous	3,253	2,748
Total	<u>87,329</u>	<u>88,184</u>
DEFERRED CREDITS AND OTHER LIABILITIES:		
Accumulated deferred income taxes	16,614	17,678
Accumulated deferred investment tax credits	51,864	52,451
Accumulated provision for property insurance	5,270	4,970
Miscellaneous	11,410	10,651
Total	<u>85,158</u>	<u>85,750</u>
TOTAL CAPITALIZATION AND LIABILITIES	<u>\$1,093,313</u>	<u>\$1,097,225</u>

The accompanying notes are an integral part of these condensed statements.

GULF POWER COMPANY

NOTES TO CONDENSED FINANCIAL STATEMENTS:

- (A) On November 14, 1988, GULF filed with the Florida Public Service Commission (FPSC) a request to increase retail revenues by approximately \$25.8 million annually. The FPSC is expected to render a decision by the fall of 1989.
- (B) Reference is made to Item 1 - BUSINESS - "Off-System Power Sales" in GULF's Annual Report on Form 10-K for the year ended December 31, 1988, for a description of the proceedings related to suits filed by Gulf States Utilities Company (Gulf States) and The Southern Company's (SOUTHERN) operating affiliates concerning off-system capacity and energy sales contracts.

Because of disclosure in reports filed with the SEC by Gulf States concerning its financial condition, most of the revenues associated with Gulf States contracts, after taxes, were excluded from net income after dividends on preferred stock as shown below. (in thousands)

	3 Months Ended March		12 Months Ended March	
	<u>1989</u>	<u>1988</u>	<u>1989</u>	<u>1988</u>
Total Revenues	\$ -	\$6,029	\$5,487	\$22,518
Revenues Withheld	-	4,875	5,057	18,724
Provision for Uncollectible Accounts	-	4,875	5,057	18,724
Excluded From Net Income After Dividends on Preferred Stock	-	3,040	3,154	10,899

In management's opinion, the outcome of the lawsuit will not have a material impact on GULF's Condensed Financial Statements; however, the ultimate outcome of this matter cannot now be determined.

- (C) Reference is made to Item 3 - LEGAL PROCEEDINGS in GULF's Annual Report on Form 10-K for the year ended December 31, 1988, for information regarding an investigation being conducted by the United States Attorney for the Northern District of Georgia and the Internal Revenue Service regarding tax accounting for spare parts and other matters, including political contributions, and the related SEC investigation.

GULF POWER COMPANY

MANAGEMENT'S DISCUSSION AND ANALYSIS OF RESULTS OF OPERATIONS AND FINANCIAL CONDITION

Results of Operations

Net Income---

GULF's net income after dividends on preferred stock for the first quarter of 1989 was \$6.8 million, compared to the \$9.2 million recorded in the first quarter of 1988. The decrease in earnings is due primarily to lower operating revenues.

Revenues--

Revenues for the first quarter of 1989 decreased 9.0% from the corresponding period of 1988, due to a 5.3% decrease in energy sales and lower capacity revenues from non-territorial utilities. The decrease in energy sales is attributable primarily to a mild winter, as evidenced by a 13.2% decrease in energy sales to residential customers despite a 2.3% March-to-March increase in the number of residential customers served. Capacity revenues to non-territorial customers decreased in accordance with the contracts and because of the suspension of performance by the Southern electric system under the Gulf States contracts (see Note (B) to the Condensed Financial Statements herein). The average revenue per kilowatthour of total sales decreased from 5.55 cents for the first quarter of 1988 to 5.53 cents during the corresponding period of 1989.

Expenses--

Fuel expenses in the first quarter of 1989 decreased, compared to the first quarter of 1988, due to a 40.7% decrease in generation. The mild winter experienced by GULF during 1989 was also prevalent throughout the Southeast. As a result, lower cost base generation was available to GULF from its affiliated companies and GULF became a net buyer of purchased and interchanged energy. The average cost of fuel per kilowatthour generated increased from 1.81 cents in the first quarter of 1988 to 1.94 cents in the first quarter of 1989. Other operation expense in the first quarter of 1988 reflects the charges to uncollectible accounts for sales related to Gulf States. Additionally, other operation expense includes adjustments relating to fuel cost recovery.

Allowance for Funds Used During Construction--

The allowance for funds used during construction (AFUDC) represents the cost of capital charged to utility plant under construction which is not included in rate base. The equity portion of AFUDC represents non-cash income. However, the normalization of the income tax effect of the debt portion currently results in a non-cash charge to income. In addition, when facilities are completed and included in rate base, previously capitalized amounts significantly increase current cash flows since revenues are higher because of increased rate base and additional depreciation expense. AFUDC, net of income taxes, as a percent of net income after

GULF POWER COMPANY

MANAGEMENT'S DISCUSSION AND ANALYSIS OF RESULTS OF OPERATIONS AND FINANCIAL CONDITION

Results of Operations (Continued)

dividends on preferred stock amounted to 1.6% in the first quarter of 1989, compared to 4.1% in the first quarter of 1988.

Future Earnings Potential---

The results of operations discussed above are not necessarily indicative of future earnings. It is expected that higher operating costs and carrying charges on increased investment in plant, if not offset by proportionate increases in operating revenues (either by periodic rate increases or increases in sales), will adversely affect future earnings. Future earnings will also depend upon growth in energy sales which will be subject to a number of factors, including the volume of sales to neighboring utilities, energy conservation practiced by customers, the elasticity of demand, weather and the rate of economic growth in the service area. See Note (A) to the Condensed Financial Statements herein for information regarding GULF's petition for a retail rate increase.

The primary factor causing the need for retail rate relief in 1989 is the dedication of substantial amounts of Plant Daniel and Plant Scherer generating capacity and the associated operating expenses to GULF's retail customers.

Also, the Financial Accounting Standards Board has issued new rules for accounting for income taxes which become effective in 1990. These rules will require that deferred taxes be provided on the equity component of AFUDC. These rules also require the adjustment of accumulated deferred income tax balances to reflect changes in income tax laws and rates. The accounting for and impact on net income related to these adjustments will depend greatly on future ratemaking treatment. Depreciation-related deferred income taxes will continue to be reversed over the lives of the related assets because of the requirements of the Tax Reform Act of 1986. Other deferred income taxes will be reversed in accordance with regulatory ratemaking treatment.

Financial Condition

The major change in GULF's financial condition during the first three months of 1989 was gross property additions of \$11.2 million. The principal sources of funds for these additions were funds provided from operations and capital contributions by the parent company. See the Condensed Statements of Cash Flows for further details.

GULF's common equity ratio at March 31, 1989, was 38.9%, compared to 38.8% at December 31, 1988.

GULF POWER COMPANY

MANAGEMENT'S DISCUSSION AND ANALYSIS OF RESULTS OF OPERATIONS AND FINANCIAL CONDITION

Financial Condition (Continued)

GULF's gross property additions are estimated to total approximately \$205 million for the three years 1989 through 1991 (\$69 million in 1989, \$68 million in 1990 and \$68 million in 1991). The construction program is subject to revision because of factors such as the granting of timely and adequate rate increases, new estimates of increased costs, revised load projections and the availability and cost of capital.

Changes in environmental regulations could substantially increase GULF's capital requirements and operating costs. Passage of acid rain legislation or the tightening of existing regulations governing power plant emissions has a significant chance of occurring by the end of 1989. Legislation amending the Clean Water Act; the Resource Conservation and Recovery Act; the Comprehensive Environmental Response, Compensation, and Liability Act; and the Emergency Planning and Community Right-to-Know Act affects many areas of GULF's operations, including the generation, transmission, and distribution of electric energy. The full impact of these requirements cannot be determined at this time, pending the development and implementation of applicable regulations. In 1985, the Environmental Protection Agency (EPA) promulgated air quality control regulations related to stack height requirements of the Clean Air Act. The U.S. Court of Appeals for the District of Columbia Circuit issued a decision in litigation concerning the EPA's stack height rules in January, 1988. The decision, which the U.S. Supreme Court has declined to review, remands the matter to the EPA for reconsideration of certain of the stack height rules. At this time, the impact of the court's decision on final rules and the ultimate impact on GULF cannot be determined.

The Tax Reform Act of 1986 will significantly decrease the amount of capital provided through investment tax credits and deferred income taxes compared with amounts in prior years. Although lower tax rates initially reduce the amount of revenues required to earn a specified return on investment, the cost of the increased capital requirements will ultimately exceed the benefits of reduced tax rates, resulting in higher revenue requirements. These factors will also reduce interest and preferred stock dividend coverage ratios.

In addition to the funds required for the construction program, \$16.3 million will be required by March 31, 1990, in connection with maturities of long-term debt and preferred stock subject to mandatory redemption.

At March 31, 1989, GULF had \$21.8 million of cash and temporary cash investments and \$49.6 million (on April 1, 1989) of credit arrangements with banks to meet its short-term cash needs. These credit arrangements may not be used in their entirety without additional regulatory approval. GULF had no short-term bank borrowings outstanding at March 31, 1989.

GULF POWER COMPANY

MANAGEMENT'S DISCUSSION AND ANALYSIS OF
RESULTS OF OPERATIONS AND FINANCIAL CONDITION

Financial Condition (Continued)

It is anticipated that the funds required for construction and other purposes will be derived from sources similar to those used in the past. However, in order to issue additional first mortgage bonds and preferred stock, GULF must comply with certain earnings coverage requirements contained in its mortgage indenture and corporate charter. The ability to maintain these coverages and to generate adequate amounts of internal funds for construction is dependent upon increasing sales, controlling expenses and receiving adequate and timely rate increases that will provide an adequate return on investment.

On the basis of the requirements contained in its mortgage indenture and corporate charter, GULF's mortgage coverage (2.00 required) and charter coverage (1.50 required) at March 31, 1989, were 3.17 and 1.75, respectively. The amount of securities which GULF will be permitted to issue in the future will depend upon conditions and other factors prevailing at that time.

GULF POWER COMPANY

PART II - OTHER INFORMATION

Item 1. Legal Proceedings.

Reference is made to the Notes to the Condensed Financial Statements herein for information regarding legal proceedings in which GULF is involved.

Item 6. Exhibits and Reports on Form 8-K.

(a) Exhibits.

Exhibit 25 - Power of Attorney and resolution. (Designated in GULF's Form 10-K for the year ended December 31, 1988, File No. 0-2429, as Exhibit 25, and incorporated herein by reference.)

(b) Reports on Form 8-K.

There were no Form 8-K's filed during the period.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

GULF POWER COMPANY

By Douglas L. McCrary, President

By A. E. Scarbrough, Vice President - Finance
(Principal Financial and Accounting Officer)

By /s/ Wayne Boston
(Wayne Boston, Attorney-in-fact)

Date: May 12, 1989

FERC AUDIT

SCHEDULE P-4

Type of data shown:
Prior Year Ended 1989
Witness: A. E. Scarbrough

FLORIDA PUBLIC SERVICE COMMISSION Explanation: Supply the results of the most recent FERC audit finding and compliance steps undertaken.

Company: GULF POWER COMPANY

DOCKET NO.: 891345-EI

Attached is the most recent FERC audit finding.

Supporting Schedules

Recap Schedules

April 12, 1985

Memorandum To: Mr. Earl V. Lee
Controller

From: Mr. John M. Okrak, Auditor
Federal Energy Regulatory Commission

Subject: Staff Recommendations Related to Field Examination of
Gulf Power Company

The Staff has concluded an examination of the record of the Company to establish the net changes in the original cost of electric plant and related accumulated depreciation and amortization for the period January 1, 1980 through December 31, 1984. The Staff also performed a selective review of accounting practices and procedures to determine compliance with the overall accounting and reporting requirements of the Commission included in the Regulations under the Federal Power Act.

As a result of this examination, a number of reporting and recording deficiencies were noted. These deficiencies were discussed at a conference on April 10, 1985, attended by the following individuals:

Company Representatives

E. V. Lee, Controller
G. A. Fell, Director of Internal Accounting Controls
P. B. Russell, Supervisor of Audits
J. C. Engel, Manager of General Accounting
W. B. Mills, Supervisor of Construction Accounting
H. Banks, Coordinator of Internal Accounting Controls

Federal Energy Regulatory Commission Staff

Lee T. Cumberland, Auditor, Washington Staff
John M. Okrak, Auditor, Field Staff
Ted J. Glick, Auditor, Field Staff

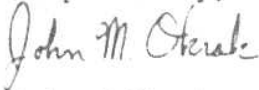
The attached report summarizes the Staff's findings and recommendations as presented at the conference, and our understanding of the Company's response thereto. This report is to serve as a basis for a written response by the Company. As explained at the conference, the Staff's recommendations do not represent final FERC Staff positions on these matters, and that written comments by the Company will be considered by the Chief Accountant and other Washington Staff Officials before final recommendations are made to the Commission.

The Company's comments should be submitted within 30 days from the receipt of this report. In instances where the Company disagrees with the Staff's recommendations, the basis of such disagreements should be fully explained. These comments should be addressed to:

Mr. Joseph A. Frangipane
Director, Division of Audits
Office of The Chief Accountant
Federal Energy Regulatory Commission
Room 601 R.B.
825 N. Capital Street, N.E.
Washington, D.C. 20426

The Staff wishes to express their appreciation for the excellent cooperation and courtesies extended during our stay at the Company.

Respectfully,



John M. Okrak
Staff Auditor

Attachment

1.

ACCOUNTING FOR INCOME TAX ADJUSTMENTS

The letter directive dated October 1, 1981, from the FERC states that the Company agreed to take appropriate corrective action on the compliance exception listed below. As of the current audit, the Company has not taken the agreed upon action.

IMPROPER ACCOUNTING FOR ENTRIES TO ADJUST ACCRUED INCOME TAXES TO
ACTUAL PER THE RETURN

In recording the entries to adjust the accrued income taxes to actual per the income tax return, the Company debited or credited Account 236, Taxes accrued, with the contra entry to the appropriate account for accumulated deferred income taxes. No entry was made to the income statement in recording the adjustments. By recording the adjustments as indicated above, the Company never properly stated the current and deferred income tax expense accounts.

The instructions of the Uniform System of Accounts require that the adjustments of accrued income taxes to actual be made by adjusting the current tax accrual. In order to correctly account for these adjustments, the appropriate entries must be recorded in the current and deferred income tax expense accounts.

The staff recommends that the Company establish procedures to institute the above agreed upon accounting recommendation.

1. Company's Response:

The Company agreed to take the recommended action.

2.

INVESTMENT TAX CREDI

Staff review of investment tax credits disclosed that the Company failed to adjust such amounts recorded per books to reflect the settlement with the Internal Revenue Service (IRS) applicable to tax years 1977 and 1978.

The staff recommends that the Company adjusts ITC amounts upon settlement with the IRS in the future through the income statement. The Company recorded an adjustment for \$421,079 in 1985 to properly state the balance in Account 255, Accumulated deferred investment tax credit. The adjustment was not recorded through the current income tax expense accounts, however, the Company agreed to do so in the future.

2. Company's Response:

The Company agreed to take the recommended action, and recommendation was recorded.

3. DEFERRED INCOME TAX ACCOUNTING

The Company follows the practice of recording deferred taxes in Account 190, Accumulated deferred income taxes, by debiting such account and crediting Account 410.1, Provision for deferred income taxes, utility operating income, or Account 410.2, Provision for deferred income taxes, other income and deductions, with an amount equal to that by which income taxes payable for the year are higher because of the inclusion of certain items in income for tax purposes, which items for general accounting purposes will not be fully reflected in the utility's determination of annual net income until subsequent years. The feedback for these items is accounted for by debiting Account 411.1, Provision for deferred income taxes Credit, utility operating income, or Account 411.2, Provision for deferred income taxes - Credit, other income and deductions and crediting Account 190.

The above accounting is not in accordance with the instructions to Account 190 of the Uniform System of Accounts which requires that the provision for these deferred taxes be recorded by debiting such account and crediting Account 411.1 or 411.2, as appropriate. The feedback of these items is to be accounted for by debiting Account 410.1 or 410.2, as appropriate, and crediting Account 190.

The staff recommends that the Company comply with these instructions to Account 190 of the Uniform System of Accounts in the future.

3. Company's Response:

The Company agrees to take the recommended action.

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4. REACCOUNTING R MATERIALS AND OPERATING SUPPLIES PREVIOUSLY EXPENSED

In 1982, the Company recorded entries debiting Account 154, Materials and supplies, and crediting expenses for the value of inventory on hand at Plant Daniel in the amount of \$578,019. Since the value of this inventory had been recovered in prior periods by charges to expense when the items were purchased, it was inappropriate to record these amounts in Account 154 since this will provide a duplicate recovery of the same costs.

Staff recommends that the Company record the following entry to remove previously expensed inventories from Account 154:

<u>Account</u>	<u>Description</u>	<u>Debit</u>	<u>Credit</u>
402	Maintenance expense	\$578,019	
154	Materials and supplies		\$578,019

4. Company's Response:

The Company does not agree with staff's recommendation. The Company reclassified the materials and supplies to inventory and reduced expenses (based on a audit performed in 1982), to enable the Company to expense the items during the period in which the items were used and to maintain a record of inventoried items. The Company has historically maintained an inventory of such items at all other locations.

The statement that the value of this inventory had been recovered in prior periods is incorrect. A review of the forecast data used in Docket No. 82-689-000 (the Company utilized a 1983 test period based on the 1982 budget), the budgeted amounts for both the generating plant repair parts and supplies and the estimate of Plant Daniel's operation and maintenance expenses (net of direct fuel) were very conservative. In fact, the Company's actual results were well above the forecast data as shown below.

-2-

	1982		1983	
	<u>Budget</u>	<u>Actual</u>	<u>Budget</u>	<u>Actual</u>
	\$	\$	\$	\$
Generating Plant Repair Parts and Supplies	6,900,000	10,471,125	6,900,000	8,471,701
Total Materials and Supplies	12,823,000	16,410,516	13,119,000	14,639,888
Plant Daniel O&M (Net of Fuel)	4,692,000	5,087,198	6,189,000	6,543,215

Since the Company is not presently planning to file a wholesale rate case, the proposed entry would have no effect on the rates we are collecting and would result in the Company understating materials and supplies in our financial statements and inventory control system.

5. PURCHASE OF 50% OF JACKSON COUNTY COOLING LAKE

In April 1981, Mississippi Power Company (MPC), an associated company, filed with the Commission proposed journal entries relating to the sale of 50% of the Jackson County Cooling Lake to Gulf Power Company (Gulf). Such entries proposed to bill Gulf one half of the original cost of the cooling water facilities.

In September 1981, the Chief Accountant responded and required MPC to transfer to Gulf one half of the previously accrued amortization associated with the Jackson County Cooling Lake. As of the current date no such transfer has taken place.

Staff recommends that the Company record the following entry to comply with the Chief Accountant's letter.

<u>Account</u>	<u>Description</u>	<u>Debit</u>	<u>Credit</u>
146	Accounts receivable from associated companies	\$859,655	
111	Accumulated provision for amortization of electric utility plant		\$859,655

5. Company's Response:

The staff is recommending that Gulf Power Company recover from Mississippi Power Company one half the amortization accumulated to the point of sale of the Blackwater Cooling Water Facility in Jackson County, Mississippi. The essence of the proposed audit adjustment is that Gulf Power received a "used" or "depreciated" asset for a gross "new" price. Gulf Power Company's position is that the proposed entry should not be made and recovery from Mississippi Power Company is not required for the following reasons:

- A) The Letter of Agreement between Mississippi Power Company and Gulf was drafted with fairness and equity to each Company's customers upmost in mind. The intent of this Letter of Agreement calls for Gulf to purchase its half of the Cooling Facility, at original construction cost and amortize this cost over the remaining limited term life of the facility. In other words, Gulf's amortization should follow the use of the cooling facility by Gulf Power Company from the point of equalization in Daniel Units 1 and 2 or the in-service date of Unit 2 (June, 1981).
- B) The Cooling Lake is an asset unlike other production plant assets. The lake is constructed on property held by Jackson County, Mississippi. Neither Gulf or Mississippi holds title to the lake which obviously consists mostly of land. As land by nature is non-depreciated, the "amortization" of this asset is only a recognition of the limited term lease-type agreement with the Jackson County Port Authority. The lake does not depreciate or "wear-out" with the passage of time or use. It had the same value to Gulf on the date it acquired rights to use as it did to Mississippi, when they originally acquired their rights.
- C) The agreement between Gulf and Mississippi regarding the cooling lake reflects the nature and purpose of the lake. That purpose is to provide cooling water service for 2 500 MW generating units. Until the equalization and in-service date of Unit 2, Mississippi Power Company utilized only 50% of the capacity of the lake for Unit 1. Gulf's benefit and use of the remaining capacity of the lake began when Unit 2 began commercial operation in June 1981. As stated above, the amortization in Gulf's books should reflect its usage period.

Staff will find the above reasoning evident in Mississippi Power Company's response to its last compliance audit. The entries made on Gulf's and Mississippi's books reflect the intent, fairness, and equity of the sales agreement for the Jackson County Cooling Lake.

6. IMPROPER ASSIGNMENT OF ALLOWANCE FOR FUNDS USED DURING CONSTRUCTION
(AFUDC)

The Company uses an AFUDC rate that is approved by the Florida Public Service Commission. This rate is consistently lower than the AFUDC rate by the Order No. 561 formula. During the examination of the assignment of AFUDC between Accounts 419.1, Allowance for other funds used during Construction, and 432, Allowance for borrowed funds used during construction - credit, staff noted that this assignment was in noncompliance with the Commission's letter directive dated October 1, 1981.

The letter directive provided that the portion of debt allowance included in Account 432 should be based on the debt components of the 561 rate. When the rate actually used is less than the 561 rate, the shortfall of these rates should be considered a reduction in the equity components of the 561 rate.

Staff recommends that the Company establish procedures to institute the agreed upon accounting recommendation per the Commission's letter directive.

6. Company's Response:

The Company agreed to take the recommended action.

7. IMPROPER BALANCES USED TO DETERMINE THE RATE FOR ALLOWANCE FOR
FUNDS USED DURING CONSTRUCTION (AFUDC)

During the examination of the rate for AFUDC pursuant to Order No. 561, and Accounting Release No. 13, staff noted that the Company used improper balances to compute the rate, as follows:

1. The Company failed to consider the related unamortized debt discount, premium and expense in determination of the long-term debt balance, and

2. In 1984, the Company failed to consider the monthly balances of unused construction funds from Pollution Control Bonds in the trustees' account in determination of the 13-month average balance of construction work in progress.

Staff recommends that in the future the Company comply with the requirements of Order No. 561 and Accounting Release No. 13. The impact of the above items did not result in excess AFUDC being capitalized.

7. Company's Response:

The Company agreed to take the recommended action.

8. IMPROPER CAPITALIZATION OF THE ALLOWANCE & FUNDS USED DURING
CONSTRUCTION (AFUDC)

Due to implementation of a new Plant Accounting System in 1983, except for projects with amounts greater than \$5,000,000, the Company capitalized a full month's AFUDC during the in-service month. This methodology assumed an in-service date at month end for all plant additions.

Plant additions are placed in-service throughout the month. Accordingly one-half month's AFUDC should be capitalized for the in-service month, thereby assuming that all additions are placed in-service at the middle of the month.

Staff recommends that the Company institute procedures to ensure the capitalization of one-half month's AFUDC for the in-service month as of January 1, 1985. The Company reversed \$127,487 of AFUDC improperly capitalized in February, 1985. This amount was applicable to all projects which were interest bearing and placed in-service during the period 6/1/83 through 12/31/84.

8. Company's Response:

The Company agreed to take the recommended action, and recommendation was recorded.

9. IMPROPER CAPITALIZATION OF THE ALLOWANCE FOR FUNDS USED DURING
CONSTRUCTION (AFUDC) AFTER THE IN-SERVICE DATE

In the examination of AFUDC capitalized, staff noted numerous work orders which were charged with AFUDC capitalized after the in-service date. This problem was also noted during the prior FERC audit.

Staff recommends that the Company revise its procedures and strengthen its internal controls to ensure that no AFUDC is capitalized past the in-service date as required by Plant Instruction No. 3(17) and Accounting Release No. AR-5. When staff brought to the Company's attention two work orders with significant amounts of AFUDC overcapitalized, the Company reversed \$48,221 of AFUDC. Other amounts of AFUDC capitalized past the in-service date were not significant enough to warrant adjustment of the plant accounts.

9. Company's Response:

The Company agreed to take the recommended action, and recommendation was recorded.

10. NEED TO FORMALIZE PROCEDURES TO ASSURE COMPLIANCE WITH
ACCOUNTING RELEASE NO. AR-5

The staff noted that AFUDC was accrued on suspended and delayed construction and during periods of interrupted construction. The staff noted further that it was the Company's policy to commence AFUDC when the first charges (normally engineering or materials) were charged to work orders deemed to qualify for AFUDC.

It is the Company's informal procedure that field engineers contact the Plant Account Department if projects are postponed for greater than one year. Staff noted one instance where this procedure was ineffective. When it was brought to the Company's attention by the staff, the Company reversed \$83,575 of AFUDC improperly capitalized.

Accounting Release No. AR-5 provides that AFUDC may start from the date that construction expenditures are continuously incurred on a planned progressive basis. It further provides that no AFUDC should be accrued during periods of interrupted construction unless the Company can justify the interruption as being reasonable under the circumstances. (Underscores added.)

Staff recommends that the Company establish formalized procedures to assure compliance with Accounting Release No. AR-5.

10. Company's Response:

The Company agreed to take the recommended action, and recommendation was recorded.

11. IMPROPER CAPITALIZATION OF ALLOWANCE FOR FUNDS USED DURING
CONSTRUCTION (AFUDC) ON THE RECONSTRUCTION (UPGRADE) OF THE
SCHOLZ-WEBB 115 K.V. LINE

000014

During the examination of work order No. 212401, Reconductor Scholz-Webb 115-KV line, staff noted that the Company capitalized AFUDC on the project expenditures during the period 6/1/83 through 8/31/83. Discussion with the engineer of the project disclosed that the project was constructed in two sections. One section was taken out-of-service, reconducted and placed back in-service prior to construction of the second section.

Electric Plant Instruction No. 3(17) states: "When a part only of a plant or project is placed in operation or is completed and ready for service but the construction work as a whole is incomplete, that part of the cost of the property placed in operation or ready for service shall be treated as 'Electric Plant in Service' and AFUDC thereon as a charge to construction shall cease. AFUDC on that part of the cost of the plant which is incomplete may be continued as a charge to construction until such time as it is placed in operation or is ready for service." Capitalizing AFUDC on the entire amount of the work order's charges was not in compliance with the requirements of Electric Plant Instruction No. 3(17).

Staff recommends that the Company strengthen its procedure to assure that AFUDC is not capitalized on portions of projects placed in-service prior to the total project in the future. The AFUDC improperly capitalized was not significant enough to warrant adjustment of the plant accounts.

11. Company's Response:

The Company agreed to take the recommended action.

The Company's accounting for the redemption of 150 Series First Mortgage Bonds due 2010 in June, 1984 was not in compliance with General Instruction No. 17 of the Uniform System of Accounts. As (1) unamortized discount related to the redemption was written-off currently to Account 428, Amortization of debt discount and expense and (2) no consideration was given to unamortized debt expense associated with the redemption.

General Instruction No. 17J(1) states,..."that the difference between the amount paid upon reacquisition of any long-term debt and the face value, adjusted for unamortized discount, expenses or premium, as the case may be, applicable to the debt redeemed shall be recognized currently in income and recorded in Account 421, Miscellaneous nonoperating income..."

The staff recommends that the Company comply with the requirements of General Instruction No. 17 when accounting for reacquired debt in the future.

12. Company's Response:

The Company agreed to take the recommended action, and recommendation was recorded.

13. AFUDC ACCRUED ON REBUILD AND CONVERSION (UPGRADE) PROJECTS

The Company accrued AFUDC on distribution rebuilding and conversion projects. During the examination of Work Order Number 023084, Reconductor 7,500' of copperweld line in Holiday Isle, staff noted that the line was in-service during the entire period of construction and the property units were placed in-service in a short period of time. Therefore, no AFUDC should have been accrued thereon.

The staff recommends that the Company initiate procedures to ensure that AFUDC is not capitalized on projects with a short construction period. AFUDC improperly capitalized was not significant enough to warrant adjustment of the plant accounts.

13. Company's Response:

The Company agreed to take the recommended action.

14. IMPROPER CAPITALIZATION OF CONTRACT LABOR ON TRANSMISSION LINE
UPGRADING PROJECT

During the examination of contractor invoices incurred on work order No. 212401, Reconductor the Scholz-Webb 115 K.V. line, staff noted the following improprieties of capitalization:

1. The Company did not allocate any charges to maintenance for relocating the existing conductor and fixtures;
2. The engineer judgementally distributed each invoice's dollars between construction and cost of removal without any support for such allocation;
3. The Company capitalized both the costs of checking connections of all existing structures and checking the condition of 10-guys and anchors.

Staff recommends that the Company revise its procedures to ensure that an equitable amount of contract labor is charged to maintenance and cost of removal, in accordance with the requirements of the Uniform System of Accounts, in the future. The amount improperly capitalized was not significant enough to warrant an adjustment of the plant accounts.

14. Company's Response:

The Company agreed to take the recommended action.

15. NEED TO IMPLEMENT STUDY RESULTS OF ENGINEERING AND SUPERVISIONPERSONNEL

Annually, applicable engineering and supervision personnel perform a two-week time study to determine how much of their time is related to construction. Staff noted that the study results, in most cases, was not being utilized. Rather, the managers (1) used estimates based on current construction budgets and (2) inadvertently failed to change other employees' times distributions.

Electric plant instruction No. 4B states, in part, "As far as practicable, the determination of payroll charges includible in construction overheads shall be based on time card distributions thereof. Where this procedure is impractical, special studies shall be made periodically of the time of supervisory employees devoted to construction activities to the end that only such overhead costs as have a definite relationship to construction shall be capitalized."

Staff recommends that the Company establish procedures to ensure that time distributions of employees devoted to construction are based on time studies which support a definite relationship to construction in the future. No adjustment of the plant accounts is proposed by staff due to the extreme difficulty in determining an appropriate amount of such adjustment.

15. Company's Response:

The Company agreed to take the recommended action.

16. IMPROPER CAPITALIZATION OF MATERIALS AND SUPPLIES ON OVERHEAD
DISTRIBUTION SYSTEM ORDERS (ODSO)

The Company charges all costs incurred for a specific ODSO to Account 107, Construction work in progress-Electric. Subsequently, during the mechanical classification of job charges, cost of removal and maintenance are stripped off the ODSO based on respective standard removal hours and the estimated labor cost for maintenance.

During the examination of the mechanical classification of ODSO No. 023084, Reconductor 7500' of copperweld line in Holiday Isle, staff noted that the Company capitalized all the materials and supplies that were charged to the job. The amount of \$11,072 of labor and indirects was stripped off the ODSO and charged to the appropriate maintenance account.

It is the staff's position that it was improper to charge the maintenance accounts solely with labor and indirect costs and not material costs.

Staff recommends that the Company revise its procedures to ensure that an equitable amount of materials and supplies in an ODSO is charged to the appropriate maintenance expense account(s) in the future.

16. Company's Response:

The Company agreed to take the recommended action.

17. UNRECORDED RETIREMENTS OF CONDUCTOR AND GUYS

During the examination of Overhead distribution system orders 023084 and 032767 and work order 212401, staff noted that the Company inadvertently failed to retire 11,661 pounds of copper conductor, 2,310 pounds of aluminum conductor and 7 guys.

Staff recommends that the Company record the following entry to retire the above noted items and charge the cost of removal for the conductor to the appropriate account. Also, the Company should strengthen its internal controls to ensure that items of the above nature are detected and retired on a timely basis in the future.

<u>Account</u>	<u>Distribution</u>	<u>Debit</u>	<u>Credit</u>
108	Accumulated provision for depreciation of electric utility plant	\$32,573	
402	Maintenance expense		\$ 2,738
101	Electric plant in-service		29,835

17. Company's Response:

The Company reviewed the three Work Orders in question. Retirement journal entries for the 11,611 lbs. of copper conductor and 2,310 lbs. of aluminum conductor on ODSO's 023084 and 032767 are attached. These entries were recorded by the Company in May of 1985. A review of Work Order No. 212401 indicated that all required retirements were made in January 1984. The 7 guys mentioned as not being retired in the staff recommendation are therefore not included in the retired amounts summarized below:

ODSO'S 023084 and 032767 (Recorded May 1985)

108		12,918	
	101		12,918

GVO No. 212401 (Recorded January 1984)

108		20,519	
	101		20,519

18. NEED TO ALLOCATE ENGINEERING AND SUPERVISION AND GENERAL OVER-HEADS TO THE COST OF REMOVAL

During the examination of engineering and supervision and general overheads, staff noted that these overheads related to construction and retirement work orders. However, the Company allocated these overheads only to construction work orders.

Staff recommends that the Company: (1) record the following entry to reclassify the engineering and supervision and general overheads applicable to the cost of removal for 1984; (2) perform a study to determine the amount of overheads applicable to cost of removal for the years 1980 through 1983; (3) submit this study to the Washington Staff; and (4) revise its procedures to ensure that an equitable amount of engineering and supervision and general overheads are charged to retirement work orders for the cost of removal in the future.

<u>Account No.</u>	<u>Description</u>	<u>Debit</u>	<u>Credit</u>
108	Accumulated Provision for Depreciation of Electric Utility Plant	\$278,330	
107	Construction Work in Progress		\$278,330

18. Company's Response:Staff Recommendation No. 1:

Gulf Power Company believes no entry for the year 1984 reclassifying engineering and supervision and general overheads to "cost of removal" should be recorded at this time. After performing the study called for under staff recommendations 2 and 3, Gulf submits that the logic of this study be applied to all 5 historical years in questions (1980-1984).

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The same method used to determine overheads applicable to "cost of removal" for 1980-1983 should be applied to 1984. After the FERC staff reviews this study and approves the methodology, Gulf proposes to adjust all 5 years (1980-1984) in a single journal entry in 1985. (Reference Schedule 2 for summary of study results and proposed journal entry.)

Staff Recommendations Nos. 2 and 3:

The attached schedules 1(a) and 1(b) show Gulf Power's study or method of estimating the engineering and supervision and general overheads applicable to "cost of removal" for the years 1980-1984. The advantages of the attached methodology include relative simplicity, logical reasoning, and ease of audit. All components of the estimation can be verified either to an official Operating Report schedule or to easily accessible Plant Accounting reports and working papers.

The attached study simply uses Schedule 73 of Gulf's monthly Operating Report containing year-to-date construction expenditures, remove year-to-date overheads including E & S, A & G, and AFUDC, removes the distorting effects of infrequent major projects (generating plant construction), and adds the "cost of removal" expenditures reported on Schedule 75 of the Operating Report. The resulting figure is a "pure" labor and material expended figure combining "construction" (Account 107) and "cost of removal" (Account 108). To arrive at E & S applicable to "cost of removal", cost of removal expenditures were taken as a percentage of this "pure" labor/material figure. This percentage is then applied to all E & S adjusted or net of that E & S relating to major projects to yield E & S relating to "cost of removal."

To arrive at general (A & G) overheads applicable to "cost of removal", the "pure" labor and material figure previously calculated is increased by the E & S amount net of major projects E & S. This new sum, or "base", is divided into the "cost of removal" to obtain a new percentage. This A & G percentage is applied to all general overheads (A & G) net of major project A & G. The result is A & G allocable to "cost of removal."

The major generating PE's "adjusted" in the calculations are accounted for almost entirely by Plant Daniel in 1980 and 1981 and Plant Scherer in 1984. Again, Gulf Power submits this study for FERC review and approval with adjustments for all 5 years in question (1980-1984) to be made simultaneously in 1985. (Reference Schedule 2 for summary of study results and proposed journal entry.)

Staff Recommendation No. 4:

While the FERC staff was present at Gulf Power, it was pointed out that Gulf had abandoned a proposed change to its mechanized plant accounting system to allow for allocation of engineering and supervision and general overheads to "cost of removal" since it was not cost effective. Gulf Power alternatively intends to allocate E & S and A & G to "cost of removal" by a manual monthly journal entry beginning 1985, retroactive to January. Currently, Gulf performs periodic studies throughout the year to arrive at functional (Production, Transmission, Distribution, General) allocation rates for E & S and A & G to construction (CWIP) expenditures. As a basis of this journal entry, Gulf proposes to use the same rates now developed for construction to apply E & S and A & G to "cost of removal." This procedure would be logical, accurate, and expedient.

UNIT NUMBER - 000001

1. TO UNIT 12.11 IN THE TROPICAL AREA
2. TO ALLOCATE ENGINEERING AND SUPERVISION AND GENERAL OVERHEAD TO THE UNIT OF PROJECT

UNIT 1 (A)

DESCRIPTION ALL YEAR TO DATE SUBS

A	TOTAL ALL EXPENDITURES, \$1000000.00		
B	LESS TOTAL MAJOR LABORATORY, \$1000000.00		
C	PLUS O/R'S ON MAJOR LABORATORY, \$1000000.00		
D	LESS ALL E.A.S. PAGE 12		
E	LESS ALL OTHER OVERHEAD, \$1000000.00		
F	PLUS TOTAL COST OF REPAIR, \$1000000.00		
G	EQUALS TOTAL "PURE" LABOR AND MATERIAL		
H	ENGINEERING AND SUPERVISORY		
I	COST OF REPAIR (1)		
J	"PURE" LABOR/MATERIAL (2)		
K	E & S (3) OF ALL E.A.S. (3) TOTAL TWO CENTS, \$0.02		
L	E & S TO ALLOCATE TO COST OF REPAIR		
M	A SOURCE IN THE PLANT COSTS		
N	ADMINISTRATIVE AND LEGAL		
O	COST OF REPAIR (1)		
P	"PURE" LABOR/MATERIAL (2)		
Q	E & S (3) OF ALL E.A.S. (3) TOTAL TWO CENTS, \$0.02		
R	E & S TO ALLOCATE TO COST OF REPAIR		
S	A SOURCE IN THE PLANT COSTS		

GULF POWER COMPANY

SCHEDULE 1: 18

1-1-80 THRU 12-31-84 FERC COMPLIANCE AUDIT
OVERHEADS ON MAJOR GENERATING PROJECTS

000025

ITEM NO. 18 - CODE "C" DETAIL

YEAR	P.E.	308 E & S	309-1098 GR 309-0481 A & G	ALL OTHER OVERHEADS	TOTAL OVERHEADS
1980	15			1538	1538
	16	337422455	16543321	906763508	1260727284
	18				0
	21				0
	22				0
1980	TOTAL	337422455	16543321	906765046	1260730822
1981	16	161360944	263000	225424967	387048911
	22				0
1981	TOTAL	161360944	263000	225424967	387048911
1982	22				0
1982	TOTAL				0
1983	15				0
	22				0
1983	TOTAL				0
1984	20	571553997	49812528	175772822	797139347
	22				0
1984	TOTAL	571553997	49812528	175772822	797139347
GRAND TOTAL		1070337396	66618849	1307962835	2444919180

GULF POWER COMPANY
1-1-80 THRU 12-31-84 FERC COMPLIANCE AUDIT; ITEM NO. 18
SUMMARY OF OVERHEADS ALLOCATED TO COST OF REMOVAL AND PROPOSED ENTRY

SUMMARY:

<u>YEAR</u>	<u>E & S</u>	<u>A & G</u>	<u>TOTAL</u>
1980	\$ 163,351.00	\$11,269.81	\$ 174,620.81
1981	83,043.59	3,497.93	86,541.52
1982	406,499.46	35,996.03	442,495.49
1983	363,069.76	24,520.00	387,589.76
1984	<u>294,255.40</u>	<u>22,619.03</u>	<u>316,874.43</u>
TOTAL	<u>\$1,310,219.21</u>	<u>\$97,902.80</u>	<u>\$1,408,122.01</u>

PROPOSED ENTRY:

	<u>DR</u>	<u>CR</u>
CONTROL ACCOUNT 108	\$1,408,122.01	
CONTROL ACCOUNT 107		\$1,408,122.01

19. IMPROPER CAPITALIZATION OF SOFTWARE IMPLEMENTATION COSTS 000027

During the examination of administrative and general overhead capitalized, staff noted that, during the year 1982 through 1984, the Company capitalized as such the cost to produce and revise job control languages (JCL's) for its Standard Plant Accounting System (SPAS) and its Major Projects Management System (MPMS). The amounts of \$804,409 for SPAS and \$238,680 for MPMS were capitalized as administrative and general overhead. Prior to 1982, the Company expensed as incurred all costs of developing the systems' software.

Electric Plant Instruction No. 4(A) states, in part, "General overhead cost shall be charged to particular jobs or units on the basis of the amounts of such overheads reasonably applicable thereto." These software costs were not applicable to only the specific jobs which they were loaded on. Rather, they were necessary to conduct the operation of Plant Accounting. Items of this nature are properly includable in Account 303, Miscellaneous intangible costs.

Staff recommends that the Company record the following entry to properly state the electric plant balances in accordance with the requirements of the Uniform System of Accounts as for 12/31/84. In the future the Company should record the cost of major new software involving relatively large expenditures in Account 303 and amortize the amount to Account 404, Amortization of limited term electric plant, over a period not to exceed five years.

<u>Account</u>	<u>Description</u>	<u>Debit</u>	<u>Credit</u>
303	Miscellaneous Intangible Plant	\$1,043,089	
107	Construction Work in Progress		\$1,043,089

19. Company's Response:

The original implementation costs as well as the recurring developmental and maintenance costs of the Standard Plant Accounting System (SPAS) and

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the Major Projects Management System (MPMS) are properly capitalizable A&G costs as these systems record, monitor, and provide auditable data of construction expenditures. The Company recommends the accounting for these costs remain unadjusted and classified in Account 107, Construction Work in Progress, for the following reasons:

- 1) These costs represent the continuing record-keeping cost component of Gulf's construction (CWIP) program.
- 2) The developmental and maintenance costs of these systems are of an "on-going" nature and not limited to a short (less than 5 years) period of time.
- 3) Gulf will accrue benefits from these systems for many years to come. Developmental costs represent enhancements or improvements to the basic design.
- 4) The relationship of these costs to Account 303 and their concurrent categorization as "limited term" is unclear to the Company.

The Company agrees that construction Work Orders during the 1982-1984 period would be allocated larger components of capitalized general administration as a result of implementation of these systems. However, the Company believes these software costs of recording and monitoring an on-going construction program more clearly constitute "general expenses applicable to construction" under Electric Plant Instruction 3(12) than "limited term" property under Account 303.

The Company at its Smith Generating Plant is mixing sodium sulfate with South African coal prior to burning it in the boiler. The sodium sulfate is only added when the South African coal is burned by itself, if a mixture of South African coal and domestic coal is burned no sodium sulfate is added. The sodium sulfate is added to the coal burned to change the chemical composition of the coal and improve overall unit performance (i.e. unit capacity, precipitator, etc.) due to the characteristics of the South African coal. The cost of the sodium sulfate is charged to Account 501, Fuel, upon purchase.

The Company includes the cost of the sodium sulfate in its fuel adjustment clause (FAC) factor calculation for wholesale customers. However, the cost of sodium sulfate is an improper item for inclusion in a fuel adjustment charge under Section 35.14 of the regulations of the Federal Power Act.

Section 35.14 states that "the cost of fossil fuel shall include no items other than those listed in Account 151 of the Commission's Uniform System of Accounts for Public Utilities and Licenses." Account 151 does not allow for the recording of such additional materials as sodium sulfate in the account.

The staff recommends that the Company (1) cease the practice of including the cost of sodium sulfate in the wholesale FAC in the future and (2) refund to its wholesale customers \$38,947.60 plus \$8,862.81 of interest covering the period December 1, 1980 through December 31, 1984.

20. Company's Response:

The Company believes it is appropriate to recover the cost of sodium sulfate through the Wholesale Fuel Adjustment Clause Factor Calculation

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(Wholesale FCA) because these costs are directly related to the use of South African coal. By excluding the cost of sodium sulfate from the Wholesale FCA, the FERC would deny the Company the opportunity to recover prudently incurred costs until the Company's next Wholesale Rate Case.

We recommend that the Company be allowed to continue the recovery of the sodium sulfate cost through the Wholesale FCA. We are recovering this cost through the Retail Florida Public Service Commission F.C.A.

11. CAPITALIZATION OF THE ALLOWANCE FOR FUNDS USED DURING 000031
CONSTRUCTION (AFUDC) ON POLLUTION CONTROL FACILITIES ALLOWED
IN RATE BASE

The Company's rate filings, related to Docket Numbers ER80-536 and ER80-689, incorporated rate base treatment with regard to several specific pollution control projects which were included in Account 107, Construction work in progress (CWIP). Staff noted that the Company did not cease capitalization of AFUDC on the CWIP amounts included in rate base in the above noted rate proceedings.

Order No. 555, which permitted the inclusion of pollution control CWIP in rate base, noted that the Uniform System of Accounts' provisions provided for exclusion of AFUDC on CWIP consistent with the rate treatment given such amounts.

Staff recommends that the Company:

1. Cease capitalization of AFUDC on CWIP included in rate base on the date such rates become effective in the future; and
2. record the following journal entry to correct the accounts as of December 31, 1984.

<u>Account</u>	<u>Description</u>	<u>Debit</u>	<u>Credit</u>
419.1	Allowance for other funds used during construction	57,712	
432	Allowance for borrowed funds used during construction - credit	65,526	
107	Construction work in progress		123,238

11. Company's Response:

The Company does not concur with this audit point because this recommendation assumes that the requested rate base treatment for the specified projects

was approved. In both referenced dockets, the Company settled the docket for a specified dollar amount, but did not address each individual issue in the case through testimony and/or hearings. Since the Company did not receive 100% of their request these items can be assumed to have a portion of that request that was not attained.

21. ACCOUNTING FOR BANK COMMITMENT FEE

The Company recorded commitment fees paid for bank loans committed but not borrowed in Account 930.2, Miscellaneous General Expenses. Such costs are a financing cost chargeable to Account 431, other interest expense.

The staff recommends that in the future, the Company record bank commitment fees in Account 431.

22. Company's Response:

The Company agreed to take the recommended action.

In 1981, the Company sold a 50% interest in Plant Daniel Unit #2 and purchased a 50% interest in Plant Daniel Unit #1 from Mississippi Power Company (MPC). The Company did not file for FERC approval for the journal entries related to the transactions consisting of operating units, nor did it use Account 102, Electric plant purchased or sold, to record this transaction. The Company received the approval of the Securities and Exchange Commission for the exchange related to the units.

Account 102 of the Uniform System of Accounts, states (a) this account shall be charged with the cost of electric plant acquired as an operating unit or system by purchase and shall be credited with the selling price of like property transferred to others pending the distribution to appropriate accounts in accordance with Electric Plant Instruction 5; and (b) the utility shall file with the Commission the proposed journal entries to clear from this account the amounts recorded herein.

The following improprieties were noted in the recordation of the exchange:

(A) The Company capitalized \$1,591,615 of test period energy costs with regard to Daniel Unit #2. However, the Company did not transfer any part of such costs to MPC. Since, MPC acquired a 50% interest in Daniel Unit #2, it should have borne 50% of the test period energy costs capitalized applicable to that unit of \$795,807. Therefore, the inclusion of \$795,807 test period energy costs in Account 101, electric plant in service, is improper.

The Florida Public Service Commission (FPSC) in its order at Docket No. 810136-EU allowed the inclusion for rate purposes the retail jurisdictional portion of the \$1,591,615 of capitalized test period energy costs.

Thus, the staff proposes that the Company (1) transfer the FERC jurisdictional portion of these costs of \$59,452 to MPC and (2) transfer the FPSC unamortized jurisdictional portion of \$519,493 to Account 186, Miscellaneous deferred debits. The balance in Account 186 should be amortized to Account 406, Amortization of electric plant acquisition adjustments, over the life of the related plant.

(B) Although the Companies exchanged a 50% interest in Plant Daniel Units #1 and #2, no consideration was given in the exchange with regard to the deferred income taxes recorded on each Company's books with respect to the property exchanged. The staff proposes that since each Company is to have borne 50% of the total net cost of the plant, that the net deferred income taxes recorded on each Company's books for this property at the time of the exchange should have been divided equally between Gulf and MPC.

(C) The adjustment recorded applicable to investment tax credits associated with the exchange of the units which was based upon each Company's applicable tax basis of the property is inequitable. The staff proposes that since each Company is to have borne 50% of the total net cost of the plant, that the net ITC recorded on each Company's books at the time of the exchange should have been divided equally between Gulf and MPC.

The staff recommends that the Company (1) use Account 102 to record transactions involving operating units or systems and file with the Commission the proposed journal entries to clear the account in the future; (2) record the following journal entry to correct the accounts as of December 31, 1984 for the cost of test period energy of Plant Daniel Unit #2; and (3) submit to the Washington Staff proposed journal entries to adjust the accounts as of December 31, 1984 to properly account for deferred income taxes and ITC on the exchange.

<u>Account No.</u>	<u>Description</u>	<u>Debit</u>	<u>Credit</u>
186	Miscellaneous Deferred Debts	\$519,493	
108	Accumulated Provision for Depreciation of Electric Utility Plant	234,371	
146	Accounts Receivable from Associated Companies	59,452	
101	Electric Plant in Service		\$795,807
403	Depreciation Expense		17,509

23. Company's Response:

Staff Recommendation #1:

Gulf Power Company agrees with the staff recommendation. In the future Gulf Power Company will record all transactions involving purchase or sale of operating units or systems in Account 102. Clearances of Account 102 will be submitted for FERC approval. Gulf Power Company intends to fully comply with Electric Plant Instruction No. 5.

Staff Recommendation #2:

Gulf Power Company does not agree with the staff recommendation and believes that an adjusting entry removing Unit #2 Daniel Plant "test" costs from Plant-In-Service is inappropriate. Gulf Power Company believes no transfer or recoupment of the FERC jurisdictional amount of these "test" costs from Mississippi Power Company is proper.

When Plant Daniel Unit No. 1 was placed in service in 1977, Mississippi Power Company, sole owner at that time of Plant Daniel, passed 100% of the Unit No. 1 "start-up" costs to its customers by way of its fuel clause adjustment. As a result, Gulf Power Company agreed to assume 100% of the "start-up" costs of Daniel 2. However, Gulf Power was not able to pass these costs along to its customers by way of the fuel clause adjustment. Florida Public Service Commission Accounting Department Bulletin 76-7, dated April 28, 1976, required capitalization of those "test" costs over and above "normal" or non-test operating costs. This Bulletin, a copy of which is appended, follows closely the requirements of Electric Plant Instruction No. 3 (18), "Earnings and Expenses During Construction". The Florida Public Service Commission's staff recommendation regarding this issue in Rate Case Docket No. 810136-EU, is also attached. This recommendation reaffirms the above reasoning.

As in the case of the Daniel Cooling Lake covered by Item 5 of this audit, the accounting for the exchange of Daniel Units 1 and 2 between Mississippi and Gulf and the handling of Unit 2 "test" costs reflect the intent of the Companies' Agreement and the desire for fairness and equity to each Company's customers. The accounting for the "test" or "start-up" costs for Daniel 2 reflects a basic difference in timing (Unit 1-1977 vs. Unit 2-1981) and state regulatory commission requirements.

Staff Recommendation #3:

General Instruction 18 of the Uniform System of Accounts requires that:

"Where there are timing differences between the periods in which transactions affect taxable income and the periods in which they enter into the determination of pretax accounting income, the income tax effects of such transactions are to be recognized in the periods in which the differences between book accounting income and taxable income arise and in the periods in which the differences reverse using the deferred tax method."

As shown on the attached schedule, Gulf Power Company's books/tax timing differences were \$22,949,091 both before and after the exchange. The deferred tax balance shown on the balance sheet of a public utility is equal to the tax rate times the book/tax timing differences. Therefore, it would not be correct to adjust Gulf's deferred tax balances, as recommended by the staff, because Gulf's book/tax timing difference were not affected by the exchange. In addition, the Uniform System of Accounts states, in instructions for Accounts 281 and 282, that:

"When the disposition relates to retirement of an item or items under a group method of depreciation where there is no tax effect in the year of retirement, no entries are required in this account if it can be determined that the related balance would be necessary to be retained to offset future group item tax deficiencies."

This statement covers the like-kind exchange between Gulf Power and Mississippi Power in that there is no tax effect to the exchange and the accumulated deferred income tax balances are necessary to offset future tax deficiencies.

Investment tax credits (ITC) are derived by applying the prevailing statutory rate to qualifying tax basis expenditures that are ready for service. In order to determine qualifying tax basis expenditures to claim investment tax credits, certain book costs, indirect construction costs, which were capitalized during the construction period but claimed as current year deductions on various tax returns must be excluded from the qualifying tax expenditure base. Included in such costs are AFUDC, taxes, employees' benefits and depreciation expense on transportation equipment utilized in the construction project. Gulf and Mississippi Power Companies indirect construction costs applicable to Plant Daniel Units 1 and 2 were different due to their respective capital cost used in setting their AFUDC rates, their regulated depreciation rates associated with transportation equipment, changes in the payroll tax laws during the construction period and price escalation due to inflation. These differences resulted in unequal qualifying tax basis expenditures for Gulf and Mississippi. Included in timing differences not exchanged, as noted above, were indirect construction costs capitalized for book purposes but claimed as current year deductions for tax purposes which resulted in unequal qualifying tax expenditures eligible for ITC. Since ITC is calculated using qualifying tax basis expenditures and there was no exchange of timing differences between Gulf and Mississippi, the equitable method to "true-up" the investment tax credits associated with Plant Daniel was to determine each company's prorata share of qualifying tax basis expenditures generating the investment tax credits. The tax credits were apportioned between Gulf and Mississippi in the Southern Company's Consolidated Tax Return filed for tax year 1981, using the "true-up" method described above which resulted in a transfer of tax credits from Gulf to Mississippi of approximately \$1.1 million.

FLORIDA



PUBLIC SERVICE COMMISSION

WILLIAM T. NAYLOR, CHAIRMAN
 BILL DEVIS
 MRS. PAULA F. HAWKINS

100 SOUTH ADAMS STREET
 TALLAHASSEE, FLORIDA 32304
 TELEPHONE 944-4400

ACCOUNTING BULLETIN

April 28, 1976

TO : ALL INVESTOR OWNED ELECTRIC COMPANIES OPERATED UNDER THE JURISDICTION OF
 THE FLORIDA PUBLIC SERVICE COMMISSION

FROM: DIRECTOR, ACCOUNTING DEPARTMENT *WTC*

RE : FAIR VALUE OF ENERGY PRODUCED DURING THE TESTING OF ELECTRIC GENERATING UNITS

The Uniform System of Accounts requires that the "fair value" of energy generated during testing should be credited to the construction work order when the output is intermingled with the system, but does not indicate how the credit should be determined. Recently various groups including the Federal Power Commission, EEI and the AICPA have studied the proper measurement of the value of energy generated during the testing of electric generating units. We have reviewed the results of the various studies and the purpose of this Bulletin is to establish a method of valuing such energy.

Therefore, please understand that, effective immediately the fair value of

energy generated during the testing of all fuel-fired electric generating units

shall be determined as follows:

1. Actual cost of fuel and related power production expenses during the testing period.
2. Actual cost of fuel and related power production expenses during the testing period with appropriate adjustments to reflect normal expected operating efficiency. The amount of the credit related to fuel would be equal to the quantity of fuel it would have taken to generate the same number of hours under normal or expected operating conditions at the current charge-out price.

ACCOUNTING BULLETIN - Page Two

The amount of power production expenses other than fuel should also be adjusted to reflect normal operating conditions. This will insure that the difference between actual costs and "normal" or expected costs will remain in the construction work order.

The amount of the "fair value" credit to the construction work order should be concurrently charged to the appropriate fuel and other production operation and maintenance expense accounts.

PGL/WOT/bc

STAFF'S RECOMMENDATION
Gulf Power Company Rate Case
Docket No. 810136-EU

000042

ISSUE 7: If some portion of Plant Daniel is included in the rate base should an adjustment be made to plant in service to allocate Unit #2 start-up costs between Gulf and Mississippi Power Company.

RECOMMENDATION

Staff recommends that no adjustment be made for this issue.

DISCUSSION

The company has included in plant in service some \$1,551,863 (system) of capitalized start-up costs associated with the Daniel #2 unit. It is the company's contention that no adjustment should be made to share these costs with Mississippi Power Company (MPC), since customers of Mississippi Power absorbed 100% of the start up costs of the Daniel #1 unit.

Company witness Scarbrough testified that M.P.C. assumed 100% of the start-up costs of Daniel #1 and that these costs were passed to MPC customers through the fuel adjustment clause. Therefore, Gulf agreed to assume 100% of the start-up costs of the Daniel #2 unit. (TR 3002) Rather than pass all of the Unit #2 start-up costs through the fuel adjustment clause, like MPC did with the Unit #1 costs, Gulf was forced

to capitalize that portion of the Unit #2 costs that were over and above what the operating costs would have been had the unit been operating under normal operating conditions rather than start-up. This was in accordance with F.P.S.C. Accounting Department Bulletin (ADB) 76-7, issued on April 28, 1976. (TR 1523, 1831, 1838, 3002)

Mr. Scarbrough further testified that the \$1,551,863 was capitalized out of total start-up costs of \$15,251,098 for Daniel Unit #2 and if Daniel #1 start-up costs had been accounted for on a basis comparable with the method used for Daniel #2, it would be necessary to capitalize \$1,678,256 out of the total start-up costs of \$11,801,968. (TR 1833-4) Therefore, if the Unit #1 costs were accounted for in the same manner as the Unit #2 costs and both are shared equally between Gulf and MPC, Gulf would be required to decrease rate base by \$775,932 (system) for half of the Unit #2 costs, while at the same time increasing rate base by \$839,128 for half of the Daniel #1 costs borne entirely by MPC. The net effect of these adjustments would increase Gulf's requested rate base by \$63,196, (System) (TR 1832-3) Mr. Scarbrough adds that "there is no way, we (Gulf) can collect an adjustment from MPC in any event." (TR 3003)

Public Counsel has taken the position that one half of the capitalized Daniel #2 start-up costs 795,607 (System) should be borne by MPC and therefore Gulf's rate base should be reduced in the same amount. Public Counsel presented no evidence to support their position.

Executive Agencies did not address this issue.

Staff is of the opinion that the company has accounted for the Daniel Unit #2 costs in accordance with the Uniform System of Accounts and A.D.B. 76-7.

Although Company Witness Scarbrough testified that Gulf had committed to a participation agreement on Daniel Unit #1, prior to the in service date of the unit (Tr 1521), the start-up costs of Unit #1 were incurred and passed to MPC customers prior to any equalization payments being made by Gulf Power. When these equalization payments were made, however, no Unit #1 start-up costs were included since the Unit #1 costs had been passed to MPC customers. (TR 1522) If not for A.D.B. 76-7, the unit #2 costs would have been accounted for in exactly the same manner as the Unit 1 costs, and the entire \$15,251,098 could have been passed thru the fuel adjustment clause to Gulf's customer's. No capitalization would have been necessary. Another alternative would be to account for the Unit #1 costs, in accordance with A.D.B. 76-7, however, this would result in net increase in Gulf's rate base of some \$63,196 according to Mr. Scarbrough. Since the Unit #1 costs have already been disposed of in Mississippi, this latter treatment, absent any adjustment by the Mississippi Commission, could result in either Gulf's or MPC's Stockholders eating the \$775,932 of Unit #2 costs that would be transferred to MPC.

Due to the different time periods and jurisdictional regulations involved with this transaction, we are satisfied that Gulf took the appropriate action. Staff therefore, recommends that no adjustment be

appropriate action. Staff therefore, recommends that no adjustment be made for this issue.

CHIEF POWER COMPANY
PLANT DABTEL, EXCHANGE
STATEMENT OF ALL TRANSACTIONS
AT 7/1/81

	Book		Tax		Timing Difference	
	Book	Reserve	Book	Reserve	Book	Reserve
Unit #1 (Includes CWP purchased from MNC)						
Before Unit #2	166,111,675.80	-	141,104,504.39	-	22,969,091.41	-
To MNC	8,166,811.90	-	11,692,292.20	-	11,676,545.70	-
Balance	81,166,811.90	-	11,692,292.19	-	11,676,545.71	-
Unit #1 from MNC	69,725,862.34	8,673,780	69,577,536.64	-	20,168,325.70	(8,673,780)
After - #1 & #2	152,892,700.24	8,673,780	121,269,828.83	-	31,622,871.41	(8,673,780)
Cooling Pond Improvements-Acq.	6,189,222.31	16,422.46	6,122,799.85	-	16,422.46	-
Land - Acq.	2,611,442.45	-	2,611,442.45	-	-	-
Total	8,775,664.76	16,422.46	8,736,242.30	-	16,422.46	-
MNC's						
Before	10,127,135.60	186,123.33	10,140,612.21	-	216,019.78	(186,123.33)
To MNC	(5,163,667.80)	(93,361.67)	(5,070,306.13)	-	(108,010.11)	(93,361.67)
Balance	5,163,667.80	93,361.67	5,070,306.13	-	108,009.67	(93,361.67)
From MNC	4,113,340.26	392,928.89	3,780,419.31	-	607,577.34	(392,928.89)
After	9,337,016.06	686,290.56	8,850,725.50	-	515,587.01	(686,290.56)
Common Facilities						
From MNC	11,997,130	-	11,997,130	-	-	-
Total All	184,992,711.06	9,176,421.02	152,844,830.18	-	32,154,000.00	(9,176,421.02)

(1) The timing difference on "Before" and "After" the exchange were the same. Therefore, no deferred income tax accounting was required.

24. ACCOUNTING FOR TAX BENEFITS ON TRANSACTIONS WITH AN 000017
ASSOCIATED COMPANY

Staff examined the Company's accounting for (1) the exchange in September, 1980 by Gulf and Mississippi Power Company (MPC) of a 50% undivided interest in coal cars used at Plant Daniel and (2) the purchase in December, 1980 of a 50% interest in the Jackson County Cooling Lake by Gulf from MPC. It is the staff's position that all accumulated deferred income taxes and accumulated deferred investment tax credits should have been distributed ratably to each Company in relation to the net plant investment on each Company's books. However, the transactions only resulted in transfers of investment tax credits based on gross property investment.

The staff recommends that the Company submit to the Washington Staff proposed journal entries to adjust the accounts as of December, 31, 1984 to properly account for accumulated deferred income taxes and accumulated deferred investment tax credits on the transactions.

24. Company's Response:

General Instruction 18 of the Uniform System of Accounts requires that:

"Where there are timing differences between the periods in which transactions affect taxable income and the periods in which they enter into the determination of pretax accounting income, the income tax effects of such transactions are to be recognized in the periods in which the differences between book accounting income and taxable income arise and in the periods in which the differences reverse using the deferred tax method."

As shown on the attached schedule, Gulf Power Company's book/tax timing differences, both before and after the exchange were zero for the Cooling Pond and \$29,296 for the Coal Cars. The deferred tax balances shown on the balance sheet of a public utility are equal to the tax rate times the book/tax timing differences. Therefore, it would not be correct to adjust Gulf's deferred tax balances, as recommended by the staff, because Gulf's book/tax timing differences were not affected by the exchange. In addition, the Uniform System of Accounts states, in instructions for Accounts 281 and 282, that:

"When the disposition relates to retirement of an item or items under a group method of depreciation where there is no tax effect in the year of retirement, no entries are required in this account if it can be determined that the related balance would be necessary to be retained to offset future group item tax deficiencies."

This statement covers these transactions between Gulf Power and Mississippi Power in that there is no tax effect to the exchange and the accumulated deferred income tax balances are necessary to offset future tax deficiencies of each company.

Investment tax credits (ITC) are derived by applying the prevailing statutory rate to qualifying tax basis expenditures that are ready for service. In order to determine qualifying tax basis expenditures to claim investment tax credits, certain book costs, indirect construction costs, which were capitalized during the construction period but claimed as current year deductions on various tax returns must be excluded from the qualifying tax expenditure base. Since ITC is calculated using qualifying tax basis expenditures and there was no exchange of timing

differences between Gulf and Mississippi, the equitable method to "true-up" the investment tax credits associated with the Coal Cars and the Jackson County Cooling Lake was to determine each company's pro rata share of qualifying tax basis expenditures generating the investment tax credits. For additional discussion of "true-up" for investment tax credits see Gulf's response to FERC Item No. 23.

CULF POWER COMPANY
PLANT DEBIT EXCHANGE
STATEMENT OF ALL TRANSACTIONS
AT 6/1/83

	Debit		Credit		Timing Difference	
	Debit	Reserve	Debit	Reserve	Debit	Reserve
Debit Unit (includes "W" purchased from MTC)						
Before Unit #2	166,111,615.80	-	166,111,615.80	-	166,111,615.80	-
To MTC	81,166,811.90	-	81,166,811.90	-	81,166,811.90	-
Balance	84,944,803.90	-	84,944,803.90	-	84,944,803.90	-
Unit #1 from MTC	69,125,862.34	0,613,180	69,125,862.34	0,613,180	69,125,862.34	0,613,180
After- #1 & #2	152,092,700.24	0,613,180	152,092,700.24	0,613,180	152,092,700.24	0,613,180
Cooling Pond						
Improvements-Acq.	6,119,227.11	16,422.46	6,119,227.11	16,422.46	6,119,227.11	16,422.46
Land - Acq.	2,611,442.45	-	2,611,442.45	-	2,611,442.45	-
Total	8,730,669.56	16,422.46	8,730,669.56	16,422.46	8,730,669.56	16,422.46
MR Unit						
Before	10,127,315.60	186,121.11	10,127,315.60	186,121.11	10,127,315.60	186,121.11
To MTC	(5,163,661.80)	(91,361.67)	(5,163,661.80)	(91,361.67)	(5,163,661.80)	(91,361.67)
Balance	4,963,653.80	94,759.44	4,963,653.80	94,759.44	4,963,653.80	94,759.44
From MTC	4,113,348.26	92,928.89	4,113,348.26	92,928.89	4,113,348.26	92,928.89
After	9,076,999.06	187,688.33	9,076,999.06	187,688.33	9,076,999.06	187,688.33
Common Facilities						
From MTC	11,991,130	-	11,991,130	-	11,991,130	-
Total All	166,992,711.06	2,116,491.02	166,992,711.06	2,116,491.02	166,992,711.06	2,116,491.02

(1) The timing difference "Before" and "After" the exchange were the same. Therefore, no deferred income tax accounting was required.

15. ACCOUNTING FOR DEFERRED INCOME TAXES FOR DEFENSE FACILITIES

000071

Account 281, Accumulated Deferred Income Taxes - Accelerated Amortization Property, has a debit balance of \$259,037 as of December 31, 1984, for deferred income taxes relating to defense facilities. The problem is that in prior years the Company, in error, recorded too much feedback in Account 281 and not enough feedback in Account 282, Accumulated Deferred Income Taxes - Other Property.

The staff recommends that the Company correct the Account 281 and Account 282 balances as of December 31, 1984. The Company has agreed to correct the account balances in 1985.

25. Company's Response:

The Company agreed to take the recommended action, and the recommendation was recorded.

26. FAILURE TO TRANSFER THE ACCUMULATED DEPRECIATION ASSOCIATED
WITH ELECTRIC PLANT TRANSFERRED BETWEEN FUNCTIONS

000072

In the examination of transfers of electric plant between functions, the staff noted one instance on General Work Order No. 636 where the Company did not transfer the accumulated depreciation between functions related to the transferred property which exceeded an original cost of \$108,000. This is noncompliance with the Commission's letter directive dated October 1, 1981, in which the Company agreed to transfer related accumulated depreciation for property transfers in excess of \$50,000.

Electric Plant Instruction No. 12 requires that when property is transferred between functions, any related amounts carried in the accumulated provision for depreciation shall be transferred to the appropriate function.

Staff recommends that the Company (1) establish procedures to ensure that when property is transferred between functions with an original cost that exceeds \$50,000, then the related accumulated depreciation is transferred in the future and (2) record an adjusting journal entry to properly transfer the accumulated depreciation between functions for General Work Order No. 636.

26. Company's Response:

The Company agreed to take the recommended action, and recommendation was recorded.

SCHEDULE V-5

Directors of Affiliated Companies or Subsidiaries

Page 1 of 1

FLORIDA PUBLIC SERVICE COMMISSION

Company: GULF POWER COMPANY

Docket No. 591345-EI

Explanation: Provide a schedule of directors of affiliated companies or subsidiaries which provided goods or services to the applicant or its affiliates showing a) name, b) principal business address, c) date term began, d) date term expires, e) number of directors' meetings attended in the test year (prior year if test year is projected), and f) fees received during the test year (prior year if test year is projected).

Type of data shown:
Projected Test Year 1990
Prior Year 1989
Witness A. E. Scarbrough

Line No.	Name	Principal Business Address	Affiliated Company	Date Term Began	Date Term Ends	Number of Meetings Attended Twelve Months Ended 12/31/89	Fees Received
1	E. L. Addison	64 Perimeter Center East Atlanta, GA 30346	Southern Company Services	6/89	6/90	5	-

SCHEDULE F-4

Officers of Affiliated Companies or Subsidiaries

Page 1 of 6

FLORIDA PUBLIC SERVICE COMMISSION

Company: GULF POWER COMPANY

Explanation: Provide a schedule of officers of affiliated companies or subsidiaries which provide goods or services to the applicant or its affiliates showing: a) title, b) name, and c) principal business address.

Docket No. 891345-EI

Type of data shown:
Projected Test Year 1990
Prior Year 1989
Witness A. E. Scarborough

Line No.	Title	(A) Name	(B) Principal Business Address
1	Alabama Power Company		
2			600 North 18th St. Birmingham, Alabama 35203
3			Post Office Box 2641 Birmingham, Alabama 35291
4			
5			
6			
7	President & Chief Executive Officer	Elmer B. Harris	
8	Executive Vice President - Finance	Trevor J. Boudon	
9	Executive Vice President	William L. McDonough	
10	Executive Vice President	Bill M. Guthrie	
11	Executive Vice President	R. P. McDonald	
12	Senior Vice President	W. G. Holstrom	
13	Vice President	Stephen E. Bradley	
14	Vice President & Counsel	Robert A. Quattner	
15	Vice President	Rayford F. Davis	
16	Vice President	John E. Dorsett	
17	Vice President	Bonka H. Ferris	
18	Vice President	R. S. Hardgrove	
19	Vice President	R. E. Hoffman	
20	Vice President & Treasurer	William D. Hutchins, III	
21	Vice President	T. M. Jones	
22	Vice President	C. A. Martin	
23	Vice President	Charlton B. McArthur	
24	Vice President & Comptroller	Jackson W. Minor	
25	Vice President	Jack D. Woodward	
26	Vice President - Birmingham Division	H. N. Yarnor, Jr.	
27	Vice President - Eastern Division	Jerry J. Thomas	
28	Vice President - Southeastern Division	John B. Byers, Jr.	
29	Vice President - Southern Division	Clyde H. Wood	
30	Vice President - Western Division	Robert H. Muebelin, Jr.	
31	Vice President - Mobile Division	J. Bruce Jones	
32	Secretary	Arthur P. Beattie	
33	Assistant Comptroller	Charles H. Deason	
34	Asst. Secretary & Asst. Treasurer	Jerry L. Harris	
35	Asst. Secretary & Asst. Treasurer	R. Wayne Docton	
36	Asst. Secretary	J. R. Harris	
37	Asst. Secretary	Dorothy L. Keels	
38	Asst. Secretary	John H. Snyder	
39	Asst. Treasurer	William L. Smith	
40	Asst. Treasurer	David L. Whitem	

Supporting Schedules:

Recap Schedules:

SCHEDULE F-6

Officers of Affiliated Companies or Subsidiaries

Page 2 of 6

FLORIDA PUBLIC SERVICE COMMISSION

Explanation: Provide a schedule of officers of affiliated companies or subsidiaries which provide goods or services to the applicant or its affiliates showing: a) title, b) name, and c) principal business address.

Company: GULF POWER COMPANY

Type of data shown:
Projected Test Year 1990
Prior Year 1989
Witness A. E. Scarborough

Packet No. 891345-EI

Line No.	Title	(A) Name	(B) Principal Business Addresses
1	Georgia Power Company		
2			
3			
4			
5			
6			
7	President & Chief Executive Officer	A. W. Dahlberg	
8	Senior Executive Vice President	H. Grady Baker, Jr.	
9	Executive Vice President	Bright H. Evans	333 Piedmont Ave., S.E. Atlanta, Georgia 30308
10	Executive Vice President	John C. Hunsby, Jr.	
11	Executive Vice President & Chief Financial Officer	Warren T. Johns	
12	Executive Vice President	Robert P. McDonald	
13	Senior Vice President	K. E. Adams	
14	Senior Vice President	Thomas G. Boren	
15	Senior Vice President	Wayne T. Dahlke	
16	Senior Vice President	William G. Maristoun, III	
17	Senior Vice President	Gene R. Hodges	
18	Vice President & Corporate Secretary	Judy M. Anderson	Post Office Box 4543 Atlanta, Georgia 30302
19	Vice President	James W. Averett	
20	Vice President	J. T. Beckham, Jr.	
21	Vice President	H. A. Broom	
22	Vice President	Robert D. Carpenter	
23	Vice President	W. M. Davidson	
24	Vice President	James K. Davis	
25	Vice President	C. L. Donaldson, Jr.	
26	Vice President	J. M. Griffith	
27	Vice President, Comptroller & Chief Accounting Officer	C. B. Harreld, Jr.	
28	Vice President	C. W. Hodges	
29	Vice President	J. Wynn Lamb	
30	Vice President	J. B. Manley	
31	Vice President	J. L. Martin, Jr.	
32	Vice President	Charles K. McCoy	
33	Vice President	J. A. Perrumore, Jr.	
34	Vice President & Treasurer	Richard J. Pershing	
35	Vice President	R. H. Pinson	
36	Vice President	J. M. Tolley, Jr.	
37	Vice President	Russell L. Weaver	
38	Vice President	Fred D. Williams	
39	Vice President - Athens Division	Don N. Williams	
40	Vice President - Augusta Division	Jack K. Widener, Jr.	

Supporting Schedules:

Recap Schedules:

SCHEDULE F-6

Officers of Affiliated Companies or Subsidiaries

Page 3 of 6

FLORIDA PUBLIC SERVICE COMMISSION

Explanation: Provide a schedule of officers of affiliated companies or subsidiaries which provide goods or services to the applicant or its affiliates showing, a) title, b) name, and c) principal business address.

Company: GULF POWER COMPANY

Type of data shown:
Projected Test Year 1990
Prior Year 1989
Witness A. E. Scarborough

Docket No. 841345-EI

Line No.	Title	(A) Name	(B) Principal Business Address
1	Georgia Power Company (Cont'd)		
2			
3			
4			
5			
6	Vice President - Columbus Division	Freeman B. O'Neal, Jr.	
7	Vice President - East Metro Division	R. E. Conway	
8	Vice President - Macon Division	E. C. Berinneau	333 Piedmont Ave., N.E. Atlanta, Georgia 30308
9	Vice President - Rome Division	J. L. Conn	
10	Vice President - Valdosta Division	J. J. Cordova	
11	Vice President - West Metro Division	Fred W. Duhant, Jr.	Post Office Box 4545 Atlanta, Georgia 30302
12	Assistant Comptroller	R. R. Cook	
13	Assistant Secretary & Assistant Treasurer	C. S. Thrasher	
14	Assistant Secretary & Assistant Treasurer	E. Wayne Boston	
15	Assistant Secretary	J. R. Harris	
16	Assistant Treasurer	Querry P. Strickland	
17	Assistant Treasurer	Charles O. Rowling	
18	Assistant Treasurer	H. W. Southern	
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Supporting Schedules:

Recap Schedules

SCHEDULE F-6

Officers of Affiliated Companies or Subsidiaries

Page 4 of 6

FLORIDA PUBLIC SERVICE COMMISSION

Explanation: Provide a schedule of officers of affiliated companies or subsidiaries which provide goods or services to the applicant or its affiliates showing: a) title, b) name, and c) principal business address.

Company: GULF POWER COMPANY

Type of data shown:
Projected Test Year 1990
Prior Year 1989
Witness A. E. Scarbrough

Docket No. 891345-EI

Line No.	Title	(A) Name	(B) Principal Business Address
----------	-------	-------------	-----------------------------------

Mississippi Power Company

President & Chief Executive Officer
Vice President
Vice President - Finance
Vice President
Vice President
Comptroller
Secretary
Treasurer
Assistant Secretary
Asst Secretary & Asst Treasurer
Asst Secretary & Asst Treasurer

Paul J. Dabicko
H. Ed Blakeslee
Kerry H. Esell
Don E. Mason
Robert C. Pierce
W. Edgar Gilmore
Joe C. McClellan
Joe C. Gartin
Ann D. Lloyd
E. Wayne Beaton
J. B. Harris

2992 West Beach
Gulfport, Mississippi 39501

Post Office Box 4079
Gulfport MS 39501

Supporting Schedules:

Recap Schedules:

SCHEDULE P-4

Officers of Affiliated Companies or Subsidiaries

FLORIDA PUBLIC SERVICE COMMISSION
 Company: GULF POWER COMPANY
 Docket No. 801345-EI

Explanation: Provide a schedule of officers of affiliated companies or subsidiaries which provide goods or services to the applicant or its affiliates showing: a) title, b) name, and c) principal business address

Type of data shown:
 Projected Test Year 1990
 Prior Year 1989
 Witness A. E. Scarborough

Line No. Title (A) Name (B) Principal Business Address

Savannah Electric and Power Company

600 East Bay Street
 Savannah Georgia 31401

President & Chief Executive Officer
 Senior Vice President & Chief Financial Officer
 Vice President
 Vice President
 Vice President
 Vice President
 Treasurer & Secretary
 Assistant Secretary

Arthur W. Cignilliet
 E. Olin Vanle
 W. Hiles Greer
 Harold H. Kraft
 James L. Rayburn
 John W. Spivey
 Kirby R. Willis
 Grace E. Arnold

Supporting Schedules:

Recap Schedules:

SCHEDULE F-4

Officers of Affiliated Companies or Subsidiaries

Page 6 of 6

FLORIDA PUBLIC SERVICE COMMISSION

Explanation: Provide a schedule of officers of affiliated companies or subsidiaries which provide goods or services to the applicant or its affiliates showing: a) title, b) name, and c) principal business address.

Company: GULF POWER COMPANY

Type of data shown:
Projected Test Year 1990
Prior Year 1989
Witness A. E. Scarbrough

Docket No. 891345-EI

Line No.	(A) Name	(B) Principal Business Addresses
1	Southern Company Services, Inc.	
2		64 Perimeter Center East
3		Atlanta, Georgia 30346
4		
5		Post Office Box 2625
6		Birmingham, Alabama 35202
7		
8		One Wall Street, Suite 4200
9		New York, New York 10005
10	Chairman of the Executive Committee	
11	President & Chief Executive Officer	Edward L. Addison
12	Executive Vice President	H. Allen Franklin
13	Executive Vice President	Joseph M. Farley
14	Executive Vice President	David H. Radcliffe
15	Executive Vice President	Robert R. Todd
16	Senior Vice President	W. L. Weidbrook
17	Vice President, Secretary & House Counsel	H. Basil Wade, Jr.
18	Vice President	Tommy Chisholm
19	Vice President	Bob Andrews
20	Vice President	I. Otis Berthman
21	Vice President	Robert G. Dawson
22	Vice President	Douglas E. Dutton
23	Vice President	C. H. Goodman
24	Vice President	J. E. Harris
25	Vice President	W. Dean Hudson
26	Vice President	J. S. Kieley
27	Vice President - Finance & Treasurer	Gale E. Klappe
28	Vice President	Louis B. Long
29	Vice President	William A. Marer, III
30	Vice President	Charles D. McCrary
31	Vice President	B. R. McKinnery
32	Vice President	John C. Richardson
33	Asst Comptroller & Asst Secretary	R. Sam Shepard
34	Asst Comptroller & Asst Secretary	Robert O. Terry
35	Assistant Secretary	E. Wayne Boston
36	Assistant Treasurer	Robert M. Glibert, Jr.
37		Houston L. Welch, Jr.
38		David Prince
39		
40		

Supporting Schedules:

Receipt Schedules

SCHEDULE F-7

Business Contracts with Officers or Directors, 12 Months Ended 12/31/88

Page 1 of 1

FLORIDA PUBLIC SERVICE COMMISSION

Company: GULF POWER COMPANY

Docket No. 881345-EI

Explanation: Provide a schedule of business contracts entered into by the applicant with its officers, directors, or firms, partnerships and organization with which officers or directors are affiliated. For the test year (prior year if the test year is projected), show a) name of officer or director, b) position held in company, c) name and address of affiliated entity, d) relationship with affiliated entity, e) amount of contract or transaction, and f) description of product or service.

Type of data shown:
Projected Test Year 1990
Prior Year 1989
Witness A. E. Scarbrough

Line No.	Name of Officer or Director	Position Held	Name & Address of Affiliated Entity	Relationship with Affiliated Entity	Amount of Contract or Transaction (1988)	Description of Product or Service
1	D. L. McCarty	President and Chief Executive Officer	Citizens & Builders Federal Savings Bank P.O. Box 12486 Pensacola FL 32573	Director	(1)	Banking Services and Line of Credit
2						
3						
4						
5						
6						
7	E. L. Addison	Director	CSE Corporation P.O. Box 100235 Atlanta GA 30384	Director	\$3,606,465.05	Rail Transportation for Coal Stock
8						
9						
10						
11						
12	M. D. Hall, Jr.	Director	Sun Commercial Bank P.O. Drawer 2180 Panama City FL 32401	President	(1)	Banking Services
13						
14						
15						
16						
17	C. W. Buckel	Director	Vanguard Bank and Trust Company P.O. Box 158 Valparaiso FL 32560	Chairman	(1)	Banking Services
18						
19						
20						
21						
22						
23	J. K. Tenneshill	Director	Stock Equipment Company 16490 Chilliwhite Rd. Chagrin Falls OH 44022-4398	President and Chief Executive Officer	\$ 344,791.84	Electrical Equipment Supplier
24						
25						
26						
27						
28						
29	V. J. Whitbe, Sr.	Director	AmSouth Bank of Florida P.O. Box 12790 Pensacola FL 32575	Director	(1)	Banking Services and Line of Credit
30						
31						
32						
33						
34						
35						
36						
37						
38						
39						
40						

(1) Maintain Demand Deposit Account

Supporting Schedules

Recap Schedules

FORECASTING MODELS

Schedule F-9

FLORIDA PUBLIC SERVICE COMMISSION

COMPANY: GULF POWER COMPANY

DOCKET NO.: 891345-E1

EXPLANATION: If a projected test year is used, provide a brief description of each method or model used in the forecasting process. Provide a flow chart which shows the position of each model in the forecasting process. Provide under separate cover to staff, Commissioners, Commission Clerk, and, upon request, other parties to this docket a detailed description of the complete forecasting model used to provide the forecasts of the number of customers, energy sales and peak demands. This description shall include the methods used to calculate and validate the model(s). A description of the differences between this forecasting model and that used in the Commission's most recent planning hearing shall be included.

Type of Data Shown:

Projected Test Year Ended 12/31/90

Witness: D. P. Gilbert

Page

Witness

I. Overview

A. Flow Chart of Forecasting Process

B. Narrative

II. Customer, Energy, and Peak Demand Forecasts

III. Revenue Budget

IV. Fuel Budget
Interchange Budget

V. Construction Budget

VI. Operations and Maintenance Budget

VII. Financial Model

2

3

4

12

13

16

18

20

Gilbert

Kilgore

Kilgore

Parsons
Howell

Gilbert

Gilbert

McMillan

Recap Schedules:

Supporting Schedules:

EXPLANATION:

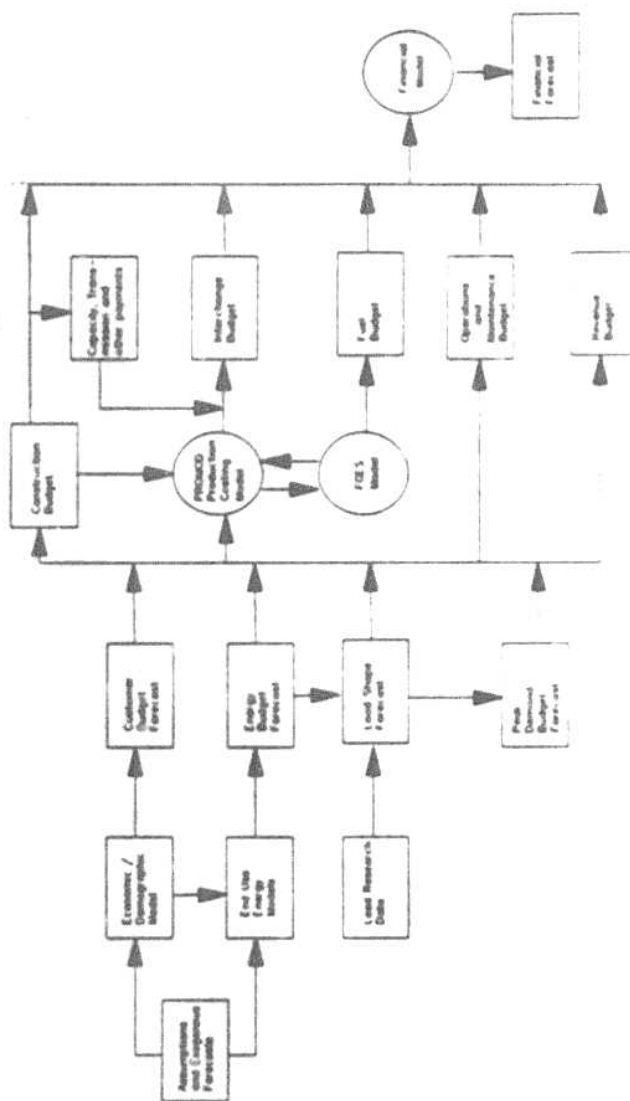
EXPLANATION: If a projected test year is used, provide a brief description of each method or model used in the forecasting process. Provide a flow chart which shows the position of each model in the forecasting process. Provide under separate cover to staff, Commissioners, Commission Clerk, and, upon request, other parties to this docket a detailed description of the complete forecasting model used to provide the forecasts of the number of customers, energy sales and peak demands. This description shall include the method(s) used to calculate and validate the model(s). A description of the differences between this forecasting model and that used in the Commission's most recent planning hearing shall be included.

Type of Data Shown:

Projected Test Year Ended 12/31/90

Witness: D. P. Gilbert

Gulf Power Forecast / Planning Process



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Recap Schedules!

FLORIDA PUBLIC SERVICE COMMISSION

COMPANY: GULF POWER COMPANY

DOCKET NO.: 891345-E1

EXPLANATION: If a projected test year is used, provide a brief description of each method or model used in the forecasting process. Provide a flow chart which shows the position of each model in the forecasting process. Provide under separate cover to staff, Commissioners, Commission Clerk, and, upon request, other parties to this docket a detailed description of the complete forecasting model used to provide the forecasts of the number of customers, energy sales and peak demands. This description shall include the method(s) used to calculate and validate the model(s). A description of the differences between this forecasting model and that used in the Commission's most recent planning hearing shall be included.

Type of Data Shown:

Projected Test Year Ended 12/31/90

Witness: D. P. Gilbert

B. Narrative1. OVERVIEW

This schedule describes the process Gulf Power uses in developing its annual financial forecast. The financial forecast is comprised of eight component budgets which are used by management to assess departmental performance and to control the Company's operations and activities. Gulf's financial forecast is a logically developed and detailed tool that management uses in making decisions affecting the future direction of the Company.

Gulf's forecasting process is outlined on the flow chart on page 2 of this schedule. The chart shows the process beginning with information obtained by the Marketing Department which leads to the development of the customers, energy, and demand budgets. These budgets in turn provide the basis for developing the revenue, fuel, interchange, construction, and operations and maintenance budgets. The chart does not indicate the numerous management reviews and approvals of each budget, nor does it show approval of the construction budget by the Board of Directors.

Many assumptions are incorporated in the eight component budgets of Gulf's financial forecast. Parameter assumptions to be used as guidelines for budgeting are provided to all departments by Corporate Planning. Additionally, assumptions are made as each department develops its own budget. A listing of these assumptions is contained on MFR Schedule F-17.

The information and budgets developed by this process are input to Gulf's Financial Model which utilizes the inputs and generates the accounting statements that comprise the Company's financial forecast. With a few adjustments, as described by Mr. McMillen in his testimony, the financial forecast becomes useful for rate making purposes, providing Gulf's 1990 financial data as used in this proceeding.

Supporting Schedules:

Recap Schedules:

FLORIDA PUBLIC SERVICE COMMISSION

COMPANY: GULF POWER COMPANY

DOCKET NO.: 891345-E1

EXPLANATION: If a projected test year is used, provide a brief description of each method or model used in the forecasting process. Provide a flow chart which shows the position of each model in the forecasting process. Provide under separate cover to staff, Commissioners, Commission Clerk, and, upon request, other parties to this docket a detailed description of the complete forecasting model used to provide the forecasts of the number of customers, energy sales and peak demands. This description shall include the method(s) used to calculate and validate the model(s). A description of the differences between this forecasting model and that used in the Commission's most recent planning hearing shall be included.

Type of Data Shown:

Projected Test Year Ended 12/31/90

Witness: J. T. Kilgore, Jr.

II. CUSTOMER, ENERGY, AND PEAK DEMAND FORECAST

Methodology Overview

Gulf Power Company views the forecasting effort as a dynamic process requiring ongoing efforts to yield results which allow informed planning and decision-making. The total forecast is an integration of different techniques and methodologies, each applied to the task for which it is best suited. Many of the techniques take advantage of the extensive data made available through the Company's marketing efforts, which are predicated on the philosophy of knowing and understanding the needs, perceptions and motivations of our customers and actively promoting wise and efficient uses of energy which satisfy customer needs. This philosophy entails focused market research efforts, coupled with marketing programs aimed at providing our customers with the information needed to make sound energy decisions.

The Forecasting and Marketing Planning section of the Marketing and Load Management Department is responsible for preparing forecasts of customers, energy, peak demand and base rate revenues. Forecasts of monthly customers, energy sales, supply and peak demand are produced for both the short-term (0-5 years) and long-term (6-25 years). Base rate revenue projections are prepared for the short-term horizon. A description of the methods used in the development of these forecasts follows.

Residential Customer Forecast

The immediate short-term forecast (0-2 years) of customers is based primarily on projections prepared by division personnel. The divisions remain abreast of local market and economic conditions within their service territories through direct contact with economic development agencies, developers, builders, lending institutions and other key contacts. The immediate short-term forecasts prepared by the divisions, which are developed through various forecasting methods, are analyzed for consistency and the incorporation of major construction projects and business developments is reviewed. The end result is a near-term forecast of residential customers by type of dwelling.

For the remaining forecast horizon (3-25 years), the Regional Economic Growth Impact Study (REGIS), a mathematically intensive forecasting model, is utilized in the development of residential customer projections. At the center of this system is a cohort survival routine approach in which population by age group is aged from one time period to the next. The model's migration/demographic component, given an initial population age distribution, together with forecasts of migration, births and deaths, projects population by age group into the future.

The forecast of residential customers is an outcome of the final section of the migration/demographic element of the model. The number of residential customers Gulf expects to serve is calculated by multiplying the total number of households located in the eight counties in which Gulf provides service by the percentage of customers in these eight counties for which Gulf currently provides service.

Supporting Schedules:

Recap Schedules:

FLORIDA PUBLIC SERVICE COMMISSION	EXPLANATION:	Type of Data Shown:
COMPANY: GULF POWER COMPANY	if a projected test year is used, provide a brief description of each method or model used in the forecasting process. Provide a flow chart which shows the position of each model in the forecasting process. Provide under separate cover to staff, Commissioners, Commission Clerk, and, upon request, other parties to this docket a detailed description of the complete forecasting model used to provide the forecasts of the number of customers, energy sales and peak demands. This description shall include the methods used to calculate and validate the model(s). A description of the differences between this forecasting model and that used in the Commission's most recent planning hearing shall be included.	Projected Test Year Ended 12/31/90
DOCKET NO.: 891345-E1		Witness: J. T. Kilgore, Jr.

The number of households referred to above is computed by applying a household formation trend to the previously mentioned population by age group, and then by summing the number of households in each of five adult age categories. As indicated, there is a relationship between households, or residential customers, and the age structure of the population of the area, as well as household formation trends. The household formation trend is the product of initial year household formation rates in the Gulf service area and projected U.S. trends in household formation.

Commercial Customer Forecast

The immediate short-term forecast (0-2 years) of commercial customers, as in the residential sector, is prepared by the divisions. A review of the assumptions, techniques and results for each division is undertaken, with special attention given to the incorporation of major commercial development projects.

Beyond the immediate short-term period, commercial customers are forecast as a function of residential customers, reflecting the growth of commercial services to meet the needs of new residents. Implicit in the commercial customer forecast is the relationship between growth in total real disposable income and growth in the commercial sector.

Residential Sales Forecast

The residential energy sales forecast is prepared using the Residential End-Use Energy Planning System (REZEPS), a model developed for the Electric Power Research Institute (EPRI) by Cambridge Systematics, Incorporated, under Project RP1211-2. The REZEPS model integrates elements of both econometric and engineering end-use approaches to energy forecasting. Market penetrations and energy consumption rates for major appliance end-uses are treated explicitly. REZEPS produces forecasts of appliance installations, operating efficiencies and utilization patterns for space heating, water heating, air conditioning and cooking, as well as other major end-uses. Each of these decisions is responsive to energy prices and demand-side initiatives, as well as household/dwelling characteristics and geographical variables.

The major behavioral responses in the simulation model have been estimated statistically from an analysis of household survey data. Surveys provide the data source required to identify the responsiveness of household energy decisions to prices and other variables.

The REZEPS model forecasts energy decisions for a large number of different population segments. These segments represent households with different demographic and dwelling characteristics. Together, the population segments reflect the full distribution of characteristics in the customer population. The total service area forecast of residential energy decisions is represented as the sum of the choices of various segments. This approach enhances evaluation of the distributional impacts of various demand-side initiatives.

Supporting Schedules:

Recap Schedules:

FLORIDA PUBLIC SERVICE COMMISSION	EXPLANATION:	If a projected test year is used, provide a brief description of each method or model used in the forecasting process. Provide a flow chart which shows the position of each model in the forecasting process. Provide under separate cover to staff, Commissioners, Commission Clerk, and, upon request, other parties to this docket a detailed description of the complete forecasting model used to provide the forecasts of the number of customers, energy sales and peak demands. This description shall include the method(s) used to calculate and validate the model(s). A description of the difference between this forecasting model and that used in the Commission's most recent planning hearing shall be included.	Type of Data Shown:
COMPANY: GULF POWER COMPANY			Projected Test Year Ended 12/31/90
DOCKET NO.: 891345-E1			Witness: J. T. Elligore, Jr.

For each of the major end-uses, REZPS forecasts equipment purchases, efficiency and utilization choices. The model distinguishes among appliance installations in new housing, retrofit installations and purchases of portable units. Within the simulation, the probability of installing a given appliance in a new dwelling depends on the operating and performance characteristics of the competing alternatives, as well as household and dwelling features. The installation probabilities for certain end-use categories are highly interdependent.

The functional form of the appliance installation models is the multinomial logit or its generalization, the nested logit. The parameters of these models quantify the sensitivity of appliance installation choices to costs and other characteristics. The magnitudes of these parameters have been estimated statistically from household survey data.

Appliance operating efficiency and utilization rates are simulated in the REZPS model as interdependent decisions. Efficiency choice is dependent on operating cost at the planned utilization rate, while actual utilization depends on operating cost given the appliance efficiency. Appliance and building standards affect efficiency directly by mandating higher levels than those otherwise expected.

The sensitivity of efficiency and utilization decisions to costs, climate, household and dwelling size, and income has been estimated from historical survey data. Energy prices, income, and household and dwelling size significantly affect space conditioning and residual energy use. Household and dwelling size also influence water heating usage. Climate significantly impacts space heating and air conditioning.

Major appliance base year unit energy consumption (UEC) estimates are based on either metered appliance data or conditioned energy demand regression analysis. The latter is a technique employed in the absence of metered observations of individual appliance usage, and involves the disaggregation of total household demand for electricity into appliance specific demand functions.

Conditional energy demand models are multivariate regressions which explain residential customers' demands for electricity as functions of the energy-using equipment that they own, weather conditions, demographic and dwelling characteristics, and other factors playing a major role in total household energy consumption. The mathematics underlying this method rely upon the premise that consumption through a particular end-use must be zero if the end-use is not present, and if the end-use is present, energy consumption levels are represented as dependent on weather, demographics, income and other variables.

FLORIDA PUBLIC SERVICE COMMISSION	EXPLANATION:	If a projected test year is used, provide a brief description of each method or model used in the forecasting process. Provide a flow chart which shows the position of each model in the forecasting process. Provide under separate cover to staff, Commissioners, Commission Clerk, and, upon request, other parties to this docket a detailed description of the complete forecasting model used to provide the forecasts of the number of customers, energy sales and peak demands. This description shall include the method(s) used to calculate and validate the model(s). A description of the differences between this forecasting model and that used in the Commission's most recent planning hearing shall be included.	Type of Data Shown:
COMPANY: GULF POWER COMPANY			Projected Test Year Ended 12/31/90
DOCKET NO.: 891345-E1			Witness: J. T. Kilgore, Jr.

The total electrical energy consumption, E , of a household can be represented as:

$$E = E_0 + \sum_{i=1}^N E_i$$

where E_i is the electrical energy consumed by a specified major appliance i , and E_0 is the electrical energy consumed by the remaining, unspecified set of appliances. The methodology of conditional energy demand analysis produces cross sectional, ordinary least squares regression estimates of the appliance coefficients. The regressions were performed using input data from the Gulf Power Company 1984, 1986 and 1988 Residential Market Survey, billing cycle monthly energy data, and billing cycle monthly weather data.

Commercial Sales Forecast

COMPEND, a commercial end-use model developed by the Georgia Institute of Technology through EPRI Project RP1216-06, serves as the basis for the major portion of Gulf's commercial energy sales forecast.

The COMPEND model is an extension of the capital-stock approach used in most econometric studies. This approach views the demand for energy as a product of three factors. The first of these factors is the physical stock of energy-using capital, the second factor is base year energy use, and the third is a utilization factor representing utilization of equipment relative to the base year.

Changes in equipment utilization are modeled using short-run econometric fuel price elasticities. Fuel choice is forecast with a life-cycle cost/behavioral microsimulation submodel, and changes in equipment efficiency are determined using engineering and cost information for space heating, cooling and ventilation equipment and econometric elasticity estimates for the other end-uses (lighting, water heating, ventilation, cooking, refrigeration, and others).

Three characteristics of COMPEND distinguish it from traditional modeling approaches. First, the reliance on engineering relationships to determine future heating and cooling efficiency provides a sounder basis for forecasting long-run changes in space heating and cooling energy requirements than a pure econometric approach can supply. Second, the simulation model uses a variety of engineering data on the energy-using characteristics of commercial buildings. Third, COMPEND provides estimates of energy use detailed by end-use, fuel type and building type.

FLORIDA PUBLIC SERVICE COMMISSION

COMPANY: GULF POWER COMPANY

DOCKET NO.: 891345-E1

EXPLANATION:

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Type of Data Shown:

Projected Test Year Ended 12/31/90

Witness: J. I. Kilgore, Jr.

Gulf's most recent Commercial Market Survey, conducted in 1984, provided much of the input data required for the COMBEND model. The model produces forecasts of energy use for the end-uses mentioned above, within each of the following business categories:

- | | |
|---------------------------------|---------------------------------|
| 1. Food Stores | 7. Elementary/Secondary Schools |
| 2. Offices | 8. Colleges/Trade Schools |
| 3. Retail and Personal Services | 9. Hospitals/Health Services |
| 4. Public Utilities | 10. Hotels/Hotels |
| 5. Automotive Services | 11. Religious Organizations |
| 6. Restaurants | 12. Miscellaneous |

Industrial Sales Forecast

The short-term industrial energy sales forecast is developed using a combination of interviews of major industrial customers, trending techniques, and multiple regression analysis. Forty-three of Gulf's largest industrial customers are interviewed to identify load changes due to equipment addition, replacement or changes in operating characteristics.

The short-term forecast of monthly sales to these major industrial customers is a synthesis of the information obtained through interviews and historical monthly load factor trends. The forecast of short-term sales to the remaining smaller industrial customers is developed using multiple regression analysis.

The long-term forecast of industrial energy sales is based on econometric models of the chemical, pulp and paper, other manufacturing, and non-manufacturing sectors. The industrial forecast is further refined by accounting for expected cogeneration installations, and a supplemental energy rate.

FLORIDA PUBLIC SERVICE COMMISSION	EXPLANATION:	Type of Data Shown:
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DOCKET NO.: 891345-E1		Witness: J. T. Kilgore, Jr.

Street Lighting Sales Forecast

The forecast of monthly energy sales to street lighting customers is based on projections of the number of fixtures in service, for each of the following fixture types:

HIGH PRESSURE SODIUM VAPOR	MERCURY VAPOR
5,400 Lumens	3,200 Lumens
8,800 Lumens	7,000 Lumens
20,000 Lumens	9,400 Lumens
25,000 Lumens	17,000 Lumens
46,000 Lumens	48,000 Lumens

In the short-term, the estimated monthly kilowatt-hour consumption for each fixture type is multiplied by the projected number of fixtures in service to produce total monthly sales for a given type of fixture. This methodology allows Gulf to explicitly evaluate the impacts of lighting programs, such as mercury to high pressure sodium conversions. In the long-term, kilowatt-hour consumption grows at the same rate as projected fixture growth which, in itself, is modeled as a function of projected residential customer growth.

Wholesale Energy Forecast

The short-term forecast of energy sales to wholesale customers is based on interviews with these customers, as well as recent historical data. A forecast of total monthly energy requirements at each wholesale delivery point is produced. Energy requirements for the Southeastern Power Administration are based on current contracts.

The long-term forecast is based on estimates of annual growth rates for each delivery point, according to future growth potential.

Peak Demand Forecast

The peak demand forecast is prepared using the Hourly Electric Load Model (HELM), developed by ICF, Incorporated, for EPRI under Project RP1955-1. The model forecasts hourly electrical loads over the long-term.

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DOCKET NO.: 891345-E1		Witness: J. T. Kilgore, Jr.

Load shape forecasts have always provided an important input to traditional system planning functions. Forecasts of the pattern of demand have acquired an added importance due to structural changes in the demand for electricity and increased utility involvement in influencing load patterns for the mutual benefit of the utility and its customers.

HELM represents an approach designed to better capture changes in the underlying structure of electricity consumption. Rapid increases in energy prices during the 1970's and early 1980's brought about changes in the efficiency of energy-using equipment. Additionally, sociodemographic and microeconomic developments have changed the composition of electricity consumption, including changes in fuel shares, housing mix, household age and size, construction features, mix of commercial services, and mix of industrial products.

In addition to these naturally occurring structural changes, utilities have become increasingly active in offering customers options which result in modified consumption patterns. An important input to the design of such demand-side programs is an assessment of their likely impact on utility system loads.

HELM has been designed to forecast electric utility load shapes and to analyze the impacts of factors such as alternative weather conditions, customer mix changes, fuel share changes, and demand-side programs. The structural detail of HELM provides forecasts of hourly class and system load curves by weighting and aggregating load shapes for individual end-use components.

Model inputs include energy forecasts and load shape data for the user-specified end-uses. Inputs are also required to reflect new technologies, rate structures and other demand-side programs. Model outputs include hourly system and class load curves, load duration curves, monthly system and class peaks, load factors and energy requirements by season and rating period.

The methodology embedded in HELM may be referred to as a "bottom-up" approach. Class and system load shapes are calculated by aggregating the load shapes of component end-uses. The system demand for electricity in hour i is modeled as the sum of demands by each end-use in hour i :

$$L_i = \sum_{p=1}^{N_p} L_{p,i} + \sum_{c=1}^{N_c} L_{c,i} + \sum_{l=1}^{N_l} L_{l,i} + \text{Misc}_i$$

Where: L_i = system demand for electricity in hour i ;

N_p = number of residential end-use loads;

N_c = number of commercial end-use loads;

FLORIDA PUBLIC SERVICE COMMISSION

COMPANY: GULF POWER COMPANY

DOCKET NO.: 891345-E1

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Type of Data Shown:

Projected Test Year Ended 12/31/90

Witness: J. T. Kilgore, Jr.

 N_I = number of industrial end-use loads;

 $I_{P,I}$ = demand for electricity by residential end-use R
in hour i;

 $I_{C,I}$ = demand for electricity by commercial end-use R
in hour i;

 $I_{I,I}$ = demand for electricity by industrial end-use R
in hour i;

 $Misc_I$ = other demands (wholesale, street lighting, losses,
Company use) in hour i.
COMPANY USE & INTERDEPARTMENTAL ENERGY

The 1990 Annual Forecast for Company and Interdepartmental energy usage was based on recent historical values, with appropriate adjustments to reflect the difference in energy requirements through 1989, for new Company facilities. The 1990 forecasted Company usage was then projected through the year 2014, at the same growth rate each year as the growth in residential customers. The monthly spreads were derived using historical relationships between monthly and annual energy usage.

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COMPANY: GULF POWER COMPANY		Projected Test Year Ended 12/31/90
DOCKET NO.: 891345-E1		Witness: J. T. Kilgore, Jr. D. P. Gilbert

III. REVENUE BUDGET

Gulf's Base Revenue Budget is developed by the Marketing Department with Corporate Planning providing the Other Operating Revenue portion and the Financial Model calculating the Fuel Revenue portion. The Base Revenue Budget is developed utilizing inputs from the Customer, Energy and Demand Budgets and the currently effective rates as approved by the FPSC at the time of the forecast.

Base revenues are calculated by multiplying the:

- (1) Projected monthly customers by rate schedule times the corresponding customer facilities charge.
- (2) Projected monthly kWh's by rate schedule times the appropriate energy rate.
- (3) Projected monthly billing demand by appropriate rate schedule times the corresponding demand charge.

All appropriate discounts and contracted capacities are taken into account in making these calculations. In rate classes where revenues are calculated at the aggregate level rather than on an individual basis, the billing demand, discounts and minimum bill components are treated as a combined residual based on historical data. Base revenues are the summation of the above calculations.

Fuel revenues are calculated by the Financial Model using inputs from the Energy, Fuel and Interchange Budgets. The model calculates a monthly fuel factor based on energy and recoverable fuel and purchased power expenses. This fuel factor is then multiplied times the billed energy by rate class to arrive at fuel revenues.

Net unbilled revenue is determined using inputs from the Energy, Fuel and Interchange Budgets, recoverable conservation expenses and the currently effective base rates. The appropriate following month's factor is multiplied by the accrued gross unbilled kWh for the current month. Netted against this calculation is the reversal of the prior month's accrued gross unbilled revenue.

Conservation revenues are projected from the amount of recoverable conservation expenses included in the Operation and Maintenance Budget. A monthly factor based on energy and recoverable conservation expenses is multiplied times the billed energy by rate class to arrive at conservation revenues.

Other Operating Revenues include franchise fees, pole attachment and equipment rentals and miscellaneous other service revenue. Franchise fees revenues are projected to equal the franchise fee expense which is calculated by the Financial Model. The remaining revenue items are projected by the Corporate Planning Department.

Supporting Schedules:

Recap Schedules:

FLORIDA PUBLIC SERVICE COMMISSION

COMPANY: GULF POWER COMPANY

DOCKET NO.: 891345-E1

EXPLANATION: If a projected test year is used, provide a brief description of each method or model used in the forecasting process. Provide a flow chart which shows the position of each model in the forecasting process. Provide under separate cover to staff, Commissioners, Commission Clerk, and, upon request, other parties to this docket a detailed description of the complete forecasting model used to provide the forecasts of the number of customers, energy sales and peak demands. This description shall include the method(s) used to calculate and validate the model(s). A description of the differences between this forecasting model and that used in the Commission's most recent planning hearing shall be included.

Type of Data Shown: _____
 Projected Test Year Ended 12/31/90
 Witness: E. B. Parsons, Jr.
 M. W. Howell

IV. FUEL AND PERFORMANCE SUBJECTSOverview of the Energy/Fuel Forecasting ProcessDescription.

The Energy/Fuel Budgets are an integral part of Gulf's Operating Budget and the budgets of each of the other Operating Companies within the Southern electric system. Data provided by the Energy/Fuel forecast includes unit capacity factors, unit performance, pool interchange, off-system sales, and fuel expenses.

The Energy Budget is produced using FPCED, a computer model used to simulate the economic dispatch of the Southern electric system. Inputs to the dispatch program are provided by the Operating Companies and include unit data, loads and sales information. In addition, fuel cost data is provided by FUES, a Fuel Optimization and Evaluation System. The development of fuel costs for the Energy Budget is based on a computer iterative process. The dispatch program determines the burn by unit based on a set of fuel costs. The burn then becomes input to FUES and new fuel costs are provided back to FPCED. This process is repeated until the program converges to a realistic solution. An Energy Budget process flowchart is shown on page 13 of this schedule.

Once the Energy/Fuel Budgets are complete, the results are provided to Financial Planning and other departments at each Operating Company to be incorporated into the Operating Budget.

The following is a brief description of the models utilized in the forecast:

Fuel Cost Model, Fuel Optimization and Evaluation System (FUES)

The purpose of the FUES program is to provide an economical dispatch of all the fossil fuels to the plants within the Southern electric system. The program receives as input the heat requirements in MW's for each unit at a plant, the desired inventory level at each plant, and the availabilities of fuel supplies at each source or mine. Also, the cost at the source, which is provided by a sub-model known as the Coal Contract Escalation System, and the cost of transportation are provided. With this data, the program formulates and solves (minimizes cost) a transportation system using linear programming techniques. The program can dispatch a multitude of fuel sources to any given plant.

The Coal Contract Escalation System is a state-of-the-art system which models the escalation of a coal contract's cost over time. Each escalatable component of a contract is modeled as an index-tracking component; that is, a component whose cost varies over time in proportion to the value of an index or composite of indices.

FLORIDA PUBLIC SERVICE COMMISSION	EXPLANATION:	Type of Data Shown:
COMPANY: GULF POWER COMPANY	If a projected test year is used, provide a brief description of each method or model used in the forecasting process. Provide a flow chart which shows the position of each model in the forecasting process. Provide under separate cover to staff, Commissioners, Commission Clerk, and, upon request, other parties to this docket a detailed description of the complete forecasting model used to provide the forecasts of the number of customers, energy sales and peak demands. This description shall include the method(s) used to calculate and validate the model(s). A description of the differences between this forecasting model and that used in the Commission's most recent planning hearing shall be included.	Projected Test Year Ended 12/31/90
DOCKET NO.: 891345-E1		Witness: M. W. Howell

Production Costing Model, PROMED III

Gulf Power Company and the Southern electric system utilize the PROMED III system, a comprehensive costing model leased by Energy Management Associates, to project future fuel requirements and system production costs. PROMED III recognizes the random nature of generating unit forced outages. Since these outages are random and unpredictable, PROMED III employs a special mathematical technique to consider their resultant impact on fuel requirements and operating costs.

Forced outages are treated within the program by a complete probabilistic model. Each generating unit can be represented by up to a five state failure model to give explicit consideration to partial loss of unit capability and outages of varying severity. These failure states are considered, in combination with all possible failure states of all other units, in order to obtain the best forecast of expected fuel consumption, operation costs, and plant capacity factors.

The basic PROMED III inputs include data related to generating units, fuel costs, demand and energy, and system operating characteristics. The basic PROMED III outputs are energy produced and EIT requirements.

FLORIDA PUBLIC SERVICE COMMISSION

COMPANY: GULF POWER COMPANY

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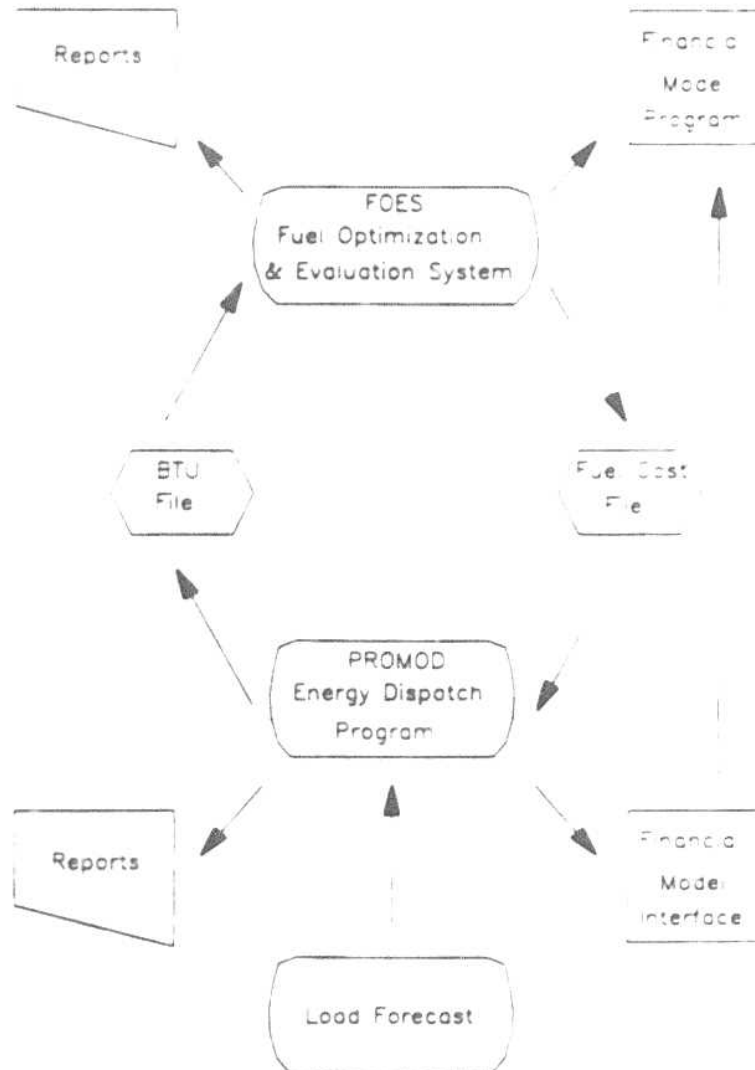
EXPLANATION: If a projected test year is used, provide a brief description of each method or model used in the forecasting process. Provide a flow chart which shows the position of each model in the forecasting process. Provide under separate cover to staff, Commissioners, Commission Clerk, and, upon request, other parties to this docket a detailed description of the complete forecasting model used to provide the forecasts of the number of customers, energy sales and peak demands. This description shall include the methods used to calculate and validate the model(s). A description of the differences between this forecasting model and that used in the Commission's most recent planning hearing shall be included.

Type of Data Shown:

Projected Test Year Ended 12/31/90

Witness: D. P. Gilbert
M. M. Howell

ENERGY BUDGET PROCESS FLOWCHART



FLORIDA PUBLIC SERVICE COMMISSION

COMPANY: GULF POWER COMPANY

DOCKET NO.: 891345-E1

EXPLANATION: If a projected test year is used, provide a brief description of each method or model used in the forecasting process. Provide a flow chart which shows the position of each model in the forecasting process. Provide under separate cover to staff, Commissioners, Commission Clerk, and, upon request, other parties to this docket a detailed description of the complete forecasting model used to provide the forecasts of the number of customers, energy sales and peak demands. This description shall include the method(s) used to calculate and validate the model(s). A description of the differences between this forecasting model and that used in the Commission's most recent planning hearing shall be included.

Type of Data Shown:

Projected Test Year Ended 12/31/90

Witness: D. P. Gilbert

V. CONSTRUCTION BUDGET

A. Construction Expenditures

Gulf's construction requirements are determined through a detailed analysis of existing facilities and projections of customer growth, energy, demand, and patterns of energy usage. The construction budget is driven off inputs obtained from the Customer, Energy, and Demand Budgets and is comprised of the following components:

- (1) Major Generation and Production Plant Analysis. Utilizing inputs from the budgets mentioned above, the need for and timing of major generation additions necessary to maintain reliable service is projected. The resulting Generation Expansion Plan is coordinated with associated operating companies such that projected customer requirements are met, total system construction dollars are effectively utilized and economies of scale are realized. Other production plant additions are based on deterioration of existing facilities, operating experience, environmental requirements, and necessary expansions.
- (2) Distribution Analysis. The results of monitoring circuit loads on the Gulf system and the inputs from the Customer, Energy, and Demand Budgets are utilized in studies which project the need for and timing of additions to Gulf's distribution system.
- (3) Transmission Analysis. Combines the results of the major generation and distribution analysis and the inputs from the three budgets mentioned above to determine future transmission facility requirements.
- (4) General Facilities Analysis. Involves combining periodic reviews of existing facilities, equipment, and their related costs with the information obtained from the Customer, Energy, and Demand Budgets in projecting future general facility requirements.

These analyses are reviewed by the appropriate members of management and a construction plan for each function is established. The details of the construction plan are communicated to the affected departments and become the foundation for scheduling projects and budgeting the related expenditures. Each project, its justification, and related costs are summarized on Plant Expenditure forms (P.E.'s). The P.E.'s are reviewed and approved by the appropriate managers, directors, and vice-president. The P.E.'s are then summarized by Corporate Planning and presented to the Budget Committee for its review and approval. Once approved by the Budget Committee, the Construction Budget is reviewed and approved by the Chief Executive Officer prior to submitting it to the Board of Directors. After the Board has approved the Construction Budget, the information contained in the budget is input to the Financial Model.

Supporting Schedules:

Recap Schedules:

FLORIDA PUBLIC SERVICE COMMISSION

COMPANY: GULF POWER COMPANY

DOCKET NO.: 891345-EI

EXPLANATION: If a projected test year is used, provide a brief description of each method or model used in the forecasting process. Provide a flow chart which shows the position of each model in the forecasting process. Provide under separate cover to staff, Commissioners, Commission Clerk, and, upon request, other parties to this docket a detailed description of the complete forecasting model used to provide the forecasts of the number of customers, energy sales and peak demands. This description shall include the method(s) used to calculate and validate the model(s). A description of the differences between this forecasting model and that used in the Commission's most recent planning hearing shall be included.

Type of Data Shown:

Projected Test Year Ended 12/31/90

Witness: D. P. Gilbert

B. Plant-In-Service

Each P.E. contains pertinent information such as the project's functional classification, starting date and completion date, expenditures, retirements, and net salvage by year. The P.E. may contain one or more projects with varying completion dates. For each project that is approved by Gulf's Board, the responsible department must submit to Corporate Planning a "Budget Estimate of Plant Additions and Retirements - Supporting Data". This form includes a monthly breakdown of expenditures, clearings to service, retirements, cost of removal and salvage for the budget year and the first forecast year. Annual data for the final three years of the forecast is spread to months using allocators. This information is input to the Financial Model which calculates the various plant balances on a monthly basis.

FLORIDA PUBLIC SERVICE COMMISSION	EXPLANATION: If a projected test year is used, provide a brief description of each method or model used in the forecasting process. Provide a flow chart which shows the position of each model in the forecasting process. Provide under separate cover to staff, Commissioners, Commission Clerk, and, upon request, other parties to this docket a detailed description of the complete forecasting model used to provide the forecasts of the number of customers, energy sales and peak demands. This description shall include the method(s) used to calculate and validate the model(s). A description of the differences between this forecasting model and that used in the Commission's most recent planning hearing shall be included.	Type of Data Shown:
COMPANY: GULF POWER COMPANY		Projected Test Year Ended 12/31/90
DOCKET NO.: 891345-E1		Witness: D. P. Gilbert

VI. OPERATION AND MAINTENANCE EXPENSES WITHOUT FUEL OR PURCHASED POWER

The development of Gulf's Operation and Maintenance Budget (OMB), which excludes Direct Fuel and Purchased Power, begins with the issuance of the Corporate Business Plan and the Budget Schedule.

The first step in Gulf's OMB Budget process is the issuance of the Corporate Business Plan and the Budget Schedule. Each major department then prepares objectives and goals which address its direction and major emphasis for the coming year and relates those goals and objectives to specific goals included in the Corporate Business Plan. Once developed, they are reviewed and approved by Gulf's management.

After the individual department's goals and objectives are approved, a Budget Message is issued by the Budget Committee Chairman. The Budget Message outlines the various guidelines and parameter assumptions as well as a Reference Level for each department for use in preparing the OMB Budget. The 1990 Reference Level is calculated to be the 1989 Budget less 1989 corporate controlled expenses, 1989 non-recurring items, and salaries for positions which were budgeted in 1989 but had not been added to the complement or which were budgeted in 1989 but had not been approved for filling for twelve months. All increases or decreases from the Reference Level, including salary increases, and inflation, must be identified, requested, and justified by the planning units. Each department then prepares its detailed budget which supports its approved goals and objectives for the budget year.

Each department submits a resource request which includes its Reference Level amount, any new or modified programs requested for the budget year, and justification for all amounts over or under the Reference Level. These resource requests are reviewed and approved by the Budget Committee.

After the initial approval of resources, each department provides the FERC account distributions for its approved resources. At this time, each department also forecasts OMB expenses for an additional period of four years. An explanation is provided for any account which changed during the four forecast years by an amount which was different from the projected rate of inflation.

Once the account number assignments and projections are developed and approved by departmental management, they are reviewed and approved by the Budget Committee and the President.

The FERC budgets approved by the Budget Committee are input to Gulf's Responsibility Reporting System and to the Financial Model. The Responsibility Reporting System produces monthly comparisons of actual to budget by FERC account. These comparisons provide the dollar and percent variance at various levels. These comparisons bring potential problem areas to management's attention so that the necessary corrective actions can be taken.

Supporting Schedules:

Recap Schedules:

FLORIDA PUBLIC SERVICE COMMISSION	EXPLANATION:	Type of Data Shown:
COMPANY: GULF POWER COMPANY	If a projected test year is used, provide a brief description of each method or model used in the forecasting process. Provide a flow chart which shows the position of each model in the forecasting process. Provide under separate cover to staff, Commissioners, Commission Clerk, and, upon request, other parties to this docket a detailed description of the complete forecasting model used to provide the forecasts of the number of customers, energy sales and peak demands. This description shall include the method(s) used to calculate and validate the model(s). A description of the differences between this forecasting model and that used in the Commission's most recent planning hearing shall be included.	Projected Test Year Ended 12/31/90 Witness: D. P. Gilbert
DOCKET NO.: 891345-E1		

The Corporate Planning Department is responsible for coordinating the O&M Budget process, providing the necessary information to the Budget Committee and distributing the monthly Budget Comparison Reports to management.

The O&M Budget reflects Gulf's best expectations of the cost of providing service in conformity to the Company's overall business plan. The O&M Budget is also a standard by which a specific department's performance is evaluated.

FLORIDA PUBLIC SERVICE COMMISSION	EXPLANATION:	Type of Data Shown:
COMPANY: GULF POWER COMPANY	If a projected test year is used, provide a brief description of each method or model used in the forecasting process. Provide a flow chart which shows the position of each model in the forecasting process. Provide under separate cover to staff, Commissioners, Commission Clerk, and, upon request, other parties to this docket a detailed description of the complete forecasting model used to provide the forecasts of the number of customers, energy sales and peak demands. This description shall include the methods used to calculate and validate the model(s). A description of the differences between this forecasting model and that used in the Commission's most recent planning hearing shall be included.	Projected Test Year Ended 12/31/90
DOCKET NO.: 891345-E1		Witness: R. J. McMillan

VII. FINANCIAL MODEL

Gulf's Financial Model is a complex and detailed computer based model that closely simulates Gulf's actual financial/accounting practices. The model is comprised of a large data file containing both actual and forecasted information and the Financial Modeling System. The Financial Modeling System contains thousands of equations broken down into logical groups which are used to develop the reports produced by the model.

Information contained in the approved budgets developed by Gulf's planning process (see page 2 of this schedule) is input to the model as follows:

- (1) Energy Budget. Is directly input to the model and is used in conjunction with the Fuel and Interchange Budgets in developing fuel revenues on the income statement. The Energy Budget is described in Section II of this schedule.
- (2) Fuel Budget. Is produced by the FUES and FPMOD models as described in section IV of this schedule, which interface with the financial model. The Fuel Budget contains the projected fuel expense that is included on the model's income statement and the projected fuel stockpile amounts that are included on the balance sheet. The Fuel Budget also operates in conjunction with the Energy and Interchange Budgets in projecting the fuel revenues included on the income statement. Additionally, the Fuel Budget is used in deriving a portion of the Other Accounts Payable account contained on the balance sheet.
- (3) Interchange Budget. Is produced by the FUES and FPMOD Models as described in section IV of this schedule, which interface with the Financial Model. The Interchange Budget provides the Non-Territorial Sales and Purchased Power transactions that appear on the model's income statement. In conjunction with the Energy and Fuel Budgets, the Interchange Budget is used to project the Fuel Revenues on the income statement. The Interchange Budget is also used in calculating a portion of the Associated Companies Accounts Receivable, Associated Companies Accounts Payable and a portion of the Other Accounts Payable account contained on the balance sheet.
- (4) Revenue Budget. Is directly input to the model as base rate and unbilled revenues. The Revenue Budget as described in section III of this schedule is contained on the income statement of the model and is used in calculating the major portion of Customer Accounts Receivable, Accrued Unbilled Revenue, a portion of Tax Collections Payable, and Other Taxes, Accrued accounts contained on the balance sheet. The Revenue Budget is also used in calculating the Municipal Franchise Fee Revenue and Expenses and other Taxes Other Than Income Taxes contained on the income statement.

FLORIDA PUBLIC SERVICE COMMISSION	EXPLANATION:	Type of Data Shown:
COMPANY: GULF POWER COMPANY	If a projected test year is used, provide a brief description of each method or model used in the forecasting process. Provide a flow chart which shows the position of each model in the forecasting process. Provide under separate cover to staff, Commissioners, Commission Clerk, and, upon request, other parties to this docket a detailed description of the complete forecasting model used to provide the forecasts of the number of customers, energy sales and peak demands. This description shall include the methods used to calculate and validate the model(s). A description of the differences between this forecasting model and that used in the Commission's most recent planning hearing shall be included.	Projected Test Year Ended 12/31/90 Witness: R. J. McMillan
DOCKET NO.: 891345-E1		

- (5) Construction Budget. Is directly input to the model and is utilized in projecting the Plant-In-Service, Plant Held for Future Use, CMIP, Accumulated Depreciation, and Construction Related Accounts Payable accounts. The Construction Budget is described in section V of this project.
- (6) Operations and Maintenance Budget (without Direct Fuel and Purchased Power). The Operations and Maintenance Budget is directly input to the model's income statement and is utilized in deriving a portion of the Other Accounts Payable account on the balance sheet. The O&M budget is described in section VI of this schedule.
- Other inputs to the model such as miscellaneous balance sheet accounts and miscellaneous revenue and expense items are developed by the Corporate Planning Department using trend-line methodologies and expertise from other departments. Corporate Planning also coordinates the running of the model and is responsible for initiating the necessary changes of the model's logic.
- The Financial Model is constantly undergoing modifications and enhancements in response to the changing conditions in the utility industry. These adjustments enable the model to continue as an effective tool for use by management in planning and decision-making as well as providing information (with a few adjustments) that is useful for rate making purposes.

FLORIDA PUBLIC SERVICE COMMISSION EXPLANATION: If a projected test year is used for each load, fuel cost, or sales forecasting model, give a quantified explanation of the impact of changes in the inputs to changes in outputs

COMPANY: GULF POWER COMPANY

DOCKET NO.: 891345-E1

Projected Test Year Ended 12/31/90

Witness: J. T. Kilgore, Jr.

Models: REGIS, REEPS, COMBEND and HELM

Line No.	Input Variable	Percent Change (Input)	Output Variable Affected	Percent Change (Output)
1.	Population	10.00%	Total Customers	9.65%
2.	Residential Customers	4.00%	Residential Sales	3.79%
3.	Cooling Degree Days	10.00%	Residential Sales	2.18%
4.	Heating Degree Days	10.00%	Residential Sales	0.73%
5.	Natural Gas Price	10.00%	Residential Sales	-0.01%
6.	Electric Price	10.00%	Residential Sales	-1.88%
7.	Household Income	10.00%	Residential Sales	1.54%
8.	Commercial Floorspace	10.00%	Commercial Sales	10.38%
9.	Natural Gas price	10.00%	Commercial Sales	0.01%
10.	Electric Price	10.00%	Commercial Sales	-1.57%
11.	Average Daily Temperature (peak)	5.00%	Summer Peak Demand	3.66%
12.	Residential Sales	5.00%	Summer Peak Demand	2.28%
13.	Commercial Sales	5.00%	Summer Peak Demand	1.26%
14.	Industrial Sales	5.00%	Summer Peak Demand	0.80%
15.	Average Daily Temperature (peak)	5.00%	Winter Peak Demand	-2.76%
16.	Residential Sales	5.00%	Winter Peak Demand	2.70%
17.	Commercial Sales	5.00%	Winter Peak Demand	0.86%
18.	Industrial Sales	5.00%	Winter Peak Demand	0.86%

FLORIDA PUBLIC SERVICE COMMISSION EXPLANATION: For each forecasting model used to estimate test year projections for customers, demand, and energy, provide the historical and projected values for the input variables and the output variables used in estimating and/or validating the model. Also, provide a description of each variable, specifying the unit of measurement and the time span or cross sectional range of the data.

COMPANY: GULF POWER COMPANY

DOCKET NO.: 891345-E1

Type of Data Shown:
Historical Year Ended 1987

Witness: J. T. Kilgore, Jr.

FORECASTING MODEL: REGIONAL ECONOMIC GROWTH IMPACT STUDY (REGIS)

* GULF POPULATION BY AGE GROUP

	0-14	15-24	25-44	45-64	65+
1969	146,682	92,671	112,564	83,803	32,133
1970	146,311	96,544	117,588	85,878	32,918
1971	145,940	100,417	122,612	88,671	34,887
1972	146,832	104,551	126,691	91,471	37,168
1973	147,735	108,964	130,977	94,400	39,605
1974	148,745	114,814	137,447	99,002	44,425
1975	149,772	113,479	136,956	103,732	47,326
1976	151,026	113,026	143,943	103,414	44,934
1977	149,172	118,136	145,188	106,333	48,991
1978	149,285	119,720	148,541	107,453	49,861
1979	147,275	120,472	152,747	110,029	49,865
1980	147,824	119,671	154,156	111,823	53,654
1981	150,876	121,974	162,143	116,749	56,758
1982	153,200	123,070	168,692	120,614	59,424
1983	157,023	124,098	174,031	123,206	62,742
1984	161,198	125,624	180,159	126,337	66,282
1985	159,657	129,173	189,862	128,465	69,743
1986	163,129	131,228	199,124	133,210	74,309
1987	168,865	133,665	209,135	138,486	76,175

* represents Gulf Power eight county service area

FLORIDA PUBLIC SERVICE COMMISSION	EXPLANATION: For each forecasting model used to estimate test year projections for customers, demand, and energy, provide the historical and projected values for the input variables and the output variables used in estimating and/or validating the model. Also, provide a description of each variable, specifying the unit of measurement and the time span or cross sectional range of the data.	Type of Data Shown: Historical Year Ended 1987 Projected Year Ended 1990
COMPANY: GULF POWER COMPANY		
DOCKET NO.: 891345-E1		Witness: J. T. Kilgore, Jr.

U.S. POPULATION BY AGE GROUP (1000'S)

	0-14	15-24	25-44	45-64	65+
1969	58,260	35,236	48,064	41,437	19,680
1970	57,938	36,535	48,473	41,999	20,106
1971	57,734	37,948	48,936	42,482	20,561
1972	57,047	38,449	50,482	42,898	21,019
1973	56,160	39,240	51,749	43,235	21,525
1974	55,203	40,017	53,051	43,522	22,061
1975	54,361	40,812	54,302	43,801	22,696
1976	53,376	41,520	55,852	44,008	23,278
1977	52,598	42,039	57,561	44,150	23,892
1978	51,955	42,442	59,400	44,286	24,503
1979	51,455	42,699	61,379	44,390	25,134
1980	51,303	42,484	63,257	44,507	25,704
1981	51,336	42,115	65,386	44,563	26,236
1982	51,491	41,474	67,611	44,596	26,825
1983	51,710	40,763	69,713	44,672	27,425
1984	51,805	40,114	71,777	44,811	27,971
1985	51,927	39,552	73,791	44,926	28,091
1986	52,012	39,021	75,849	45,047	29,138
1987	52,398	38,252	77,620	45,295	29,836
1988	52,919	37,630	79,182	45,950	30,347
1989	53,514	36,745	80,572	46,416	30,937
1990	54,062	36,107	81,822	46,851	31,504

FLORIDA PUBLIC SERVICE COMMISSION	EXPLANATION: For each forecasting model used to estimate test year projections for customers, demand, and energy, provide the historical and projected values for the input variables and the output variables used in estimating and/or validating the model. Also, provide a description of each variable, specifying the unit of measurement and the time span or cross sectional range of the data.	Type of Data Shown: Historical Year Ended 1987 Projected Year Ended 1990
COMPANY: GULF POWER COMPANY		
DOCKET NO.: 891345-EI		Witness: J. T. Kilgore, Jr.

U.S. HOUSING STARTS

1968	1.545	1980	1.292
1969	1.467	1981	1.084
1970	1.434	1982	1.062
1971	2.052	1983	1.703
1972	2.357	1984	1.750
1973	2.045	1985	1.742
1974	1.338	1986	1.805
1975	1.160	1987	1.620
1976	1.538	1988	1.487
1977	1.987	1989	1.437
1978	2.020	1990	1.453
1979	1.745		

U.S. UNEMPLOYMENT RATE

1968	3.5	1980	7
1969	3.4	1981	7.5
1970	4.8	1982	9.5
1971	5.8	1983	9.5
1972	5.5	1984	7.4
1973	4.8	1985	7.1
1974	5.5	1986	6.9
1975	8.3	1987	6.1
1976	7.6	1988	5.4
1977	6.9	1989	5.4
1978	6.0	1990	5.6
1979	5.8		

SOUTHERN HOUSING PRICE INDEX (NOMINAL 1982-84=100)

1968	30.5	1980	81.1
1969	30.5	1981	90.4
1970	33.1	1982	96.9
1971	37.3	1983	99.5
1972	43.1	1984	103.6
1973	48.1	1985	107.7
1974	51.1	1986	110.9
1975	52.7	1987	114.2
1976	52.7	1988	118.4
1977	57.7	1989	123.8
1978	62.5	1990	131.0
1979	70.1		

U.S. REAL DISPOSABLE INCOME PER CAPITA (1982 DOLLARS)

1968	7,725	1980	9,717
1969	7,887	1981	9,765
1970	8,129	1982	9,721
1971	8,318	1983	9,926
1972	8,558	1984	10,414
1973	9,038	1985	10,618
1974	8,864	1986	10,943
1975	8,940	1987	10,999
1976	9,172	1988	11,326
1977	9,377	1989	11,538
1978	9,731	1990	11,543
1979	9,824		

FLORIDA PUBLIC SERVICE COMMISSION EXPLANATION: For each forecasting model used to estimate test year projections for customers, demand, and energy, provide the historical and projected values for the input variables and the output variables used in estimating and/or validating the model. Also, provide a description of each variable, specifying the unit of measurement and the time span or cross sectional range of the data.

COMPANY: GULF POWER COMPANY

DOCKET NO.: 891345-E1

Type of Data Shown:

Historical Year Ended 1987

Projected Year Ended 1990

Witness: J. T. Kilgore, Jr.

U.S. AVERAGE WAGE

1968	6,525	1980	14,975
1969	6,943	1981	16,290
1970	7,359	1982	17,222
1971	7,817	1983	18,203
1972	8,394	1984	19,780
1973	9,060	1985	20,371
1974	9,598	1986	20,962
1975	10,307	1987	21,863
1976	11,102	1988	23,153
1977	11,917	1989	24,519
1978	12,849	1990	26,040
1979	13,920		

MORTGAGE RATE (PERCENT)

1968	6.97	1980	12.66
1969	7.80	1981	14.70
1970	8.45	1982	15.14
1971	7.74	1983	12.57
1972	7.60	1984	12.38
1973	7.96	1985	11.58
1974	8.92	1986	9.29
1975	9.00	1987	9.28
1976	9.00	1988	9.32
1977	9.02	1989	9.77
1978	9.56	1990	9.62
1979	10.78		

FLORIDA PUBLIC SERVICE COMMISSION	EXPLANATION:	For each forecasting model used to estimate test year projections for customers, demand, and energy, provide the historical and projected values for the input variables and the output variables used in estimating and/or validating the model. Also, provide a description of each variable, specifying the unit of measurement and the time span or cross sectional range of the data.	Type of Data Shown: Historical Year Ended 1987 Projected Year Ended 1990
COMPANY: GULF POWER COMPANY			Witness: J. T. Kilgore, Jr.
DOCKET NO.: 891345-E1			

FERTILITY TREND FACTOR (BY AGE OF MOTHER)

	15-19	20-24	25-29	30-34	35-39	40-44
1970	1.000000	1.000000	1.000000	1.000000	1.000000	1.000000
1971	0.999415	0.961533	0.967185	0.977930	0.873653	0.970163
1972	0.948477	0.810102	0.919769	0.781992	0.799120	0.625579
1973	0.941580	0.710925	0.874101	0.770183	0.746980	0.578570
1974	0.840266	0.662074	0.761967	0.700823	0.559212	0.563022
1975	0.790203	0.582121	0.709467	0.649749	0.565558	0.543731
1976	0.639919	0.543271	0.675544	0.587060	0.503267	0.424189
1977	0.672288	0.565808	0.693555	0.673860	0.498586	0.530952
1978	0.643588	0.567728	0.689306	0.710019	0.537467	0.432789
1979	0.686504	0.583620	0.698562	0.784369	0.569590	0.429898
1980	0.679159	0.609198	0.725538	0.782177	0.613291	0.533573
1981	0.673524	0.617896	0.744569	0.824519	0.655359	0.499533
1982	0.660661	0.621124	0.751911	0.852913	0.693357	0.374121
1983	0.651166	0.617071	0.767272	0.902851	0.778017	0.558528
1984	0.632638	0.611185	0.793981	0.971427	0.836588	0.740358
1985	0.589368	0.622912	0.852379	1.020752	0.917100	0.497821
1986	0.625582	0.640328	0.852817	1.022713	0.874930	0.490211
1987	0.661797	0.657743	0.853256	1.024674	0.832760	0.482601
1988	0.698011	0.675159	0.853695	1.026635	0.790590	0.474991
1989	0.734226	0.692574	0.854133	1.028595	0.748420	0.467380
1990	0.770440	0.709990	0.854572	1.030556	0.706250	0.459770

FLORIDA PUBLIC SERVICE COMMISSION COMPANY: GULF POWER COMPANY DOCKET NO.: 891345-E1	EXPLANATION: For each forecasting model used to estimate test year projections for customers, demand, and energy, provide the historical and projected values for the input variables and the output variables used in estimating and/or validating the model. Also, provide a description of each variable, specifying the unit of measurement and the time span or cross sectional range of the data.	Type of Data Shown: Historical Year Ended 1987 Projected Year Ended 1990 Witness: J. T. Kilgore, Jr.
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GULF EIGHT COUNTY INFANT SURVIVAL RATE

1970	0.980541	1981	0.988562
1971	0.978161	1982	0.988379
1972	0.981466	1983	0.989278
1973	0.978721	1984	0.989790
1974	0.983119	1985	0.990498
1975	0.982679	1986	0.991642
1976	0.984389	1987	0.992985
1977	0.985195	1988	0.993084
1978	0.987010	1989	0.993184
1979	0.985539	1990	0.993283
1980	0.989138		

ACTUAL GULF EIGHT COUNTY AVERAGE WAGE (DOLLARS)

1969	5,716	1979	11,149
1970	6,226	1980	12,181
1971	6,719	1981	13,477
1972	7,261	1982	14,342
1973	7,546	1983	15,035
1974	8,050	1984	15,452
1975	8,643	1985	15,849
1976	9,180	1986	16,372
1977	9,687	1987	16,618
1978	10,307		

FLORIDA PUBLIC SERVICE COMMISSION	EXPLANATION: For each forecasting model used to estimate test year projections for customers, demand, and energy, provide the historical and projected values for the input variables and the output variables used in estimating and/or validating the model. Also, provide a description of each variable, specifying the unit of measurement and the time span or cross sectional range of the data.	Type of Data Shown: Historical Year Ended 1987 Projected Year Ended 1990
COMPANY: GULF POWER COMPANY		
DOCKET NO.: 891345-E1		Witness: J. T. Kilgore, Jr.

GULF EIGHT COUNTY DEATHS PER PERSON PER AGE GROUP

	0-14	15-24	25-44	45-64	65+
1970	0.001962	0.001170	0.002645	0.012378	0.055076
1971	0.002186	0.001155	0.002194	0.011706	0.053114
1972	0.001717	0.001320	0.002252	0.012275	0.054778
1973	0.001914	0.001240	0.002362	0.012360	0.053200
1974	0.001560	0.001053	0.002045	0.011735	0.050850
1975	0.001634	0.001196	0.002171	0.010512	0.045514
1976	0.001438	0.001155	0.001982	0.010815	0.050096
1977	0.001308	0.001060	0.001720	0.010479	0.044865
1978	0.001246	0.001061	0.001793	0.010346	0.048916
1979	0.001392	0.001124	0.001732	0.009674	0.050276
1980	0.001209	0.001170	0.001681	0.009913	0.050900
1981	0.001182	0.001235	0.001778	0.009868	0.049814
1982	0.001155	0.000918	0.001766	0.009153	0.049217
1983	0.001055	0.001287	0.001615	0.009340	0.048873
1984	0.001041	0.000902	0.001469	0.010107	0.047278
1985	0.001012	0.000841	0.001552	0.009181	0.047042
1986	0.000963	0.001112	0.001847	0.008983	0.046079
1987	0.001081	0.001014	0.001668	0.008715	0.049279
1988	0.001070	0.001009	0.001666	0.008671	0.049033
1989	0.001059	0.001004	0.001664	0.008628	0.048787
1990	0.001048	0.000999	0.001663	0.008584	0.048543

FLORIDA PUBLIC SERVICE COMMISSION

EXPLANATION: For each forecasting model used to estimate test year projections for customers, demand, and energy, provide the historical and projected values for the input variables and the output variables used in estimating and/or validating the model. Also, provide a description of each variable, specifying the unit of measurement and the time span or cross sectional range of the data.

Type of Data Shown:

Historical Year Ended 1987

COMPANY: GULF POWER COMPANY

DOCKET NO.: 891345-E1

Witness: J. T. Kilgore, Jr.

GULF EIGHT COUNTY ACTUAL MIGRATION RATE BY AGE GROUP (%)

	0-14	15-64	65+
1970	-0.000857	0.005375	-0.007100
1971	-0.000601	0.005892	-0.002043
1972	0.002462	0.005482	-0.000287
1973	0.003601	0.005954	0.000134
1974	0.003736	0.009755	(.010548
1975	0.003855	-0.000387	0.000710
1976	0.004385	0.002077	-0.022642
1977	-0.001508	0.004075	0.004779
1978	0.002198	0.002002	-0.008328
1979	-0.002219	0.002976	-0.011166
1980	0.001412	-0.000263	0.004187
1981	0.006027	0.008242	0.001300
1982	0.004625	0.005722	-0.000831
1983	0.007403	0.004097	0.001420
1984	0.007750	0.005124	0.001126
1985	-0.002468	0.007926	0.001772
1986	0.006244	0.008477	0.005634
1987	0.010790	0.009426	-0.003264

FLORIDA PUBLIC SERVICE COMMISSION	EXPLANATION: For each forecasting model used to estimate test year projections for customers, demand, and energy, provide the historical and projected values for the input variables and the output variables used in estimating and/or validating the model. Also, provide a description of each variable, specifying the unit of measurement and the time span or cross sectional range of the data.	Type of Data Shown: Historical Year Ended 1960
COMPANY: GULF POWER COMPANY		
DOCKET NO.: B91345-EI		Witness: J. T. Kilgore, Jr.

FORECASTING MODEL: COMMENT

COMMERCIAL FLOOR STOCK IN MILLIONS OF SQUARE FEET

	OFFICE	UTIL	REST	RETAIL	GROCERY	CHURCH	SCHOOL	COLLEGE	HEALTH	LODGING	MISC	AUTOSTORE
1940	5.372	1.884	0.720	2.334	0.800	1.942	2.935	0.716	1.034	0.545	1.939	1.551
1941	5.567	1.952	0.746	2.419	0.829	2.014	3.044	0.743	1.073	0.565	2.011	1.608
1942	5.764	2.022	0.773	2.505	0.859	2.086	3.153	0.769	1.111	0.585	2.083	1.666
1943	5.963	2.091	0.799	2.592	0.888	2.159	3.263	0.796	1.150	0.605	2.156	1.724
1944	6.164	2.162	0.826	2.680	0.918	2.232	3.373	0.823	1.189	0.626	2.229	1.782
1945	6.367	2.233	0.854	2.768	0.949	2.306	3.484	0.850	1.228	0.647	2.302	1.841
1946	6.572	2.305	0.881	2.858	0.979	2.379	3.596	0.878	1.267	0.667	2.376	1.900
1947	6.778	2.377	0.909	2.948	1.010	2.454	3.708	0.905	1.307	0.688	2.450	1.959
1948	6.987	2.451	0.937	3.039	1.041	2.528	3.821	0.933	1.347	0.709	2.525	2.019
1949	7.197	2.524	0.965	3.131	1.072	2.603	3.934	0.960	1.386	0.730	2.600	2.079
1951	7.685	2.695	1.030	3.343	1.145	2.779	4.200	1.025	1.480	0.779	2.775	2.219
1952	7.962	2.793	1.068	3.464	1.186	2.880	4.352	1.062	1.534	0.808	2.876	2.299
1953	8.241	2.890	1.105	3.585	1.228	2.981	4.505	1.100	1.588	0.836	2.977	2.380
1954	8.521	2.989	1.142	3.707	1.270	3.082	4.658	1.137	1.642	0.864	3.078	2.461
1955	8.802	3.087	1.180	3.829	1.311	3.184	4.812	1.175	1.696	0.893	3.180	2.542
1956	9.085	3.186	1.218	3.952	1.353	3.286	4.966	1.212	1.750	0.921	3.281	2.624
1957	9.368	3.286	1.256	4.075	1.396	3.388	5.120	1.250	1.804	0.950	3.383	2.705
1958	9.651	3.385	1.294	4.199	1.438	3.490	5.275	1.287	1.859	0.979	3.485	2.787
1959	9.935	3.485	1.332	4.322	1.480	3.592	5.429	1.325	1.913	1.007	3.587	2.868
1960	10.220	3.584	1.370	4.446	1.523	3.695	5.584	1.363	1.968	1.036	3.690	2.950

FLORIDA PUBLIC SERVICE COMMISSION	EXPLANATION: For each forecasting model used to estimate test year projections for customers, demand, and energy, provide the historical and projected values for the input variables and the output variables used in estimating and/or validating the model. Also, provide a description of each variable, specifying the unit of measurement and the time span or cross sectional range of the data.	Type of Data Shown: Historical Year Ended 1980
COMPANY: GULF POWER COMPANY		
DOCKET NO.: 891345-E1		Witness: J. T. Kilgore, Jr.

	OFFICE	UTIL	REST	RETAIL	GROCERY	CHURCH	SCHOOL	COLLEGE	HEALTH	LODGING	MISC	AUTOSTORE
1961	10.619	3.725	1.426	4.619	1.582	3.836	5.797	1.415	2.043	1.075	3.830	3.062
1962	11.018	3.864	1.477	4.793	1.641	3.976	6.010	1.467	2.118	1.115	3.971	3.175
1963	11.415	4.004	1.530	4.966	1.701	4.117	6.223	1.519	2.193	1.154	4.111	3.287
1964	11.811	4.143	1.583	5.138	1.760	4.258	6.435	1.571	2.268	1.194	4.252	3.400
1965	12.204	4.280	1.636	5.309	1.818	4.399	6.648	1.622	2.343	1.233	4.392	3.512
1966	12.593	4.417	1.688	5.478	1.876	4.539	6.860	1.674	2.417	1.272	4.532	3.624
1967	12.978	4.552	1.740	5.646	1.934	4.679	7.072	1.726	2.492	1.312	4.672	3.736
1968	13.358	4.686	1.791	5.811	1.990	4.818	7.283	1.777	2.566	1.351	4.811	3.847
1969	13.731	4.816	1.841	5.974	2.046	4.958	7.493	1.829	2.640	1.390	4.950	3.958
1970	14.096	4.944	1.890	6.132	2.100	5.096	7.702	1.880	2.714	1.428	5.089	4.069
1972	14.083	5.492	2.222	7.128	2.464	5.182	8.183	1.997	2.782	2.120	5.329	3.994
1973	14.088	5.739	2.291	7.333	2.540	5.176	8.552	2.087	2.774	2.574	5.530	3.947
1974	14.213	6.434	2.464	7.845	2.729	5.182	8.737	2.132	2.971	3.447	5.618	3.914
1975	14.530	6.972	2.531	8.048	2.803	5.205	8.990	2.194	3.570	3.882	5.826	3.867
1976	14.538	8.082	2.692	8.532	2.979	5.258	9.719	2.372	3.729	4.098	6.623	3.838
1977	14.596	8.848	2.924	9.223	3.233	5.272	9.881	2.411	3.831	4.118	6.867	3.790
1978	14.687	9.761	3.032	9.545	3.351	5.294	10.232	2.497	4.003	4.196	7.137	3.770
1979	14.769	10.213	3.203	10.064	3.538	5.426	10.430	2.545	4.142	4.414	7.354	3.809
1980	14.753	10.524	3.294	10.337	3.639	5.436	10.541	2.573	4.176	4.586	7.470	3.832

FLORIDA PUBLIC SERVICE COMMISSION	EXPLANATION: For each forecasting model used to estimate test year projections for customers, demand, and energy, provide the historical and projected values for the input variables and the output variables used in estimating and/or validating the model. Also, provide a description of each variable, specifying the unit of measurement and the time span or cross sectional range of the data.	Type of Data Shown: Historical Year Ended 1987 Projected Year Ended 1990
COMPANY: GULF POWER COMPANY		
DOCKET NO.: 891345-E1		Witness: J. T. Kilgore, Jr.

	OFFICE	UTIL	REST	RETAIL	GROCERY	CHURCH	SCHOOL	COLLEGE	HEALTH	LODGING	MISC	AUTOSTORE
1981	14.759	11.208	3.373	10.571	3.725	5.429	10.603	2.588	4.435	4.821	7.741	3.794
1982	14.844	11.717	3.463	10.843	3.823	5.479	10.874	2.654	4.651	4.946	7.919	3.766
1983	14.941	12.056	3.618	11.307	3.994	5.508	10.972	2.678	4.797	5.187	8.099	3.763
1984	15.071	12.761	3.720	11.612	4.105	5.529	11.056	2.698	5.046	5.767	8.595	3.770
1985	15.691	13.577	4.053	12.614	4.470	5.664	11.231	2.741	4.224	6.166	10.649	3.782
1986	18.476	14.474	4.381	14.280	5.168	5.773	11.439	2.792	4.387	6.427	11.019	3.923
1987	19.041	14.897	4.719	14.615	5.330	5.904	11.804	2.881	4.731	5.997	12.331	3.934
1988	19.263	15.457	4.858	15.036	5.352	5.983	12.022	2.934	4.932	6.024	13.165	3.958
1989	19.372	16.186	4.958	15.063	5.341	6.069	12.402	3.027	4.977	6.522	13.606	3.979
1990	19.555	16.795	4.914	15.272	5.436	6.185	12.831	3.131	5.091	6.863	14.469	3.980

FLORIDA PUBLIC SERVICE COMMISSION EXPLANATION: For each forecasting model used to estimate test year projections for customers, demand, and energy, provide the historical and projected values for the input variables and the output variables used in estimating and/or validating the model. Also, provide a description of each variable, specifying the unit of measurement and the time span or cross sectional range of the data.

COMPANY: GULF POWER COMPANY

DOCKET NO.: 891345-E1

Type of Data Shown:

Historical Year Ended 1987

Projected Year Ended 1990

Witness: J. T. Kilgore, Jr.

	FUEL 1 ELEC DOLLARS PER MBTU	FUEL 2 GAS DOLLARS PER MBTU	FUEL 3 OIL DOLLARS PER MBTU
1980	18.0204	2.6515	5.4000
1981	18.4381	3.7068	5.5000
1982	18.5090	4.5779	5.3000
1983	18.0699	5.1654	5.5000
1984	17.1626	5.5922	5.6000
1985	16.2273	5.4072	5.5000
1986	15.7051	5.1050	5.3500
1987	14.5622	4.7800	5.3200
1988	12.3479	4.5700	5.2700
1989	11.9882	4.4600	5.2100
1990	12.1908	4.4600	5.2800

FLORIDA PUBLIC SERVICE COMMISSION

COMPANY: GULF POWER COMPANY

DOCKET NO.: 891345-E1

EXPLANATION: For each forecasting model used to estimate test year projections for customers, demand, and energy, provide the historical and projected values for the input variables and the output variables used in estimating and/or validating the model. Also, provide a description of each variable, specifying the unit of measurement and the time span or cross sectional range of the data.

Type of Data Shown:
Prior Year Ended 8/1984

Witness: J. T. Kilgore, Jr.

FORECASTING MODEL: RESIDENTIAL MONTHLY ALLOCATION OF ANNUAL ENERGY

HISTORICAL	RESIDUAL	RES MDH	RES CDH	RES PRICE	_FEB	_JUN	_JUL	_AUG	_SEP	_OCT
1981	12 26.3654	6,824	319	6.66	0	0	0	0	0	0
1982	1 35.0674	12,233	74	6.65	0	0	0	0	0	0
1982	2 33.8512	10,677	60	6.66	1	0	0	0	0	0
1982	3 27.5438	7,175	184	6.67	0	0	0	0	0	0
1982	4 25.5721	3,697	625	6.70	0	0	0	0	0	0
1982	5 23.3380	1,660	1,005	6.71	0	0	0	0	0	0
1982	6 34.7460	270	4,533	6.72	0	1	0	0	0	0
1982	7 44.7080	0	7,169	6.76	0	0	1	0	0	0
1982	8 43.8389	0	6,377	6.80	0	0	0	1	0	0
1982	9 42.1598	0	6,478	6.85	0	0	0	0	1	0
1982	10 33.3231	527	4,367	6.82	0	0	0	0	0	1
1982	11 25.2765	3,085	1,556	6.84	0	0	0	0	0	0
1982	12 24.9711	4,552	333	6.87	0	0	0	0	0	0
1983	1 32.1086	9,502	85	6.90	0	0	0	0	0	0
1983	2 36.6406	12,269	0	6.93	1	0	0	0	0	0
1983	3 30.0093	8,230	43	6.94	0	0	0	0	0	0
1983	4 28.2164	7,010	69	6.92	0	0	0	0	0	0
1983	5 22.5604	2,947	613	6.92	0	0	2	0	0	0
1983	6 29.2866	293	3,032	6.92	0	1	0	0	0	0
1983	7 40.1827	16	5,406	6.92	0	0	1	0	0	0
1983	8 45.2447	0	8,632	6.92	0	0	0	1	0	0
1983	9 45.5696	3	7,849	6.91	0	0	0	0	1	0
1983	10 30.6517	544	3,889	6.90	0	0	0	0	0	1
1983	11 23.5463	1,903	1,388	6.88	0	0	0	0	0	0
1983	12 26.3812	5,895	323	6.86	0	0	0	0	0	0
1984	1 41.1104	14,407	44	6.82	0	0	0	0	0	0
1984	2 38.0509	11,693	7	6.79	1	0	0	0	0	0
1984	3 30.0912	7,793	59	6.75	0	0	0	0	0	0
1984	4 24.1725	3,921	313	6.73	0	0	0	0	0	0
1984	5 24.3838	1,344	1,848	6.69	0	0	0	0	0	0
1984	6 32.2861	420	4,388	6.66	0	1	0	0	0	0
1984	7 43.1626	89	7,490	6.62	0	0	1	0	0	0
1984	8 42.4075	0	6,777	6.59	0	0	0	1	0	0

EXPLANATION OF VARIABLES:

VARIABLE	DESCRIPTION
RESIDUAL	RESIDUAL
RES MDH	MONTHLY RESIDENTIAL KWH PER CUSTOMER PER AVERAGE BILLING DAY
RES CDH	RESIDENTIAL HEATING DEGREE HOURS (BASE 65)
RES PRICE	RESIDENTIAL COOLING DEGREE HOURS (BASE 70)
_FEB THRU _OCT	TWELVE MONTH ROLLING AVERAGE OF REAL PRICE (CENTS PER KWH)
	MONTHLY DUMMY VARIABLES

FLORIDA PUBLIC SERVICE COMMISSION

EXPLANATION: For each forecasting model used to estimate test year projections for customers, demand, and energy, provide the historical and projected values for the input variables and the output variables used in estimating and/or validating the model. Also, provide a description of each variable, specifying the unit of measurement and the time span or cross sectional range of the data.

Type of Data Shown:
Prior Year Ended 7/1988

COMPANY: GULF POWER COMPANY

DOCKET NO.: 891345-E1

Witness: J. T. Kilgore, Jr.

HISTORICAL	RMW C D	RES HDN	RES CDH	RES PRICE	_FEB	_JUN	_JUL	_AUG	_SEP	_OCT
1984	9 38.0038	0	7,105	6.56	0	0	0	0	1	0
1984	10 32.0289	350	4,902	6.56	0	0	0	0	0	1
1984	11 28.9121	966	3,535	6.54	0	0	0	0	0	0
1984	12 27.9246	6,410	496	6.53	0	0	0	0	0	0
1985	1 29.7284	6,887	302	6.55	0	0	0	0	0	0
1985	2 41.4895	13,209	49	6.56	1	0	0	0	0	0
1985	3 27.5765	5,417	217	6.57	0	0	0	0	0	0
1985	4 23.2903	2,239	717	6.55	0	0	0	0	0	0
1985	5 24.7404	649	2,348	6.53	0	0	0	0	0	0
1985	6 34.7412	61	5,666	6.49	0	1	0	0	0	0
1985	7 41.0434	4	7,239	6.47	0	0	1	0	0	0
1985	8 44.0029	0	7,481	6.44	0	0	0	1	0	0
1985	9 41.7511	8	8,319	6.41	0	0	0	0	1	0
1985	10 33.7037	319	4,749	6.38	0	0	0	0	0	1
1985	11 28.5380	965	2,815	6.36	0	0	0	0	0	0
1985	12 26.2992	3,394	1,119	6.33	0	0	0	0	0	0
1986	1 36.2939	12,174	136	6.29	0	0	0	0	0	0
1986	2 32.4694	9,346	25	6.26	1	0	0	0	0	0
1986	3 28.6922	5,880	132	6.23	0	0	0	0	0	0
1986	4 25.0572	3,513	815	6.23	0	0	0	0	0	0
1986	5 25.0239	1,402	1,930	6.23	0	0	0	0	0	0
1986	6 36.5910	82	5,629	6.23	0	1	0	0	0	0
1986	7 47.7365	0	9,269	6.22	0	0	1	0	0	0
1986	8 51.2245	0	9,430	6.22	0	0	0	1	0	0
1986	9 42.0541	6	6,865	6.23	0	0	0	0	1	0
1986	10 38.0182	286	6,284	6.20	0	0	0	0	0	1
1986	11 25.8623	1,862	1,554	6.19	0	0	0	0	0	0
1986	12 27.4586	4,845	800	6.17	0	0	0	0	0	0
1987	1 36.4038	11,784	38	6.15	0	0	0	0	0	0
1987	2 35.0896	9,031	29	6.13	1	0	0	0	0	0
1987	3 30.8250	6,609	84	6.10	0	0	0	0	0	0
1987	4 26.6205	4,293	611	6.06	0	0	0	0	0	0
1987	5 26.9845	887	2,826	6.02	0	0	0	0	0	0
1987	6 38.0717	4	5,884	5.98	0	1	0	0	0	0
1987	7 46.6770	0	8,320	5.94	0	0	1	0	0	0
1987	8 48.9787	0	8,948	5.90	0	0	0	1	0	0
1987	9 45.3806	2	8,431	5.86	0	0	0	0	1	0
1987	10 31.3181	1,000	4,391	5.83	0	0	0	0	0	1
1987	11 24.0663	3,212	1,049	5.79	0	0	0	0	0	0
1987	12 28.2506	5,934	180	5.74	0	0	0	0	0	0
1988	1 35.2283	9,356	127	5.70	0	0	0	0	0	0
1988	2 39.4006	10,903	18	5.61	1	0	0	0	0	0
1988	3 33.0136	7,492	44	5.52	0	0	0	0	0	0
1988	4 26.0830	3,493	690	5.43	0	0	0	0	0	0
1988	5 26.3570	1,033	2,479	5.35	0	0	0	0	0	0
1988	6 34.0772	150	4,846	5.26	0	1	0	0	0	0
1988	7 46.2098	3	7,772	5.18	0	0	1	0	0	0

Supporting Schedules:

Recap Schedules:

FLORIDA PUBLIC SERVICE COMMISSION

COMPANY: GULF POWER COMPANY

DOCKET NO.: 891345-EI

EXPLANATION: For each forecasting model used to estimate test year projections for customers, demand, and energy, provide the historical and projected values for the input variables and the output variables used in estimating and/or validating the model. Also, provide a description of each variable, specifying the unit of measurement and the time span or cross sectional range of the data.

Type of Data Shown:

Prior Year Ended 6/1989

Projected Test Year Ended 1990

Witness: J. T. Kilgore, Jr.

HISTORICAL	RKMN_C_D	RES MDH	RES CDH	RES PRICE	_FEB	_JUN	_JUL	_AUG	_SEP	_OCT
1988	8 46.0405	0	7,861	5.09	0	0	0	1	0	0
1988	9 43.9054	11	7,056	5.00	0	0	0	0	1	0
1988	10 34.4199	694	4,327	4.99	0	0	0	0	0	1
1988	11 24.4598	2,036	1,035	4.97	0	0	0	0	0	0
1988	12 29.5252	6,523	512	4.96	0	0	0	0	0	0
1989	1 31.2278	6,646	156	4.94	0	0	0	0	0	0
1989	2 30.4142	6,367	221	4.98	1	0	0	0	0	0
1989	3 32.8339	6,831	337	5.01	0	0	0	0	0	0
1989	4 26.5578	2,996	762	5.03	0	0	0	0	0	0
1989	5 27.7094	1,230	2,206	5.05	0	0	0	0	0	0
1989	6 40.0857	202	5,729	5.06	0	1	0	0	0	0
PROJECTED	RKMN_C_D	RES MDH	RES CDH	RES PRICE	_FEB	_JUN	_JUL	_AUG	_SEP	_OCT
1989	7 47.4796	0	7,941	5.08	0	0	1	0	0	0
1989	8 49.4845	0	8,665	5.09	0	0	0	1	0	0
1989	9 43.9276	0	7,327	5.11	0	0	0	0	1	0
1989	10 33.3601	219	4,281	5.08	0	0	0	0	0	1
1989	11 26.4349	2,538	1,113	5.03	0	0	0	0	0	0
1989	12 31.3513	6,989	267	5.00	0	0	0	0	0	0
1990	1 38.5745	11,897	37	4.97	0	0	0	0	0	0
1990	2 36.1674	9,663	43	4.94	1	0	0	0	0	0
1990	3 31.5366	7,210	143	4.92	0	0	0	0	0	0
1990	4 25.8170	2,698	715	4.95	0	0	0	0	0	0
1990	5 26.1323	526	2,258	4.98	0	0	0	0	0	0
1990	6 38.2922	39	5,820	5.01	0	1	0	0	0	0
1990	7 45.9713	0	7,553	5.03	0	0	1	0	0	0
1990	8 49.3439	0	8,674	5.06	0	0	0	1	0	0
1990	9 44.8164	0	7,705	5.08	0	0	0	0	1	0
1990	10 33.1120	231	4,207	5.11	0	0	0	0	0	1
1990	11 26.4137	2,637	1,100	5.14	0	0	0	0	0	0
1990	12 31.1730	7,026	241	5.17	0	0	0	0	0	0

FLORIDA PUBLIC SERVICE COMMISSION

EXPLANATION: For each forecasting model used to estimate test year projections for customers, demand, and energy, provide the historical and projected values for the input variables and the output variables used in estimating and/or validating the model. Also, provide a description of each variable, specifying the unit of measurement and the time span or cross sectional range of the data.

Type of Data Shown:
Prior Year Ended 8/1984

COMPANY: GULF POWER COMPANY

DOCKET NO.: 891345-E1

Witness: J. T. Kilgore, Jr.

FORECASTING MODEL: COMMERCIAL MONTHLY ALLOCATION OF ANNUAL ENERGY

HISTORICAL	CKWH_C_D	COM RDH	COM CDH	COM PRICE	_JAN	_JUN	_JUL	_AUG	_NOV	_DEC
1981	12 130.7178	2,420	1,843	6.57	0	0	0	0	0	1
1982	1 136.9484	5,690	755	6.54	1	0	0	0	0	0
1982	2 140.9861	4,846	529	6.53	0	0	0	0	0	0
1982	3 134.1757	2,318	1,130	6.53	0	0	0	0	0	0
1982	4 143.4841	1,067	2,921	6.53	0	0	0	0	0	0
1982	5 144.7290	205	4,101	6.53	0	0	0	0	0	0
1982	6 187.5567	0	9,540	6.52	0	1	0	0	0	0
1982	7 202.0722	0	13,004	6.53	0	0	1	0	0	0
1982	8 198.3472	0	12,128	6.55	0	0	0	1	0	0
1982	9 190.5811	0	12,274	6.57	0	0	0	0	0	0
1982	10 175.5158	21	9,326	6.57	0	0	0	0	0	0
1982	11 143.8264	744	4,601	6.57	0	0	0	0	1	0
1982	12 135.1867	1,307	2,481	6.58	0	0	0	0	0	1
1983	1 138.0712	3,795	1,207	6.57	1	0	0	0	0	0
1983	2 146.7238	5,337	105	6.57	0	0	0	0	0	0
1983	3 133.3056	2,628	470	6.57	0	0	0	0	0	0
1983	4 134.7497	2,101	784	6.56	0	0	0	0	0	0
1983	5 133.7609	501	3,007	6.56	0	0	0	0	0	0
1983	6 170.7130	9	8,123	6.56	0	1	0	0	0	0
1983	7 191.4850	0	11,154	6.54	0	0	1	0	0	0
1983	8 193.2307	0	14,657	6.52	0	0	0	1	0	0
1983	9 202.3670	0	13,632	6.50	0	0	0	0	0	0
1983	10 164.4108	15	8,559	6.48	0	0	0	0	0	0
1983	11 139.3273	276	4,569	6.46	0	0	0	0	1	0
1983	12 128.4412	1,745	1,987	6.44	0	0	0	0	0	1
1984	1 145.4912	7,092	433	6.41	1	0	0	0	0	0
1984	2 144.4724	5,058	175	6.38	0	0	0	0	0	0
1984	3 131.8767	2,612	653	6.34	0	0	0	0	0	0
1984	4 130.0993	925	2,052	6.31	0	0	0	0	0	0
1984	5 148.1727	125	5,570	6.26	0	0	0	0	0	0
1984	6 180.7204	13	9,476	6.21	0	1	0	0	0	0
1984	7 193.3112	3	13,209	6.20	0	0	1	0	0	0
1984	8 191.5623	0	12,528	6.17	0	0	0	1	0	0

EXPLANATION OF VARIABLES:

VARIABLE	DESCRIPTION
CKWH C D	MONTHLY COMMERCIAL KWH PER CUSTOMER PER AVERAGE BILLING DAY
COM RDH	COMMERCIAL HEATING DEGREE HOURS (BASE 54)
COM CDH	COMMERCIAL COOLING DEGREE HOURS (BASE 62)
COM PRICE	TWELVE MONTH ROLLING AVERAGE OF REAL PRICE (CENTS PER KWH)
_JAN THRU _DEC	MONTHLY DUMMY VARIABLES

Supporting Schedules:

Recap Schedules:

FLORIDA PUBLIC SERVICE COMMISSION

EXPLANATION: For each forecasting model used to estimate test year projections for customers, demand, and energy, provide the historical and projected values for the input variables and the output variables used in estimating and/or validating the model. Also, provide a description of each variable, specifying the unit of measurement and the time span or cross sectional range of the data.

Type of Data Shown:
Prior Year Ended 7/1988

COMPANY: GULF POWER COMPANY

DOCKET NO.: 891345-E1

Witness: J. T. Kilgore, Jr.

HISTORICAL	CKWH_C D	COM MDH	COM CDH	COM PRICE	_JAN	_JUN	_JUL	_AUG	_NOV	_DEC
1984	9 180.3061	0	13,159	6.15	0	0	0	0	0	0
1984	10 169.7164	20	10,075	6.13	0	0	0	0	0	0
1984	11 162.2999	201	8,067	6.11	0	0	0	0	1	0
1984	12 132.0558	2,125	2,223	6.11	0	0	0	0	0	1
1985	1 134.6651	2,821	2,121	6.11	1	0	0	0	0	0
1985	2 152.6110	6,713	457	6.12	0	0	0	0	0	0
1985	3 136.1613	1,814	1,670	6.11	0	0	0	0	0	0
1985	4 139.0613	213	3,357	6.07	0	0	0	0	0	0
1985	5 156.8340	52	6,709	6.03	0	0	0	0	0	0
1985	6 186.3004	0	11,169	6.01	0	1	0	0	0	0
1985	7 192.9281	0	13,080	5.97	0	0	1	0	0	0
1985	8 198.5941	0	13,211	5.94	0	0	0	1	0	0
1985	9 192.8465	0	14,388	5.90	0	0	0	0	0	0
1985	10 179.1934	15	9,869	5.87	0	0	0	0	0	0
1985	11 162.5834	158	7,186	5.84	0	0	0	0	1	0
1985	12 146.5994	1,174	4,513	5.79	0	0	0	0	0	1
1986	1 145.4353	5,494	904	5.75	1	0	0	0	0	0
1986	2 140.3329	3,608	652	5.71	0	0	0	0	0	0
1986	3 143.8857	2,107	1,470	5.67	0	0	0	0	0	0
1986	4 147.2194	869	3,295	5.67	0	0	0	0	0	0
1986	5 158.6401	106	5,611	5.67	0	0	0	0	0	0
1986	6 189.0856	0	11,203	5.67	0	1	0	0	0	0
1986	7 211.9935	0	15,395	5.66	0	0	1	0	0	0
1986	8 220.6835	0	15,135	5.66	0	0	0	1	0	0
1986	9 201.8378	0	12,568	5.66	0	0	0	0	0	0
1986	10 192.1294	21	11,888	5.63	0	0	0	0	0	0
1986	11 155.7605	168	4,996	5.62	0	0	0	0	1	0
1986	12 148.0618	1,163	3,058	5.59	0	0	0	0	0	1
1987	1 144.5923	4,518	353	5.58	1	0	0	0	0	0
1987	2 149.0328	3,360	547	5.56	0	0	0	0	0	0
1987	3 146.1868	1,458	787	5.53	0	0	0	0	0	0
1987	4 144.4568	1,333	2,631	5.50	0	0	0	0	0	0
1987	5 165.2567	173	7,190	5.46	0	0	0	0	0	0
1987	6 198.3286	0	11,692	5.42	0	1	0	0	0	0
1987	7 212.7455	0	14,203	5.38	0	0	1	0	0	0
1987	8 218.3419	0	14,625	5.34	0	0	0	1	0	0
1987	9 211.0211	0	14,225	5.30	0	0	0	0	0	0
1987	10 175.6370	95	8,838	5.27	0	0	0	0	0	0
1987	11 146.4005	617	3,505	5.23	0	0	0	0	1	0
1987	12 141.7574	1,837	1,761	5.19	0	0	0	0	0	1
1988	1 148.8279	3,910	1,429	5.15	1	0	0	0	0	0
1988	2 156.9771	5,155	634	5.06	0	0	0	0	0	0
1988	3 149.6962	2,582	769	4.98	0	0	0	0	0	0
1988	4 146.0608	847	3,120	4.88	0	0	0	0	0	0
1988	5 167.6092	67	6,393	4.79	0	0	0	0	0	0
1988	6 185.0914	0	10,170	4.72	0	1	0	0	0	0
1988	7 214.7763	0	13,595	4.63	0	0	1	0	0	0

Supporting Schedules:

Recap Schedules:

FLORIDA PUBLIC SERVICE COMMISSION

COMPANY: GULF POWER COMPANY

DOCKET NO.: 891345-E1

EXPLANATION: For each forecasting model used to estimate test year projections for customers, demand, and energy, provide the historical and projected values for the input variables and the output variables used in estimating and/or validating the model. Also, provide a description of each variable, specifying the unit of measurement and the time span or cross sectional range of the data.

Type of Data Shown:

Prior Year Ended 8/1989

Projected Test Year Ended 1990

Witness: J. T. Kilgore, Jr.

HISTORICAL	CKWH_C_D	COM HDH	COM CDH	COM PRICE	_JAN	_JUN	_JUL	_AUG	_NOV	_DEC
1988	8 209.5271	0	13,822	4.55	0	0	0	1	0	0
1988	9 209.6731	0	12,788	4.47	0	0	0	0	0	0
1988	10 182.9059	24	8,982	4.45	0	0	0	0	0	0
1988	11 156.8915	219	4,067	4.43	0	0	0	0	1	0
1988	12 147.2316	2,151	2,431	4.42	0	0	0	0	0	1
1989	1 144.7481	2,241	1,750	4.40	1	0	0	0	0	0
1989	2 149.0549	2,067	1,556	4.42	0	0	0	0	0	0
1989	3 155.0869	2,694	1,889	4.45	0	0	0	0	0	0
1989	4 155.9990	649	3,509	4.47	0	0	0	0	0	0
1989	5 167.1915	167	6,063	4.49	0	0	0	0	0	0
1989	6 201.8372	6	11,277	4.51	0	1	0	0	0	0
1989	7 210.5651	0	13,576	4.53	0	0	1	0	0	0
1989	8 217.6873	0	13,419	4.55	0	0	0	1	0	0
PROJECTED	CKWH_C_D	COM HDH	COM CDH	COM PRICE	_JAN	_JUN	_JUL	_AUG	_NOV	_DEC
1989	9 204.2938	0	13,148	4.57	0	0	0	0	0	0
1989	10 186.3685	0	9,301	4.53	0	0	0	0	0	0
1989	11 153.4900	467	3,939	4.50	0	0	0	0	1	0
1989	12 146.0723	2,115	1,489	4.47	0	0	0	0	0	1
1990	1 148.1678	4,574	340	4.46	1	0	0	0	0	0
1990	2 154.6853	3,820	519	4.43	0	0	0	0	0	0
1990	3 150.5223	2,401	1,333	4.41	0	0	0	0	0	0
1990	4 154.1226	525	3,249	4.42	0	0	0	0	0	0
1990	5 170.2078	24	6,636	4.44	0	0	0	0	0	0
1990	6 203.5022	0	11,526	4.45	0	1	0	0	0	0
1990	7 212.1623	0	13,370	4.46	0	0	1	0	0	0
1990	8 218.5212	0	14,385	4.47	0	0	0	1	0	0
1990	9 209.4341	0	13,800	4.48	0	0	0	0	0	0
1990	10 183.8848	0	9,191	4.49	0	0	0	0	0	0
1990	11 153.9104	502	3,912	4.50	0	0	0	0	1	0
1990	12 144.7232	2,123	1,465	4.51	0	0	0	0	0	1

FLORIDA PUBLIC SERVICE COMMISSION EXPLANATION: Provide actual, projected (as applicable) and normal monthly heating degree days for the utility's service territory for the test year and the five previous years. Provide this information both by calendar month and by billing month. Provide a description of how the actual, projected and normal heating degree days for the utility's service territory are derived.

COMPANY: GULF POWER COMPANY

DOCKET NO.: 891345-E1

Type of Data Shown:
 Historic Test Year Ended
 Projected Test Year Ended 1990
 Prior Year Ended 1989
 Witness: J. T. Kilgore, Jr.

PENSACOLA WEATHER STATION
 HEATING DEGREE DAYS (65 DEG. F BASE)

	1985		1986		1987		1988		1989		NORMAL 1990 TEST YEAR	
	CALENDAR	BILLING	CALENDAR	BILLING	CALENDAR	BILLING	CALENDAR	BILLING	CALENDAR	BILLING	CALENDAR	BILLING
JANUARY	569	245	470	506	455	463	516	386	210	261	449	468
FEBRUARY	295	524	221	382	282	357	385	454	287	244	319	389
MARCH	65	193	196	234	174	244	192	300	152	263	193	278
APRIL	32	61	44	123	96	155	27	117	73	104	12	79
MAY	0	13	0	30	0	19	0	14	3	27	0	4
JUNE	0	0	0	0	0	0	0	0	0	1	0	0
JULY	0	0	0	0	0	0	0	0	0	0	0	0
AUGUST	0	0	0	0	0	0	0	0	0	0	0	0
SEPTEMBER	0	0	0	0	0	0	0	0			0	0
OCTOBER	6	3	27	5	62	14	34	11			29	3
NOVEMBER	49	28	70	40	158	81	107	42			211	85
DECEMBER	455	120	374	192	251	226	337	249			374	285
ANNUAL	1,471	1,187	1,402	1,512	1,478	1,559	1,598	1,573	725 (1)	900 (1)	1,587	1,591

Actual heating degree days are based on hourly temperature observations recorded at the Pensacola, Florida weather station by the National Oceanic and Atmospheric Administration (NOAA). Daily heating degree day values are calculated by subtracting the daily mid-range temperature (maximum plus minimum divided by two) from the 65 degree base. Calendar and billing month totals represent summations of daily values for calendar months and billing cycles, respectively. Normal values used in the forecast are based on 30-year climatological normals published by NOAA, which represents expected values based on observations from the data recorded during the period 1951-1980. Monthly weather data from the period 1980-1988 (for which hourly observations are readily available) are compared to the 30-year NOAA normals for the purpose of selecting months which compose the Typical Meteorological Year.

Supporting Schedules:

Recap Schedules:

(1) January through August

FLORIDA PUBLIC SERVICE COMMISSION

EXPLANATION: Provide actual, projected (as applicable) and normal monthly cooling degree days for the utility's service territory for the test year and the five previous years. Provide this information both by calendar month and by billing month. Provide a description of how the actual, projected and normal cooling degree days for the utility's service territory are derived.

COMPANY: GULF POWER COMPANY

Type of Data Shown:

Historic Test Year Ended

Projected Test Year Ended 1990

Prior Year Ended 1989

Witness: J. T. Kilgore, Jr.

DOCKET NO.: 891345-E1

PENSACOLA WEATHER STATION
COOLING DEGREE DAYS (70 DEG. F BASE)

	1985		1986		1987		1988		1989		NORMAL 1990 TEST YEAR	
	CALENDAR	BILLING	CALENDAR	BILLING	CALENDAR	BILLING	CALENDAR	BILLING	CALENDAR	BILLING	CALENDAR	BILLING
JANUARY	3	2	0	4	0	1	0	5	1	1	0	1
FEBRUARY	2	0	0	0	0	0	0	0	1	1	0	0
MARCH	18	5	0	0	2	0	2	0	9	2	3	0
APRIL	43	13	17	4	45	9	40	8	29	8	31	8
MAY	173	74	151	54	186	96	133	69	151	54	156	67
JUNE	342	232	358	226	313	248	302	180	288	230	309	237
JULY	336	321	444	402	419	355	350	342	345	325	392	332
AUGUST	368	333	359	421	431	405	357	352	371	340	368	379
SEPTEMBER	241	367	305	317	264	379	266	313			248	343
OCTOBER	144	194	108	278	10	163	23	189			72	177
NOVEMBER	140	120	39	50	6	11	6	15			1	33
DECEMBER	5	40	2	26	6	2	1	5			2	1
ANNUAL	1,815	1,701	1,783	1,782	1,682	1,669	1,480	1,478	1,195 ⁽¹⁾	961 ⁽¹⁾	1,582	1,578

Actual cooling degree days are based on hourly temperature observations recorded at the Pensacola, Florida weather station by the National Oceanic and Atmospheric Administration (NOAA). Daily cooling degree day values are calculated by subtracting the 70 degree base from the daily mid-range temperature (maximum plus minimum divided by two). Calendar and billing month totals represent summations of daily values for calendar months and billing cycles, respectively. Normal values used in the forecast are based on 30-year climatological normals published by NOAA, which represents expected values based on observations from the data recorded during the period 1951-1980. Monthly weather data from the period 1980-1988 (for which hourly observations are readily available) are compared to the 30-year NOAA normals for the purpose of selecting months which compose the Typical Meteorological Year.

Supporting Schedules:

Recap Schedules:

(1) January through August

108

1217

FLORIDA PUBLIC SERVICE COMMISSION

EXPLANATION: Provide the utility's service area's actual, projected (as applicable), and normal peak hour temperatures for each month of the test year and the five previous years. Provide the date, day of week and hour of peak. Provide a description of how actual, projected and normal peak hour temperatures for the utility's service area are derived.

Type of Data Shown:

COMPANY: GULF POWER COMPANY

Historic Years Ended 1985, 1986

DOCKET NO.: 891345-EI

Witness: J.T. Kilgore, Jr.

Line No.	Month & Year	Temperature	Day of Week	Day of Month	Hour	Actual (A) or Projected (P)
1	Jan. 1985	9	Monday	21	10:00 CST	A
2	Feb. 1985	31	Wednesday	13	08:00 CST	A
3	Mar. 1985	48	Tuesday	19	08:00 CST	A
4	Apr. 1985	88	Monday	29	17:00 CDT	A
5	May. 1985	86	Friday	31	17:00 CDT	A
6	Jun. 1985	94	Thursday	6	17:00 CDT	A
7	Jul. 1985	88	Wednesday	10	17:00 CDT	A
8	Aug. 1985	92	Thursday	22	17:00 CDT	A
9	Sep. 1985	92	Wednesday	11	17:00 CDT	A
10	Oct. 1985	82	Thursday	17	17:00 CDT	A
11	Nov. 1985	76	Tuesday	19	18:00 CST	A
12	Dec. 1985	24	Thursday	26	09:00 CST	A
13	Jan. 1986	22	Tuesday	28	07:00 CST	A
14	Feb. 1986	27	Wednesday	12	08:00 CST	A
15	Mar. 1986	33	Saturday	1	09:00 CST	A
16	Apr. 1986	74	Monday	7	19:00 CST	A
17	May. 1986	83	Friday	30	16:00 CDT	A
18	Jun. 1986	91	Friday	27	15:00 CDT	A
19	Jul. 1986	99	Thursday	31	17:00 CDT	A
20	Aug. 1986	102	Friday	1	17:00 CDT	A
21	Sep. 1986	88	Monday	29	15:00 CDT	A
22	Oct. 1986	86	Thursday	2	17:00 CDT	A
23	Nov. 1986	75	Friday	7	18:00 CST	A
24	Dec. 1986	44	Wednesday	31	18:00 CST	A

B

FLORIDA PUBLIC SERVICE COMMISSION EXPLANATION: Provide the utility's service area's actual, projected (as applicable), and normal peak hour temperatures for each month of the test year and the five previous years. Provide the date, day of week and hour of peak. Provide a description of how actual, projected and normal peak hour temperatures for the utility's service area are derived.

COMPANY: GULF POWER COMPANY

DOCKET NO.: 891345-EI

Type of Data Shown:
Historic Years Ended 1987, 1988

Witness: J.T. Kilgore, Jr.

Line No.	Month & Year	Temperature	Day of Week	Day of Month	Hour	Actual (A) or Projected (P)
25	Jan. 1987	26	Tuesday	27	08:00 CST	A
26	Feb. 1987	34	Tuesday	10	08:00 CST	A
27	Mar. 1987	38	Friday	13	07:00 CST	A
28	Apr. 1987	34	Wednesday	1	07:00 CST	A
29	May. 1987	85	Thursday	21	17:00 CDT	A
30	Jun. 1987	85	Wednesday	3	17:00 CDT	A
31	Jul. 1987	93	Wednesday	29	17:00 CDT	A
32	Aug. 1987	89	Wednesday	26	17:00 CDT	A
33	Sep. 1987	88	Wednesday	9	17:00 CDT	A
34	Oct. 1987	82	Thursday	1	17:00 CDT	A
35	Nov. 1987	37	Friday	13	07:00 CST	A
36	Dec. 1987	30	Thursday	17	08:00 CST	A
37	Jan. 1988	33	Wednesday	27	08:00 CST	A
38	Feb. 1988	30	Sunday	7	09:00 CST	A
39	Mar. 1988	39	Wednesday	16	07:00 CST	A
40	Apr. 1988	84	Tuesday	26	17:00 CDT	A
41	May. 1988	81	Tuesday	31	17:00 CDT	A
42	Jun. 1988	91	Tuesday	28	17:00 CDT	A
43	Jul. 1988	90	Wednesday	13	17:00 CDT	A
44	Aug. 1988	90	Monday	1	15:00 CDT	A
45	Sep. 1988	91	Wednesday	21	17:00 CDT	A
46	Oct. 1988	73	Monday	3	16:00 CDT	A
47	Nov. 1988	44	Tuesday	29	07:00 CST	A
48	Dec. 1988	36	Tuesday	13	08:00 CST	A

FLORIDA PUBLIC SERVICE COMMISSION EXPLANATION: Provide the utility's service area's actual, projected (as applicable), and normal peak hour temperatures for each month of the test year and the five previous years. Provide the date, day of week and hour of peak. Provide a description of how actual, projected and normal peak hour temperatures for the utility's service area are derived.

COMPANY: GULF POWER COMPANY

DOCKET NO.: 891345-E1

Type of Data Shown:
 Projected Test Year Ended 1990
 Prior Year Ended 1989

Witness: J.T. Kilgore, Jr.

Line No.	Month & Year	Temperature	Day of Week	Day of Month	Hour	Actual (A) or Projected (P)
49	Jan. 1989	45	Tuesday	17	08:00 CST	
50	Feb. 1989	27	Friday	24	08:00 CST	A
51	Mar. 1989	40	Tuesday	7	19:00 CST	A
52	Apr. 1989	80	Thursday	27	17:00 CDT	A
53	May. 1989	83	Wednesday	31	16:00 CDT	A
54	Jun. 1989	84	Tuesday	13	17:00 CDT	A
55	Jul. 1989	92	Tuesday	11	17:00 CDT	A
56	Aug. 1989	89	Thursday	3	17:00 CDT	A
57	Sep. 1989	87	Friday	14	17:00 CDT	P
58	Oct. 1989	83	Thursday	4	16:00 CDT	P
59	Nov. 1989	49	Monday	12	19:00 CST	P
60	Dec. 1989	42	Monday	31	09:00 CST	P
61	Jan. 1990	33	Tuesday	23	08:00 CST	P
62	Feb. 1990	35	Wednesday	7	09:00 CST	P
63	Mar. 1990	41	Thursday	1	09:00 CST	P
64	Apr. 1990	68	Friday	6	19:00 CDT	P
65	May. 1990	88	Friday	25	16:00 CDT	P
66	Jun. 1990	91	Tuesday	19	17:00 CDT	P
67	Jul. 1990	96	Tuesday	17	17:00 CDT	P
68	Aug. 1990	88	Friday	24	17:00 CDT	P
69	Sep. 1990	87	Friday	14	17:00 CDT	P
70	Oct. 1990	83	Thursday	4	16:00 CDT	P
71	Nov. 1990	49	Monday	12	19:00 CST	P
72	Dec. 1990	42	Monday	31	09:00 CST	P

FLORIDA PUBLIC SERVICE COMMISSION	EXPLANATION: Provide demonstration that the data submitted regarding the projected KWH and KU sales, operating revenues; billing determinants, conservation goals and programs; load forecast; fuel burn and, hence, the fuel inventory; projected expense; the earnings test and any requested attrition allowance is consistent.	Type of Data Shown:
COMPANY: GULF POWER COMPANY		Historic Test Year Ended
DOCKET NO.: B91345 - E1		Projected Test Year Ended 1990
		Prior Year Ended
		Witness: B. P. Gilbert

Gulf's planning and budgeting process and the subsequent reviews by Gulf's Executive Council, Budget Committee, or assigned representative assure that the data and assumptions used in developing the various budgets and forecasts are consistent, accurate, and are reasonable at the time the projections are made.

The process begins with the long-range planning process where Corporate direction is established through objectives, goals and strategies. This direction serves to provide consistency for the remaining part of Gulf's integrated planning, budgeting and monitoring system. The various groups such as the forecast team, Fuel Management staff, and Corporate Planning staff, develop the subsequent assumptions, submit these assumptions along with their budgets or forecasts to Gulf's Budget Committee for approval. The assumptions utilized in this forecast are provided in WEP's F-11 and F-17.

Since the Financial Forecast, that is used in planning and operating Gulf, is developed from eight separate budgets, which are developed by separate groups, consistency of assumptions is a vital part of Gulf's planning process. Because this is essential to the validity of Gulf's filing, Arthur Andersen and Company has been retained to review Gulf's forecasts of 1990 including the entire planning and budgeting process for consistency of data and assumptions and compliance with AICPA guidelines for forecasted data. The results of this review will be presented by Mr. Rust Bell, a partner in the firm of Arthur Andersen and Company.

CONSERVATION ACTIONS

FLORIDA PUBLIC SERVICE COMMISSION EXPLANATION: Provide a detailed analysis of all actions taken by the company to promote conservation by its customers. Explain the purpose, time frame and expected benefit of each action. Provide examples of bill stuffers and other forms of advertising.

COMPANY: GULF POWER COMPANY

DOCKET NO.: 891345-EI

Type of Data Shown:

Historical Test Year Ended

Historical Test Year Ended

Projected Test Year Ended 12/31/90

Prior Year Ended

Witness: M. P. Bowers

Following is a detailed summary of the programs used by Gulf Power Company to promote energy conservation by its customers. Each of these programs have been approved under the original FERC Ruling 25.17 as Energy Conservation Programs.

The programs analyzed were:

1. Energy Conservation Audits
2. Energy Audits/Technical Assistance Audits
3. Good Eents Buildings

FLORIDA PUBLIC SERVICE COMMISSION

EXPLANATION:

Provide a detailed analysis of all actions taken by the company to promote conservation by its customers. Explain the purpose, time frame and expected benefit of each action. Provide examples of bill stuffers and other forms of advertising.

COMPANY: GULF POWER COMPANY

DOCKET NO.: 891345-EI

Type of Data Shown:

Historical Test Year Ended

Projected Test Year Ended

Prior Year Ended

Witness: W. P. Bowers

12/31/90

HOME ENERGY AUDITS

The home energy audit is used to educate the consumer on lifestyle enhancements and to provide information on ways he/she could save on energy bills through thermal improvements to the home.

The audit consists of a physical inspection of the customer's home, written recommendations pinpointing exact Good Emissions measures needed for the home, assistance in securing bids, loan assistance if needed, and a follow-up customer contact to reinforce the decision to make major efficiency improvements to the home.

The audit provides the customer an opportunity to gain more knowledge about his/her home's energy usage, which is provided by a trained representative of the Company. The Company is also the customer's prime contact for resolving any complaints against the workmanship of a certified Certifiable Contractor.

The audit allows the Company's representative flexibility to adjust his/her audit techniques to properly reflect the buying motives of each customer.

Gulf Power offers the customer the option of having a State/Federal RES class A audit performed at a cost of \$15.00. This audit requires that certain prescriptive measures and practices be covered during the audit process.

The representative points out lifestyle changes that can be made such as: HVAC thermostat settings, water heater temperature settings, HVAC air filter checks, etc. The representative also checks the structure's thermal integrity which includes attic insulation, window treatment, caulking and weatherstripping, floor insulation, HVAC equipment, duct design, exterior doors, and wall insulation inspection. The representative prepares a sketch of the structure to be analyzed using the Company's Residential Building Energy Program.

The representative calculates the heat loss and gain of the structure before and after recommended improvements, the energy usage before and after, and an economic analysis of the recommended improvements. From this, the representative makes a list of recommendations in order of cost effectiveness. The Company's representative schedules the follow-up presentations with the customer.

FLORIDA PUBLIC SERVICE COMMISSION

EXPLANATION: Provide a detailed analysis of all actions taken by the company to promote conservation by its customers. Explain the purpose, time frame and expected benefit of each action. Provide examples of bill stuffers and other forms of advertising.

COMPANY: GULF POWER COMPANY

DOCKET NO.: 891345-EI

Type of Data Shown:

Historical Test Year Ended

/ /

Projected Test Year Ended

12/31/90

Prior Year Ended

/ /

Witness: M. P. Bowers

ENERGY AUDIT/TECHNICAL ASSISTANCE AUDIT

The Company provides this service to all segments of the commercial and industrial class. As is the case with residential home energy audits, this program is designed to provide customers in the commercial/industrial sector with better information in order to make prudent energy related decisions. The on-site energy audit and corresponding analysis is performed by trained representatives who have expertise in areas such as lighting design, HVAC, refrigeration equipment, cooking equipment, water heating, energy storage systems, waste heat recovery, cogeneration applications, and process heating. They are assisted by computer programs developed by the Southern System and other programs such as ACCESS. The audit itself can take two directions: an energy audit performed totally by Gulf's personnel or a technical assisted audit where the employment of outside expertise is required. The latter is used when the potential for a substantial capital expenditure is being considered by the customer.

Audit requests are generated through a phone call, advertising, a complaint or referral. In this initial contact the representative determines needs, sets an appointment and begins to gather some basic data such as the address, account number, business type and past energy records.

At the time of the audit, the representative discusses the audit and submits an outline of procedure to the customers. During the discussion, the representative also acquires some customer data as it relates to the characteristics of the operation, time of operation, occupancy and duration of the occupancy. In the audit's visual inspection, the representative observes overall layout, gathers equipment data, statistics, observes housekeeping and maintenance, checks various energy sources, and checks waste heat sources. The representative also makes appropriate measurements of the lighting, the ambient air temperatures, water temperature, and air quantities.

After

After the visual inspection the representative will return to the customer to review the total energy consumption and billing for the structure, and make general suggestions for improved efficiency that will have little or no cost associated. The representative will also identify major items for further study in which the customer will have the option of making capital expenditures.

Upon approval of the customer, the representative will begin his/her analysis as it relates to research and reviewing published technical data on items being evaluated. The representative calculates the equipment sizes for the various applications, determines output potential and cost effectiveness. The representative also consults with HVAC dealers and engineers as to the feasibility of the potential recommendations.

Schedule F-16

CONSERVATION ACTIONS

FLORIDA PUBLIC SERVICE COMMISSION	EXPLANATION: Provide a detailed analysis of all actions taken by the company to promote conservation by its customers. Explain the purpose, time frame and expected benefit of each action. Provide examples of bill stuffers and other forms of advertising.	Type of Data Shown: Historical Test Year Ended Historical Test Year Ended Projected Test Year Ended Prior Year Ended Witness: M. P. Bowers
COMPANY: GULF POWER COMPANY		12/31/90
DOCKET NO.: 891345-EI		/ /

The representative returns to the customer for a presentation of the audit findings and recommendations. The presentation will cover calculations, steps to correct problem areas and agreement on the most cost effective items. The representative obtains commitment for action and establishes a follow-up to evaluate the actual effects of installed recommendations.

The representative will offer reviews with customer to analyze problems, cover savings to date, re-evaluate efforts and provide on-going information, where appropriate.

GOOD CENTS BUILDING PROGRAM (NEW AND EXISTING)

The commercial/industrial market is comprised of a wide range of diverse business and variable size and operational characteristics. The success of the Good Cents Building Program lies in its ability to address this diversity in a predictable manner. Through the use of computer software, Gulf has been able to produce case studies covering a variety of installations. These case studies provide the technical and economic foundation for the programs.

The Company provides the customer with specific information regarding load requirements. They also provide marketing assistance by providing the customer with knowledgeable assistance in making decisions concerning the energy management components of the building operation.

The benefits that accrue to the building owner who builds or retrofits to meet the Good Cents standards are: 1) lower life cycle costs, 2) enhanced resolve value, and 3) improved comfort.

The benefits to the company from the implementation of this program are:

- 1) Improved load factor (better utilization of existing facilities and reduced need for additional facilities), and 2) enhanced customer perception of value of service.

The Company's representative is made aware of the possible construction or renovation of a building either through official notification as reported in the Dodge Reports published weekly, architect/engineers' request for assistance, or a request for temporary service is made by the construction firm or owner.

CONSERVATION ACTIONS

Schedule P-16

FLORIDA PUBLIC SERVICE COMMISSION	EXPLANATION: Provide a detailed analysis of all actions taken by the company to promote conservation by its customers. Explain the purpose, time frame and expected benefit of each action. Provide examples of bill stuffers and other forms of advertising.	Type of Data Shown: Historical Test Year Ended Historical Test Year Ended Projected Test Year Ended Prior Year Ended
COMPANY: GULF POWER COMPANY		/ / / / 12/31/90 / /
ACCOUNT NO.: 891345-EI		Witness: W. P. Bowers

The Company representative contacts, if not previously contacted, the architect/engineer to begin assisting them in the design phase of the building in order for them to incorporate the conservation measures necessary to qualify for the Good Emts Building Program. The assistance provided comprises of: load calculations, lighting designs both interior and exterior, equipment recommendations, recommendations of energy storage systems, heat recovery systems, economizers, demand control equipment, and specialized equipment recommendations.

During the construction phase, the representative visually inspects for the installation of the Good Emts features and equipment.

At the end of the construction phase, the representative assists in acquiring electrical service to meet the customer's needs.

Once the building is complete the owner/occupant is presented a Good Emts Building Award as a reinforcement of his decision to construct or occupy an energy efficient structure.

CONSERVATION ACTIONS

Schedule F-16

FLORIDA PUBLIC SERVICE COMMISSION

COMPANY: GULF POWER COMPANY

DOCKET NO.: 891345-EI

EXPLANATION: Provide a detailed analysis of all actions taken by the company to promote conservation by its customers. Explain the purpose, time frame and expected benefit of each action. Provide examples of bill stuffers and other forms of advertising.

Type of Data Shown:

Historical Test Year Ended

Historical Test Year Ended

Projected Test Year Ended 12/31/90

Prior Year Ended

Witness: W. P. Bowers

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Samples of bill stuffers and support material used to advertise the programs are provided.

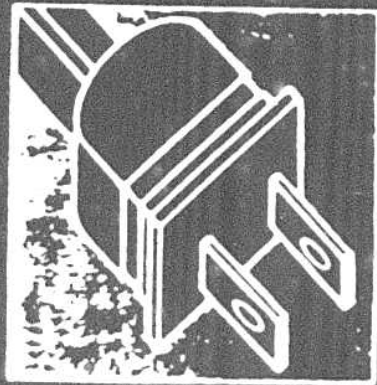
SEE ATTACHED

1227

GOOD BUSINESS CENTS

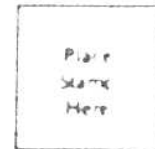
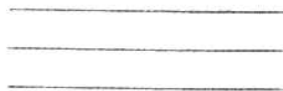


Consuming Energy in the Eighties



a reference guide
to the economical
use of electricity





Gulf Power Company
Attention: Al Barfield
Post Office Box 1151
Pensacola, Florida 32520

**GULF POWER COMPANY
PROGRAM ANNOUNCEMENT
FOR THE RESIDENTIAL CONSERVATION
SERVICE PROGRAM OF FLORIDA**

**PLEASE READ
CAREFULLY.**

You say you can't
afford to improve

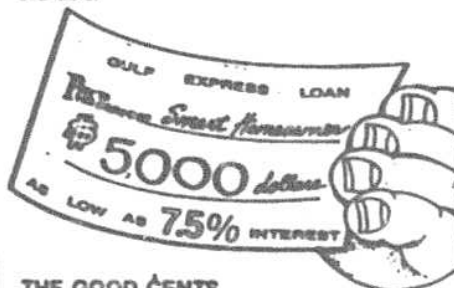
your home?
*We say
you can!*

Dear Customer,

We want to help you save money! That's right... special low interest loans are available now with rates as low as 7.5% on Good Cents Home Improvements.

Now is the time to make those changes and improvements you've been wanting to make — changes to make your home more comfortable, more energy efficient and more valuable.

But hurry... this special has limited funds available.



THE GOOD CENTS IMPROVED HOME SAVES YOU MONEY

Take a look at this check list of Good Cents Home Improvements.

How does your home stack up?

- Windows: Replacement or storm
- Ceiling: R-38 Ceiling Insulation
- High efficiency Heating and Cooling/Heat Pump
- Heat Pump Water Heater
- Heat Recovery Unit
- Floor: R-19 Insulation

YOU SAVE MONEY TWO WAYS!

1. Lower interest rates for improving your home... as low as 7.5% with NO DOWN PAYMENT
2. Lower energy bills as a result of a more energy efficient home.

Take advantage of this special offer; ask for the Home Improvement Loan Specialist at your bank, or call Gulf Power Company and ask for an energy audit for your home.

*This program available to all customers in the Gulf Power service area.

In the Pensacola area call 444-5258
In the Fort Walton area call 244-4770
In the Panama City area call 784-8273

Gulf Express Home Improvement Loan Application

☐ Individual Account ☐ Joint Account

Applicant Name (First Last Middle)			
Home Address (Street & No.)		How Long?	
City State Zip			
Previous Home Address		How Long?	
City State Zip		Gross Monthly Pay	
Home Phone No.	Birth Date	No. of Dep.	Age
Social Security No.	Bus. Phone	Net Mo. Pay	
Employer	How Long?	Position	
Nearest Relative Not Living With You			
Address and Phone Number			
<input type="checkbox"/> Secured <input type="checkbox"/> Unsecured		Bank preferred *	
Applicant Sign		Date	

Co-Applicant Name (First Last Middle)			
Home Address (Street & No.)		How Long?	
City State Zip			
Previous Home Address		How Long?	
City State Zip		Gross Monthly Pay	
Home Phone No.	Birth Date	Rel. to Applicant	
Social Security No.	Bus. Phone	Net Mo. Pay	
Employer	How Long?	Position	
Amount of Loan		<input type="checkbox"/> 36 Mo. <input type="checkbox"/> 60 Mo.	
Specific Improvements			
Co-Applicant Sign		Date	

Note: Child support, alimony, or separate maintenance income need not be revealed if you do not wish it to be considered as a basis of repaying this obligation.

*A limited number of banks are participating in this program. If your bank is not available, another participating bank may be used.

Mailing Instructions: Gulf Power Company, Attn: Cal Wilson,
P. O. Box 1151, Pensacola, FL 32520-1151

FLORIDA PUBLIC SERVICE COMMISSION

COMPANY: GULF POWER COMPANY

EXPLANATION: For a projected test year, provide a schedule of assumptions used in developing projected or estimated data. At a minimum, state assumptions used for balance sheet, income statement and sales forecast.

Type of Data Shown:
 Historic Test Year Ended
 Projected Test Year Ended 1990
 Prior Year Ended
 Witness: See Below

DOCKET NO. 891345-EI

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FLORIDA PUBLIC SERVICE COMMISSION

COMPANY: GULF POWER COMPANY

DOCKET NO. 891345-EI

EXPLANATION: For a projected test year, provide a schedule of assumptions used in developing projected or estimated data. At a minimum, state assumptions used for balance sheet, income statement and sales forecast.

Type of Data Shown:

Historic Test Year

Projected Test Year Ended 1990

Prior Year Ended

Witness: D. P. Gilbert

1. General Assumptions

A. Overview

This WYS Schedule F-17 contains the assumptions used in developing the eight budgets comprising Gulf's financial forecast. WYS Schedule F-11 describes the models and methods used in developing the financial forecast.

FLORIDA PUBLIC SERVICE COMMISSION

EXPLANATION: For a projected test year, provide a schedule of assumptions used in developing projected or estimated data used for balance sheet, income statement and sales forecast.

COMPANY: GULF POWER COMPANY

Type of Data Shown:
Historic Test Year Ended
Projected Test Year Ended 1990
Prior Year Ended
Witness: J. T. Kilgore

DOCKET NO. 891345-EI

I. GENERAL ASSUMPTIONS

B. FORECAST OF CUSTOMERS, ENERGY, PEAK DEMAND AND REVENUE

Normal weather conditions are assumed. A Typical Meteorological Year (TMY) is used as the basis for development of energy sales and peak demand forecasts. The TMY consists of hourly weather data from "typical" months, in which mean monthly mid-range temperatures were observed to closely match thirty year means (normals) reported by the National Oceanic and Atmospheric Administration (NOAA) for the Pensacola, Florida weather station. Monthly minimum and maximum temperatures are also used as a criterion in selection of typical months to ensure that peak demands, which are greatly influenced by extreme temperatures, are forecast to reflect normal conditions.

Moderate growth in population, construction and tourism are expected to continue through 1990, but at lower rates than those experienced in recent years. The impact of Naval Homeporting at the Pensacola Naval Air Station, including the addition of an operational aircraft carrier, will result in a mild growth spurt in the 1991-1992 time frame.

Energy sales and peak demand forecasts include the effects of Gulf's conservation and other market place initiatives. Impacts of additional cogeneration installations anticipated during the forecast horizon are subtracted from the energy sales and peak demand forecasts.

Base rate revenues were calculated using the FPSC approved rates in effect at the time of the forecast.

National economic forecasts are derived from the Data Resources, Inc. (DRI) "U.S. Long-Term Review," Spring 1989.

1990 YEAR END, TEST YEAR GROWTH RATES

CUSTOMERS	2.4%
TERRITORIAL KWH SALES	4.7%

ASSUMPTIONS
(Thousand of Dollars)

FLORIDA PUBLIC SERVICE COMMISSION
COMPANY: GULF POWER COMPANY
DOCKET NO. 891345-EI

EXPLANATION: For a projected test year, provide a schedule of assumptions used in developing projected or estimated data. At a minimum, state assumptions used for balance sheet, income statement and sales forecast.

FLORIDA PUBLIC SERVICE COMMISSION

COMPANY: GULF POWER COMPANY

DOCKET NO. 891345-EI

Type of Data Shown:
Historic Test Year Ended
Projected Test Year Ended 1990
Prior Year Ended
Witness: See Below

I. GENERAL ASSUMPTIONS
C. 1990 OPERATION AND MAINTENANCE BUDGET
WITHOUT FUEL AND PURCHASED POWER

Item	Amount	Witness	Assumption
1. Inflation Factor - BRI, CPIU	4.4%	Gilbert	Data Resources Incorporated, 0689 Trending Forecast.
2. Forecasted Vehicle Rates		Jordan	Based on estimates of vehicle charges provided by Gulf's General Services Department.
Class 1 per mile	\$.24		
Class 2 per mile	\$.26		
Class 3 per mile	\$.31		
Class 4 per hour	\$22.73		
Class 5 per hour	\$33.96		
3. Construction Budget, 10/01/88 Revision		Gilbert	Based on individual Plant Expenditure and developed using the process described in direct testimony. This information was used to estimate the O&M expenses of departments which have both maintenance and construction expenses.
Major Generating Projects	\$ 378		
New Business	\$16,255		
Transmission	\$ 2,392		
Joint Substation & Distribution	\$ 3,550		
Distribution	\$ 9,237		
Production	\$22,791		
General Plant	\$ 7,540		
Non-Utility	\$ 50		
Total	\$62,193		
4. Estimate of Prime Interest Rate		Scarborough	Provided by the SCS Financial Planning Department
1st Quarter	10.25%		
2nd Quarter	10.25%		
3rd Quarter	10.25%		
4th Quarter	9.75%		

ASSUMPTIONS
(Thousand of Dollars)

FLORIDA PUBLIC SERVICE COMMISSION
EXPLANATION: For a projected test year, provide a schedule of assumptions used in developing projected or estimated data. At a minimum, state assumptions used for balance sheet, income statement and sales forecast.
COMPANY: GULF POWER COMPANY
DOCKET NO. 891345-EI
Type of Data Shown:
 Historic Test Year Ended 1990
 Projected Test Year Ended 1990
 Prior Year Ended
 Witness: See Below

Item	Amount	Witness	Assumptions
5. Retail Customers - Year End Growth Rate	292,610 2.4%	Kilgore	Based on assumptions outlined in Section I.B. of this schedule and as described in direct testimony.
6. Retail Energy - MMH Growth Rate	7,699,490 4.2%	Kilgore	Derived using assumptions outlined in Section I.B. of this schedule and as described in direct testimony.
7. Peak Demand - MW	1,750 3.1%	Kilgore	Projected using assumptions outlined in Section I.B. of this schedule and as described in direct testimony.
8. Forecasted Composite Wage and Salary Increase Guideline -Exempt -Non-exempt -Covered	3.0% 3.0% 3.0%	Gilbert	Assumptions were based on inflation and current salary trends of other companies and utilities. Consideration was also given to estimated recruiting rates for certain entry level job families.

ASSUMPTIONS (Thousand of Dollars)

FLORIDA PUBLIC SERVICE COMMISSION

EXPLANATION: For a projected test year, provide a schedule of assumptions used in developing projected or estimated data. At a minimum, state assumptions used for balance sheet, income statement and sales forecast.

Type of Data Shown:
Historic Test Year Ended
Projected Test Year Ended 1990
Prior Year Ended
Witness: See Below

COMPANY: GULF POWER COMPANY

DOCKET NO. 891345-EI

Item	Amount	Witness	Assumptions
9. 1990 Operation Expense:			
Production, including			
Fuel handling	\$21,893	Perrons, Lee	Based on individual departmental budgets which incorporate the above
Transmission	\$ 5,211	Howell	assumptions and were developed using the process described in
Distribution	\$ 5,415	Jordan	WFR F-11 and direct testimony of each witness.
Customer Accounting	\$ 7,780	Scarborough	
Customer Service			
and Information	\$ 7,066	Bowers	
Sales Expense	\$ 835	Bowers	
Administrative and			
General	\$37,527	Scarborough	
Total Operation	\$85,727		
10. 1990 Maintenance Expense:			
Production	\$30,844	Lee	Based on individual departmental budgets which incorporate the above
Transmission	\$ 2,086	Howell	assumptions and were developed using the process described in
Distribution	\$ 9,115	Jordan	WFR F-11 and direct testimony of each witness.
Administrative and			
General	\$ 1,940	Scarborough	
	\$43,985		

FLORIDA PUBLIC SERVICE COMMISSION

EXPLANATION: For a projected test year, provide a schedule of assumptions used in developing projected or estimated data. At a minimum, state assumptions used for balance sheet, income statement and sales forecast.

Type of Data Shown:
 Historic Test Year Ended
 Projected Test Year 1990
 Prior Year Ended
 Witness: A. E. Scarbrough

COMPANY: GULF POWER COMPANY

DOCKET NO. 891345-EI

I. GENERAL ASSUMPTIONS
 D. 1990 FINANCIAL ASSUMPTIONS

Item	Amount	Witness	Assumption
1. Interest Rates on New First Mortgage		Scarbrough	Interest rate assumptions are provided by Southern Company Services, Inc. based upon the Trendlong 1989 utility bond forecast produced by Data Resources, Inc. in October, 1989. 150 basis points have been added to the 30 year Treasury Bond rate to arrive at Gulf's 'A' bond rating.
First Quarter	9.50%		
Second Quarter	9.25%		
Third Quarter	9.25%		
Fourth Quarter	9.25%		
2. Interest Rates on New Collateralized Pollution Control Bond Issues		Scarbrough	Interest rate assumptions are provided by Southern Company Services, Inc. based upon the forecast described above. Gulf's PCB rate equals the First Mortgage Bond rate less 225 basis points.
First Quarter	7.25%		
Second Quarter	7.00%		
Third Quarter	7.00%		
Fourth Quarter	7.00%		
3. Interest Rates on Commercial Paper		Scarbrough	Interest rate assumptions are provided by Southern Company Services, Inc. based upon Data Resources Inc. forecast described above.
First Quarter	8.25%		
Second Quarter	8.00%		
Third Quarter	8.00%		
Fourth Quarter	8.25%		
4. Dividend Rates on New Preferred Stock Issues (Perpetual)		Scarbrough	Interest rate assumptions are provided by Southern Company Services, Inc. based upon the forecast described above. Gulf's 'A' preferred stock dividend rate equals the 30 year T Bond rate plus 100 basis points.
First Quarter	8.00%		
Second Quarter	8.75%		
Third Quarter	8.75%		
Fourth Quarter	8.75%		

ASSUMPTIONS
(Thousands of Dollars)

FLORIDA PUBLIC SERVICE COMMISSION

EXPLANATION For a projected test year, provide a schedule of assumptions used in developing projected or estimated data. At a minimum, state assumptions used for balance sheet, income statement and sales forecast.

Type of Data Shown
Historic Test Year Ended
Projected Test Year Ended 1990
Prior Year Ended
Witness A. E. Scarbrough

COMPANY: GULF POWER COMPANY

DOCKET NO. 891345-EI

I. GENERAL ASSUMPTIONS
D. 1990 FINANCIAL ASSUMPTIONS

Item	Amount	Witness	Assumptions
5. Interest Rates on Temporary Cash Investments		Scarbrough	Interest rate assumptions are provided by Southern Company Services, Inc. and are taken directly from the Data Resource's Inc. forecast previously described.
First Quarter	\$.25%		
Second Quarter	\$.00%		
Third Quarter	\$.00%		
Fourth Quarter	\$.25%		
6. Dividends to Southern Company	\$77,300	Scarbrough	Based on projections of Southern Company's cash dividends to its shareholders and its net operating expenses. Southern's total cash requirement is then apportioned to the operating companies such that dividends paid to Southern are proportionate to Southern's common equity investment in the operating company.
7. Capital Contributions from Southern Company	\$10,000	Scarbrough	Based on Southern Company's ability to market new issues of its common stock, the operating company's ability to earn an adequate return and to bring about significant improvements in the operating company's common equity ratio.
8. Retirement of First Mortgage Bond	(\$3,890)	Scarbrough	5.00% Bond due July 1, 1990
9. Retirement of Pollution Control Bond	(\$ 50)	Scarbrough	5.92% Series Bond due in equal installments November 1 each year 1973-2001
10. Retirement of Sinking Fund Preferred Stock	(\$1,250)	Scarbrough	11 3 1/4% Preferred Stock due in equal installments, February 1 each year 1984-2002 10 40% Preferred Stock due in equal installments, December 1 each year 1980-1999
11. Preferred Stock Issue	\$ 0	Scarbrough	Based on Gulf's projected needs of cash to finance on going operations. There are no Preferred Stock issues forecasted in 1990.
12. Pollution Control Bond Issue, Total Authorized Amount	\$ 0	Scarbrough	There are no Pollution Control Bond issues forecasted in 1990.

ASSUMPTIONS
(Thousand of Dollars)

FLORIDA PUBLIC SERVICE COMMISSION

COMPANY: GULF POWER COMPANY

DOCKET NO. 891345-E1

EXPLANATION: For a projected test year, provide a schedule of assumptions used in developing projected or estimated data. At a minimum, state assumptions used for balance sheet, income statement and sales forecast.

Type of Data Shown:
Historic Test Year Ended
Projected Test Year Ended 1990
Prior Year Ended
Witness See Below

II OPERATING ASSUMPTIONS
A. 1989 INCOME STATEMENT

Item	Amount	Witness	Assumptions
1. Operating Revenue	\$502,892	Kilgore McMillan Parsons Howell	Base rate revenues (billed and unbilled) are input to the Financial Model. The model calculates monthly fuel revenues (billed and unbilled) based on forecasted monthly recoverable fuel expense, interchange costs and WHM sales. Conservation revenues (billed and unbilled) are calculated based on forecasted monthly recoverable expenses and WHM sales. Sales for Resale are interfaced from the Interchange Budget described in MFR F-11. With the exception of Municipal Franchise Fees, Other Operating Revenues are input based on an analysis of the accounts. Municipal Franchise Fees are calculated by the model using an input factor based on historical data.
2. Fuel Expense (without Fuel Handling)	\$182,463	Parsons	The projected amount is derived from the Fuel Budget as described in MFR F-11. This expense is entered into the Financial Model by direct interface with the FOES model.
3. Purchased Power	\$ 7,762	Howell	The projected amount is derived from the Interchange Budget as described in MFR F-11. This expense is entered into the Financial Model by direct interface with the EDS PROMOD model.
4. Operations Expense (including Fuel Handling)	\$ 85,727	Gilbert	The projected amount is derived from the O & M Budget as described in section I C. of this schedule. These expenses are summarized and input into the Financial Model.
5. Maintenance Expense	\$ 43,985	Gilbert	The projected amount is derived from the O & M Budget as described in section I C. of this schedule. These expenses are summarized and input into the Financial Model.
6. Peabody Equity Return	\$ (5,077)	Parsons	The projected amounts are calculated by Financial Planning and input into the Model. These amounts represent the return related to the equity portion of the Peabody Coal prepayment.
7. Depreciation Expense	\$ 48,709	McMillan	The projected amount is calculated by the Financial Model utilizing the Plant in Service inputs as described in section III B. of this MFR. This amount is the electric depreciation only. It excludes depreciation associated with transportation and merchandise activities.
8. Amortization Expense	\$ 5,370	McMillan	The projected amount is input into the Financial Model based on projected Plant balances as described in section III B. of this MFR. It is electric only.

FLORIDA PUBLIC SERVICE COMMISSION

COMPANY: GULF POWER COMPANY

DOCKET NO 891345-EI

EXPLANATION: For a projected test year, provide a schedule of assumptions used in developing projected or estimated data. At a minimum, state assumptions used for balance sheet, income statement and sales forecast

Type of Data Shown
Historic Test Year Ended
Projected Test Year Ended 1990
Prior Year Ended
Witness R J McMillan

Item	Amount	Witness	Assumptions								
8. Amortization Expense (cont.) Investment Tax Credit	(\$ 2,347)	McMillan	The projected amount is the amortization of the Investment Tax Credits which are amortized over the life of related assets, per IRS regulations.								
9. Taxes Other than Income	\$36,106	McMillan	All taxes other than income taxes are forecasted by applying actual, statutory, or average rates to applicable tax base. These taxes include Public Service Commission assessment fees, real and personal property taxes, gross receipts tax, franchise fees, state and federal unemployment tax, FICA, state motor vehicle licenses, federal highway use tax, and miscellaneous taxes. The total amount is then reduced for taxes capitalized, taxes applicable to motor vehicles, and taxes applicable to merchandise activities.								
10. Federal and State Income Taxes	\$21,346	McMillan	Currently applicable federal and state income tax regulations are followed. The lowest possible tax payments are made currently. Assumptions include: <ul style="list-style-type: none">- Federal tax rate - 34%- Full normalization of book and tax timing and basis differences- Tax Reform Act of 1986 rules are followed- State tax rate - 5.5%- State of Florida tax regulations utilized								
11. AFUDC - Debt and Equity	\$ 6	McMillan	AFUDC Rates: <table><tr><td>First Quarter</td><td>8 132%</td></tr><tr><td>Second Quarter</td><td>8 136%</td></tr><tr><td>Third Quarter</td><td>8 108%</td></tr><tr><td>Fourth Quarter</td><td>8 107%</td></tr></table> AFUDC rates are calculated based on a quarterly 12-month average capital structure adjusted for unit power sales and are input into a compounding formula to arrive at the monthly AFUDC rates. The monthly rates are applied to the projected average monthly eligible CWIP balance. Eligible CWIP equals projected monthly average CWIP less construction related accounts payable, ineligible projects, and CWIP allowed in rate base.	First Quarter	8 132%	Second Quarter	8 136%	Third Quarter	8 108%	Fourth Quarter	8 107%
First Quarter	8 132%										
Second Quarter	8 136%										
Third Quarter	8 108%										
Fourth Quarter	8 107%										
12. Earnings on Temporary Cash Investments	\$ 506	McMillan	The projected amount is calculated by applying the applicable interest rate to the projected average monthly balance of temporary cash investments.								
13. Other Income	\$ 961	McMillan	The projected amount includes the projected income for merchandising, Southern Sod, and Vision Design as well as the earnings on the funded portion of property insurance reserve.								

ASSUMPTIONS
(Thousands of Dollars)

FLORIDA PUBLIC SERVICE COMMISSION

COMPANY: GULF POWER COMPANY

DOCKET NO. 891345-E1

EXPLANATION: For a projected test year, provide a schedule of assumptions used in developing projected or estimated data. At a minimum, state assumptions used for balance sheet, income statement and sales forecast.

Type of Data Shown
Historic Test Year Ended
Projected Test Year Ended 1990
Prior Year Ended
Witness See Below

Item	Amount	Witness	Assumptions
14. Other Income Deductions	\$ 1,121	Gilbert	The projected amount includes donations, employee merchandise discounts and civic memberships.
15. Income Taxes on Other Income	\$ 132	McMillan	Currently applicable federal and state income tax regulations are followed. The lowest possible tax payments are made currently. See item 10 of this section for assumptions.
16. Interest on Long-Term Debt	\$22,212	McMillan	The projected monthly amount is calculated by applying each bond principle by the coupon interest rate and dividing by 12. The calculation is adjusted for any new issues and scheduled retirements.
17. Interest on Pollution Control Debt	\$14,292	McMillan	The projected monthly amount is calculated by applying each bond principle by the coupon interest rate and dividing by 12. The calculation is adjusted for any new issues and scheduled retirements.
18. Interest on Short-term Debt	\$ 397	McMillan	The projected amount is calculated by applying the forecasted short-term interest rates, as described in section I D. of this schedule, to the face amount of short term debt projected to be outstanding.
19. Amortization of Debt Discount, Premium and Expense	\$ 610	McMillan	The projected amount is calculated based on the embedded amortization amounts. No adjustments are made for new debt issues. The interest rate on new debt issues is projected to include the effect of debt-related costs over the life of the debt issued.
20. Other Interest Expense	\$ 1,208	McMillan	The projected amount is calculated based on applying the FPSC approved rate of 7.65% to the projected average monthly balance of Customer Deposits.
21. Preferred Dividends	\$ 5,484	McMillan	The projected monthly amount is calculated by multiplying each preferred principle by its interest rate and dividing by 12. The calculation is adjusted for any new issues and scheduled retirements.
22. Net Income After Dividends on Preferred Stock	\$34,865		

FLORIDA PUBLIC SERVICE COMMISSION

COMPANY: GULF POWER COMPANY

DOCKET NO. 891345-EI

EXPLANATION: For a projected test year, provide a schedule of assumptions used in developing projected or estimated data. At a minimum, state assumptions used for balance sheet, income statement and sales forecast

Type of Data Shown:
 Historic Test Year Ended
 Projected Test Year Ended 1990
 Prior Year Ended
 Witness: C. R. Lee

II. OPERATING ASSUMPTIONS
 B. AVERAGE ANNUAL NET UNIT HEAT RATES FOR 1990

Line No.	(A) Unit	(B) Average Net Heat Rate (BTU/KWH)
1	CRIST 1	14,850
2	CRIST 2	14,740
3	CRIST 3	13,920
4	CRIST 4	10,960
5	CRIST 5	10,810
6	CRIST 6	10,460
7	CRIST 7	10,550
8	SCHOLZ 1	11,370
9	SCHOLZ 2	11,710
10	SMITH 1	10,150
11	SMITH 2	10,290
12	SMITH A	13,910
13	DANIEL 1	10,470
14	DANIEL 2	10,690
15	SCHERER 3	9,810

FLORIDA PUBLIC SERVICE COMMISSION

COMPANY: GULF POWER COMPANY

DOCKET NO. 891345-EI

EXPLANATION: For a projected test year, provide a schedule of assumptions used in developing projected or estimated data. At a minimum, state assumptions used for balance sheet, income statement and sales forecast.

Type of Data Shown
 Historic Test Year Ended
 Projected Test Year Ended 1990
 Prior Year Ended
 Witness: C. R. Lee

II. OPERATING ASSUMPTIONS
 C. OUTAGE RATES FOR 1990

Line No.	Unit	(A) Equivalent Forced Outage Rate %	(B) Weekend Maintenance Outage Rate (1)	(C) Total Unavailable Outage Rate (1)
1	CRIST 1	8.0	-0-	-0-
2	CRIST 2	8.0	-0-	-0-
3	CRIST 3	8.0	-0-	-0-
4	CRIST 4	6.3	-0-	-0-
5	CRIST 5	6.3	-0-	-0-
6	CRIST 6	12.8	-0-	-0-
7	CRIST 7	18.0	-0-	-0-
8	SCHOLZ 1	1.5	-0-	-0-
9	SCHOLZ 2	1.5	-0-	-0-
10	SMITH 1	5.0	-0-	-0-
11	SMITH 2	11.1	-0-	-0-
12	SMITH A	8.3	-0-	-0-
13	DANIEL 1	4.0	-0-	-0-
14	DANIEL 2	4.0	-0-	-0-
15	SCHERER 3	2.0	-0-	-0-

(1) Not included as an assumption for the budget

FLORIDA PUBLIC SERVICE COMMISSION

EXPLANATION: For a projected test year, provide a schedule of assumptions used in developing projected or estimated data. At a minimum, state assumptions used for balance sheet, income statement and sales forecast

Type of Data Shown:
 Historic Test Year Ended
 Projected Test Year Ended 1990
 Prior Year Ended
 Witness: C. R. Lee

COMPANY: GULF POWER COMPANY

DOCKET NO. 891345-XI

II. OPERATING ASSUMPTIONS
 D. PLANNED MAINTENANCE FOR 1990

Line No.	Unit	(A) Start Date	(B) End Date	(C) Outage Duration (Days)	(D) Total Days
1	CRIST 1	05/19/90	05/27/90	9	9
2	CRIST 2	05/19/90	05/27/90	9	9
3	CRIST 3	05/19/90	05/27/90	9	9
4	CRIST 4	04/07/90	04/15/90	9	
5		10/20/90	10/28/90	9	18
6	CRIST 5	04/21/90	04/29/90	9	
7		12/15/90	12/23/90	9	18
8	CRIST 6	03/03/90	05/20/90	79	18
9		11/17/90	11/25/90	9	88
10	CRIST 7	02/03/90	02/25/90	23	
11		12/01/90	12/9/90	9	32
12	SCHOLZ 1	05/19/90	05/27/90	9	
13		11/17/90	11/25/90	9	18
14	SCHOLZ 2	03/10/90	05/04/90	58	
15		12/08/90	12/16/90	9	67
16	SMITH 1	04/14/90	05/06/90	23	
17		11/03/90	11/11/90	9	32

FLORIDA PUBLIC SERVICE COMMISSION

EXPLANATION: For a projected test year, provide a schedule of assumptions used in developing projected or estimated data. At a minimum, state assumptions used for balance sheet, income statement and sales forecast.

Type of Data Shown:
 Historic Test Year Ended
 Projected Test Year Ended 1990
 Prior Year Ended
 Witness: C. R. Lee

COMPANY: GULF POWER COMPANY

DOCKET NO. 891345-EI

II. OPERATING ASSUMPTIONS
 D. PLANNED MAINTENANCE FOR 1990

Line No.	Unit	(A) Start Date	(B) End Date	(C) Outage Duration (Days)	(D) Total Days
18	SMITH 2	03/03/90	03/18/90	16	
19		12/08/90	12/23/90	16	32
20	SMITH A	-	-	-	-
21	DANIEL 1	02/03/90	03/11/90	37	37
22	SCHERER 3	04/07/90	04/22/90	16	16

FLORIDA PUBLIC SERVICE COMMISSION

EXPLANATION: For a projected test year, provide a schedule of assumptions used in developing projected or estimated data. At a minimum, state assumptions used for balance sheet, income statement and sales forecast.

Type of Data Shown:
 Historic Test Year Ended
 Projected Test Year Ended 1990
 Prior Year Ended
 Witness: C. R. Lee

COMPANY: GULF POWER COMPANY

DOCKET NO. 891345-EI

II. OPERATING ASSUMPTIONS
 E. NET UNIT CAPACITY RATINGS FOR 1990 (KW)

		Net Summer	Net Winter
		-----	-----
CRIST	1	23,000	23,000
CRIST	2	22,000	22,000
CRIST	3	39,400	39,400
CRIST	4	88,900	88,900
CRIST	5	86,900	86,900
CRIST	6	327,400	327,400
CRIST	7	518,800	518,800
DANIEL	1	257,550	257,550
DANIEL	2	257,150	257,150
SCHOLZ	1	47,200	47,200
SCHOLZ	2	47,600	47,600
SMITH	1	165,900	165,900
SMITH	2	191,600	191,600
SMITH	A	31,300	34,800
SCHERER	3	212,175	212,175
TOTAL		2,316,875	2,320,375
		-----	-----

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FLORIDA PUBLIC SERVICE COMMISSION

EXPLANATION: For a projected test year, provide a schedule of assumptions used in developing projected or estimated data. At a minimum, state assumptions used for balance sheet, income statement and sales forecast.

Type of Data Shown:
Historic Test Year Ended
Projected Test Year Ended 1990
Prior Year Ended
Witness: See Below

COMPANY: GULF POWER COMPANY

DOCKET NO. 891345-EI

II. OPERATING ASSUMPTIONS

F. OTHER FUEL BUDGET ASSUMPTIONS FOR 1990

Item	Witness	Assumption
1. Time Period Covered 01/01/90 - 12/31/90		
2. System Generation Expansion Plan	Jordan	a. Generation Expansion Plan as provided by System Planning. b. Preliminary and commercial operation dates as provided by SCS. c. Unit retirement dates as provided by the operating companies.
3. Load and KWH Energy Estimates	Kilgore Howell	a. Official estimates provided by the operating companies. b. Sales to nonassociated companies as estimated by SCS. (1) Schedule "G" - included in official budget. (2) Unit Power - included in official budget.
4. Maintenance Schedules	Lee	Official maintenance schedules as provided to SCS by the operating companies as stated in section II.D. of this schedule.
5. Preliminary Generation for Base Units	Howell	Monthly KWH preliminary energy requirements as provided by operating companies.
6. Heat Rates	Lee	Heat rates provided by SCS.
7. Coal	Parvane	a. Beginning Inventory Values as provided by the operating companies b. Desired plant inventory values as provided by the operating companies c. Coal quality as provided by the operating companies. d. Beginning prices. (See WFR B-17a) (1) F.O.B. mine or loaded cost as recommended by SCS Fuel Services and approved by the operating company involved. The actual billing cost and recommended accruals per SCS Contract Administration records for non cost-based contracts and committed spot. These values were adjusted for typical Btu variance from contract values and appropriate state use taxes were added. (2) Coal transportation cost on contract and spot as recommended by SCS Fuel Services and approved by the operating company involved

FLORIDA PUBLIC SERVICE COMMISSION

EXPLANATION: For a projected test year, provide a schedule of assumptions used in developing projected or estimated data. At a minimum, state assumptions used for balance sheet, income statement and sales forecast.

Type of Data Shown:
Historic Test Year Ended
Projected Test Year: Ended 1989
Prior Year Ended
Witness: E. B. Parsons

COMPANY: GULF POWER COMPANY

DOCKET NO. 891345-EI

Item	Witness	Assumption
7. Coal (continued)	Parsons	<p>e. Price escalation rates.</p> <p>(1) The escalation rates for contract, uncommitted spot, unknown contract coal, and coal transportation and the timing thereof are reflected as agreed to by the System Fuels Committee</p>
8. Oil	Parsons	<p>a. Beginning inventory values as provided by the operating companies.</p> <p>b. Desired plant inventory levels.</p> <p>(1) Desired levels are to be 95% of capacity for all Gulf plants with the following exceptions:</p> <p>a. Crist #6 oil at 30%.</p> <p>b. Smith #2 oil (CT) at 50%.</p> <p>c. Daniel #2 oil at 90%.</p> <p>c. Boiler lighter oil burn.</p> <p>(1) Quantity projected to be burned as recommended by SCS and approved by the operating company involved.</p> <p>d. Oil quality--Btu/gallon and % sulfur content as recommended by SCS and approved by the operating company involved.</p> <p>e. Beginning prices. (See HPR B-17a)</p> <p>(1) Delivered prices in cents/HPRBtu as recommended by SCS and approved by the operating company involved.</p> <p>f. Price escalation rates--The escalation rates for oil and the timing thereof are as agreed to by the System Fuels Committee.</p>
9. Natural Gas	Parsons	<p>a. Natural gas availability--It is assumed that all natural gas required can be obtained for the budget/forecast period.</p> <p>b. Boiler lighter gas burn--Quality projected to be burned as recommended by SCS and approved by the operating company.</p> <p>c. Boiler gas burn--For all dual fired boiler units, only natural gas is to be shown burned in the budget/forecast.</p> <p>d. Natural gas quality--Btu/mcf as recommended by SCS and approved by the operating company involved.</p> <p>e. Beginning prices</p> <p>(1) Delivered prices as recommended by SCS and approved by the operating company involved.</p> <p>f. Price escalation rates--The escalation rates for gas and the timing thereof are as agreed to by the System Fuels Committee.</p>

FLORIDA PUBLIC SERVICE COMMISSION

COMPANY: GULF POWER COMPANY

DOCKET NO.: 891345-EI

EXPLANATION: For a projected test year, provide a schedule of assumptions used in developing projected or estimated data. At a minimum, state assumptions used for balance sheet, income statement and sales forecast.

Type of Data Shown
Historic Test Year Ended
Projected Test Year Ended 1990
Prior Year Ended
Witness: See Below

III. CONSTRUCTION BUDGET
A. 1990 CONSTRUCTION EXPENDITURES

Item	Amount	Witness	Assumption
Facilities Requirements			
1. Major Generation	\$ 378	Parsons	Consists primarily of expenditures at Plant Scherer Unit 3 for final additions and improvements.
2. Production Plant Projected	\$22,791	Lee	Proposed additions and retirements of production plant are based on such factors as service life, failure rates, performance, operating experience, environmental regulations, technological improvements, obsolescence, additional requirements, etc.
3. Transmission and Distribution Substation Expansion	\$ 9,940	Howell	Transmission expansion plans reflect the need to serve new customers, to strengthen the transmission system to meet additional demand, and to replace damaged, worn-out, or obsolete facilities. New business projects include major new customers, or major additional loads at existing customer locations.
4. Distribution Line Expansion	\$21,494	Jordan	Distribution expansion plans reflect the need to serve our growing customer requirements. New business projects include the purchase and installations of watt-hour and watt-hour demand meters, overhead and underground transformers and high pressure sodium lighting facilities as a result of customer growth. Also included is the construction of additions, extensions, and improvements for the connection of new residential, commercial, and industrial customers. Miscellaneous additions and improvements include the cutouts, arresters, and reclosers.

ASSUMPTIONS
(Thousands of Dollars)

FLORIDA PUBLIC SERVICE COMMISSION **EXPLANATION:** For a projected test year, provide a schedule of assumptions used in developing projected or estimated data

COMPANY: GULF POWER COMPANY At a minimum, state assumptions used for balance sheet, income statement and sales forecast.

DOCKET NO. 891345-EI

Type of Data Shown:
 Historic Test Year Ended
 Projected Test Year Ended 1990
 Prior Year Ended
 Witness: See Below

Item	Amount	Witness	Assumption
4. General Plant	\$ 7,540	Conner	Projected on the need to replace general plant items such as automobiles, test equipment, tools, office equipment, and communication equipment which are no longer serviceable, and to insure an adequate number of such items are available so that the appropriate personnel can fulfill their job requirements in an effective and efficient manner. Also included are the additions and upgrading of office information systems currently in operation within the company.
5. Non-utility	\$ 50	Scarborough	Purchase equipment for Gulf's non-utility operations related to Vision Design and the Southern Sod.
6. Total Construction Expenditures	\$62,193		

FLORIDA PUBLIC SERVICE COMMISSION

EXPLANATION: For a projected test year, provide a schedule of assumptions used in developing projected or estimated data. At a minimum, state assumptions used for balance sheet, income statement and sales forecast.

Type of Data Shown:
Historic Test Year Ended
Projected Test Year Ended 1990
Prior Year Ended
Witness: R. J. McMillan

COMPANY: GULF POWER COMPANY

DOCKET NO. 891345-EI

III. CONSTRUCTION BUDGET B. 1990 ELECTRIC PLANT IN SERVICE

Item	Amount	Witness	Assumptions
1. Gross Additions to Plant:		McMillan	The amounts are based on the October 1, 1989 Construction Budget as approved by Gulf's management.
Production	\$25,245		Plant-In-Service amounts, in-service year, and plant classification were provided by the responsible departments.
Transmission	\$ 4,316		
Distribution	\$27,283		
General Plant	\$ 5,570		
Plant Held for	\$ 403		
Future Use	-----		
	\$64,817		

2. Retirements	\$10,321	McMillan	The amount was based on the October 1, 1989 Construction Budget as approved by Gulf's management. Amounts, dates and functions were provided by the responsible departments.
3. Net Salvage	\$ 1,630	McMillan	The amount was based on October 1, 1989 Construction Budget as approved by Gulf's management. Amounts, dates and functions were provided by the responsible departments.
4. Composite Depreciation and Amortization Rates:		McMillan	The amount was derived utilizing FPSC approved rates by FPSC account and related investment by FPSC account at August 31, 1989. The composite rate by function was developed using a weighted average computation and input into the Financial Model.
Crist Plant	3.60%		
Scholz Plant	3.70%		
Smith Plant	4.00%		
Steam Easements	2.40%		
Daniel Plant	3.40%		
Daniel APUDC	3.40%		
Scherer Unit 3	3.20%		
Scherer Common	3.20%		
Other Production	1.87%		
Daniel GPU APUDC	3.26%		
Transmission Easements	1.40%		
Transmission Plant	3.08%		
Daniel GPU	3.25%		
Scherer GPU	3.27%		
Distribution Easements	1.10%		
Distribution Plant	3.80%		
Buildings	2.60%		

ASSUMPTIONS
(Thousands of Dollars)

FLORIDA PUBLIC SERVICE COMMISSION

EXPLANATION: For a projected test year, provide a schedule of assumptions used in developing projected or estimated data.

At a minimum, state assumptions used for balance sheet, income statement and sales forecast.

Type of Data Shown:

Historic Test Year Ended

Projected Test Year Ended 1990

Prior Year Ended

Witness: R. J. McMillen

COMPANY: GULF POWER COMPANY

DOCKET NO. 891343-EI

Item	Amount	Witness	Assumptions
4. Composite Depreciation and Amortization Rates (continued):			
Auxiliary Plant, FERC 393-396	5.94%		
Auxiliary Plant, FERC 397	4.70%		
Daniel Common - General Plant	4.70%		
Transportation - 5yr.	8.03%		
5. Provision for Depreciation and Amortization Expense	\$35,173	McMillen	The amount was projected by applying the above composite rates to the average monthly balance of depreciable plant by function. This amount is calculated by the Financial Model.

ASSUMPTIONS
(Thousands of Dollars)

FLORIDA PUBLIC SERVICE COMMISSION	EXPLANATION: For a projected test year, provide a schedule of assumptions used in developing projected or estimated data. At a minimum, state assumptions used for balance sheet, income statement and sales forecast.	Type of Data Shown Historic Test Year Ended Projected Test Year Ended Prior Year Ended 1990 Witness R J McMillan
COMPANY: GULF POWER COMPANY		
DOCKET NO. 891345-E1		

IV BALANCE SHEET ASSUMPTIONS
13-MONTH AVERAGE
ASSETS

Item	Amount	Witness	Assumptions
<u>Utility Plant</u>			
1 Electric Plant in Service	\$1,451,703	McMillan	The projected balances were derived by adding to the balance at August 31, 1989 the projected additions and deducting the projected retirements for 1990 as described in section III B of this schedule.
2 Electric Plant for Future Use	\$ 4,025	McMillan	The projected balances were derived by adding to the balance at August 31, 1990 the projected additions for 1990 as described in section III B of this schedule.
3 Construction Work in Progress	\$ 15,739	McMillan	The projected balances were calculated by adding to the balance at August 31, 1989, the October 1, 1989 budgeted construction expenditures and deducting the projected closings to Plant-In-Service and Plant Held for Future Use, as described in section III B of this schedule.
4 Plant Acquisition Adjustment	\$ 8,043	McMillan	The projected balances were calculated by reducing each month's balance by the amount of amortization related to the Plant Acquisition Adjustment. Amortization is \$21,276 per month.
5 Accumulated Provision for Depreciation and Amortization	\$ 487,260	McMillan	The projected balances were calculated by adding to the balance at August 31, 1989 the projected provision for depreciation and net salvage values and deducting the projected retirements for 1990. The provision for depreciation was calculated using the methodology described in section III B of this schedule. Retirements and Net Salvage were based on the October 1, 1989 Construction Budget.
6 Total Utility Plant	\$ 992,250		
7 Other Special Funds	\$ 3,709	McMillan	The projected balance is the funded portion of the property insurance reserve. The funding of the reserve occurs each January and is calculated by applying the effective after tax rate of 62 1/2% to the projected year end balance of the property insurance reserve account each December.
8 Non utility Property	\$ 2,499	McMillan	The projected balance was based on the actual balance at August 31, 1989 with adjustments made for additions throughout the year.

FLORIDA PUBLIC SERVICE COMMISSION

EXPLANATION: For a projected test year, provide a schedule of assumptions used in developing projected or estimated data. At a minimum, state assumptions used for balance sheet, income statement and sales forecast.

Type of Data Shown:
 Historic Test Year Ended
 Projected Test Year Ended 1990
 Prior Year Ended
 Witness: R. J. McMillan

COMPANY: GULF POWER COMPANY

DOCKET NO. 891345-E1

Item	Amount	Witness	Assumptions
9. Other Property and Investments-Other	\$ 394	McMillan	The projected balance was based on the actual balance at August 31, 1989 adjusted for a known \$5,000 reduction in October 1989. No changes were projected for 1990.
10. Total Other Property and Investments	\$ 6,602		
Current Assets			
11. Cash	(\$ 41)	McMillan	The projected balance is maintained by the Financial Model as a range of amounts which approximates operating cash requirements, taking into account the input amounts which are zero.
12. Special Deposits	\$ 6	McMillan	The projected balance was based on the actual balance at August 31, 1989. No changes were projected for 1990.
13. Working Funds	\$ 277	McMillan	The projected balance was derived based on a 31 month historical average change in the balance of \$1,000 per year. Projected unusual items were added to the August 31, 1989 actual balance to arrive at the December 31, 1990 balance. The \$3,300 per year change was then used in projections from that point.
14. Temporary Cash Investments	\$ 6,399	McMillan	The projected balance was calculated by the Financial Model based on the projected sources and uses of funds.
15. Customer Accounts Receivable	\$39,847	McMillan	The projected balance was calculated by the Financial Model by taking Territorial Revenues (net of Unbilled) plus Other Operating Revenues and dividing by the number of days in the month to get Average Daily Revenues. This figure is then multiplied by a Monthly Average Days Factor (based on historical data) to arrive at Customer Accounts Receivable.
16. Accrued Unbilled Revenue	\$10,473	McMillan	The projected balance was derived based on the August 31, 1989 actual balance adjusted for monthly net increase or decrease in unbilled revenue.

ASSUMPTIONS
(Thousands of Dollars)

FLORIDA PUBLIC SERVICE COMMISSION

COMPANY: GULF POWER COMPANY

DOCKET NO. 891345 EI

EXPLANATION For a projected test year, provide a schedule of assumptions used in developing projected or estimated data. At a minimum, state assumptions used for balance sheet, income statement and sales forecast.

Type of Data Shown
Historic Test Year Ended
Projected Test Year Ended
Prior Year Ended 1990
Witness F B Parsons
A E Scarbrough
R J McMillan

Item	Amount	Witness	Assumptions
17. Other Accounts and Notes Receivable	\$ 33,616	McMillan	The projected balance was derived based on August 31, 1989 actual balance increased by projected changes. This account includes receivables from merchandise activities, employee loans, property damage, Gulf States Utilities and miscellaneous accounts receivable.
18. Accumulated Provisions for Uncollectible Accounts	\$(31,392)	McMillan	The projected balance was calculated by applying a historical two year average ratio for uncollectibles to the monthly customer accounts receivable balance plus a projected provision for uncollectible merchandise accounts receivable plus the actual uncollectible amount related to Gulf States Utilities.
19. Receivables from Associated Companies	\$ 7,595	McMillan	The projected balance includes the interchange transactions when Gulf is a net seller to the Southern Company pool, and an estimate of other miscellaneous receivables from associated companies.
20. Miscellaneous Current Assets	\$ 158	McMillan	The projected balance was calculated by applying a ratio based on a historical 2 year average balance to monthly earnings on temporary cash investments and adding interest earned by the Funded Property Insurance Reserve. The balance is projected interest and dividends receivable.
21. Fuel Stock	\$ 51,157	Parsons	The projected balance is a function of the Fuel Budget as described in NFR F-11a.
22. In-Transit Coal	\$ 7,753	Parsons Scarbrough	The projected balance was derived by taking a historical ratio of in-transit coal to generation for each plant. This percentage is then multiplied by the projected monthly generation for each plant. The average of these in-transit coal tons is calculated for each projected year and then multiplied by the weighted yearly average F O B mine price of coal for each plant. In addition, the unamortized balance of the Scherer coal renegotiation is included in this amount.
23. Plant Materials and Supplies	\$ 33,833	McMillan	The projected balance was derived based on historical and projected balances developed by the General Services Department and the Power Supply Department.
24. Merchandise	\$ 1,284	McMillan	The projected balance was derived based on estimated increases (decreases) to inventory developed by the Merchandising department which were added to the August 31, 1989 actual balance.

FLORIDA PUBLIC SERVICE COMMISSION

EXPLANATION: For a projected test year, provide a schedule of assumptions used in developing projected or estimated data. At a minimum, state assumptions used for balance sheet, income statement and sales forecast.

Type of Data Shown:
Historic Test Year Ended
Projected Test Year Ended 1990
Prior Year Ended
Witness: See Below

COMPANY: GULF POWER COMPANY

DOCKET NO. 891345-EI

Item	Amount	Witness	Assumptions
25. Prepayments	\$ 2,115	McMillan	The projected balance was based on estimated insurance premiums and related amortization, EPRI research fees, pensions, and other miscellaneous prepayments.
26. Accrued Vacations	\$ 1,988	Scarborough	The projected balance was based on an analysis by the payroll department taking into account number of employees, years of service and hourly rates.
27. Total Current Assets	\$ 165,068		
Deferred Debits			
28. Unamortized Debt	\$ 3,034	McMillan	The projected balance was derived based on the actual balance at August 31, 1989 reduced by monthly net amortization based on the embedded expenses.
29. Accumulated Deferred Income Taxes	\$ 16,611	Scarborough	The projected balance was derived based on the actual balance at August 31, 1989 adjusted for the projected provisions and pay backs related to the property insurance, injuries and damages, warranty reserves, early retirement, and medical payments reserve.
30. Unamortized Loss on Recquired Debt	\$ 6,415	Scarborough	The projected balance was derived based on the actual balance at August 31, 1989 reduced by monthly amortization.
31. Other Deferred Debits	\$ 98,371	McMillan	The projected balance was based on the actual balance at August 31, 1989 adjusted for the projected changes. This account includes preliminary survey investigation charges, unallocated clearing accounts, Caryville subsurface study and usable equipment, and miscellaneous other deferred debit items.
32. Total Deferred Debits	\$ 124,431		
33. Total Assets	\$1,288,351		

ASSUMPTIONS
(Thousands of Dollars)

FLORIDA PUBLIC SERVICE COMMISSION

EXPLANATION: For a projected test year, provide a schedule of assumptions used in developing projected or estimated data. At a minimum, state assumptions used for balance sheet, income statement and sales forecast.

Type of Data Shown:
Historic Test Year Ended
Projected Test Year Ended 1990
Prior Year Ended
Witness: R. J. McMillan

COMPANY: GULF POWER COMPANY

DOCUMENT NO. 891345-EI

IV. BALANCE SHEET ASSUMPTIONS
13-NORTH AVENUE
CAPITALIZATION AND LIABILITIES

Item	Amount	Witness	Assumptions
Capitalization			
1. Common Stock	\$ 38,060	McMillan	The projected balance was based on the August 31, 1989 actual balance. No changes were projected for 1990.
2. Other Paid-In Capital	\$220,919	McMillan	The projected balance was derived based on the actual balance at August 31, 1989 adjusted for the projected capital contribution from Southern Company as described in section I.D. of this schedule.
3. Premium on Preferred Stock	\$ 87	McMillan	The projected balance was based on the August 31, 1989 actual balance. No changes were projected for 1990.
4. Retained Earnings	\$108,138	McMillan	The projected balance was derived based on the August 31, 1989 actual balance increased by the projected net income before preferred less common and preferred stock dividends declared.
5. Preferred Stock	\$ 67,432	McMillan	The projected balance was derived based on the actual balance at August 31, 1989 adjusted for the projected retirement of sinking fund preferred stock as outlined in section I.D. of this schedule. There are no new issues of Preferred Stock projected for 1990.
6. First Mortgage Bonds	\$294,334	McMillan	The projected balance was derived based on the actual balance at August 31, 1989 adjusted for the retirements of outstanding issues as described in section I.D. of this schedule. There are no new First Mortgage Bond issues projected for 1990.
7. Pollution Control Liability	\$157,447	McMillan	The projected balance was derived based on the actual balance at August 31, 1989 adjusted for scheduled retirements as described in section I.D. of this schedule. There are no new Pollution Control Liability issues projected for 1990.

FLORIDA PUBLIC SERVICE COMMISSION

EXPLANATION: For a projected test year, provide a schedule of assumptions used in developing projected or estimated data. At a minimum, state assumptions used for balance sheet, income statement and sales forecast.

Type of Data Shown
Historic Test Year Ended
Projected Test Year Ended 1990
Prior Year Ended
Witness See Below

COMPANY: GULF POWER COMPANY

DOCKET NO. 891345-E1

Item	Amount	Witness	Assumptions
8. Long Term Notes	\$ 42,089	Scarborough	This account consists of the long term debt related to the Daniel Coal renegotiation (Fuelco). The projected balance was derived based on the actual balance at August 31, 1989 adjusted for projected monthly amortization.
9. Unamortized Debt Discount and Premium	\$ (2,598)	McMillan	The projected balance was derived based on August 31, 1989 actual balance reduced by the monthly net amortization of discounts and premiums.
10. Total Capitalization	\$926,108		
Current Liabilities			
11. Notes Payable	\$ 4,437	McMillan	The projected balance was calculated by the Financial Model based on the projected sources and uses of funds.
12. Construction Related Accounts Payable	\$ 402	McMillan	The projected balance was derived by applying a historical 7 year average ratio to monthly construction expenditures (less Plant Scherer expenditures). This account includes accounts payable - construction and contract retentions.
13. Other Accounts Payable	\$ 16,562	McMillan	The projected balance was derived using historical accounts payable ratios for fuel and other operation and maintenance expense applied to projected expenses for those accounts. Also included in this account is the monthly unaudited accounts payable invoices dealing with plant accounts.
14. Payables to Associated Companies	\$ 7,497	McMillan	The projected balance was derived by applying historical accounts payable ratios to fuel and other operation and maintenance expenses associated with co owned plants plus monthly interchange transactions when Gulf is a net purchaser from the Southern Company pool.
15. Customer Deposits	\$ 15,775	McMillan	The projected balance was derived based on linear regression calculations, taking into account projected residential and commercial customer growth rates.

FLORIDA PUBLIC SERVICE COMMISSION

EXPLANATION: For a projected test year, provide a schedule of assumptions used in developing projected or estimated data. At a minimum, state assumptions used for balance sheet, income statement and sales forecast.

Type of Data Shown:
Historic Test Year Ended
Projected Test Year Ended 1990
Prior Year Ended
Witness: See Below

COMPANY: GULF POWER COMPANY

DOCKET NO. 891345-E1

Item	Amount	Witness	Assumptions
16. Income Taxes Accrued	\$ (869)	McMillan	The projected balance was derived based on the August 31, 1989 actual balance plus projected monthly accruals from the income statement reduced by the estimated tax payments.
17. Other Taxes Accrued	\$ 8,118	McMillan	The projected balance was derived based on the August 31, 1989 actual balance plus projected monthly accruals reduced by projected payments based on the applicable payment dates. This account includes Public Service Commission assessment fees, real and personal property taxes, gross receipts taxes, franchise fees, federal and state unemployment taxes, and miscellaneous state and local taxes.
18. Interest Accrued	\$11,862	McMillan	The projected balance was calculated based on the interest rates and payment dates of embedded debt issues at August 31, 1989. This account also includes amounts related to the interest on customer deposits.
19. Miscellaneous Accounts Payable	\$ 6,776	McMillan	The projected balance was calculated based on the dividend rates and payment dates of embedded preferred stock at August 31, 1989 adjusted for scheduled retirements of preferred stock as outlined in section I.D. There are no new issues of preferred stock projected in 1990. Projections include projected quarterly dividends to Southern Company.
20. Tax Collections Payable	\$ 1,457	McMillan	The projected balance was based on the historical relationship of taxes to their applicable base and on a nine month historical average for payroll taxes.
21. Accrued Vacations	\$ 1,988	Scarborough	The projected balance was based on an analysis by the payroll department taking into account the number of employees, years of service and hourly rates.
22. Other Current Liabilities	\$ 191	McMillan	The projected balance was based on a 12-month historical average and adjusted for projected changes.
23. Total Current Liabilities	\$74,191		

FLORIDA PUBLIC SERVICE COMMISSION

EXPLANATION: For a projected test year, provide a schedule of assumptions used in developing projected or estimated data. At a minimum, state assumptions used for balance sheet, income statement and sales forecast.

COMPANY: GULF POWER COMPANY

DOCKET NO. 891345-EI

Type of Data Shown:
Historic Test Year Ended
Projected Test Year Ended 1990
Prior Year Ended
Witness: See Below

Item	Amount	Witness	Assumptions
Deferred Credits			
24. Unamortized Investment Tax Credits	\$48,926	Scarborough	The projected balance was derived using the actual balance at August 31, 1989 reduced by the amortization of ITC based on the useful life of the asset giving rise to the tax credit. There were no qualifying expenditures (provisions) projected for 1990.
25. Other Deferred Credits	\$11,004	McMillan	The projected balance was derived based on the actual balance at August 31, 1989 and the estimated monthly changes. This account includes customer advance payments for electric service, pre-paid pole attachment rentals, appliance warranty reserve, and miscellaneous other deferred credit items.
26. Total Deferred Credits	\$59,930		
Reserves			
27. Property Insurance Reserve	\$ 6,532	McMillan	The projected balance was based on August 31, 1989 actual balance increased by the monthly accruals of \$100,000 and reduced by the projected monthly charges of \$16,000 for 1990.
28. Injuries and Damages Reserve	\$ 1,156	McMillan	The projected balance was based on August 31, 1989 actual balance increased by the monthly accruals of \$100,000 and reduced by the estimated monthly charges of \$83,000 for 1990.
29. Total Reserves	\$ 7,688		

ASSUMPTIONS
(Thousands of Dollars)

FLORIDA PUBLIC SERVICE COMMISSION

EXPLANATION: For a projected test year, provide a schedule of assumptions used in developing projected or estimated data. At a minimum, state assumptions used for balance sheet, income statement and sales forecast.

Type of Data Shown:
Historic Test Year Ended
Projected Test Year Ended 1990
Prior Year Ended
Witness: A. E. Scarbrough

COMPANY: GULF POWER COMPANY

DOCKET NO. 891345-EI

Item	Amount	Witness	Assumptions
30. Other Deferred Income Taxes	\$ 220,434	Scarbrough	The projected balance was derived based on August 31, 1989 actual balance adjusted for the projected provisions and paybacks relating to accrued vacations, Peabody and Daniel coal renegotiations, unbilled revenue, pensions and loss on reacquired debt, and the property related depreciation timing differences.
31. Total Capitalization and Liabilities	\$1,288,351		

FLORIDA PUBLIC SERVICE COMMISSION

EXPLANATION: Supply a proposed public notice of the company's request for a rate increase suitable for publication.

Type of Data Shown:

COMPANY: GULF POWER COMPANY

Projected Test Year Ended 12 / 31 / 90

DOCKET NO : 891345-EI

Witness: J. L. MASKINS

NOTICE TO CUSTOMERS

Gulf Power Company on December 15, 1989, filed with the Florida Public Service Commission a request for approval to increase the Company's annual retail revenues by \$26,295,000. The increase for residential customers will average 8.5%. This request has been assigned Docket No. 891345-EI.

In spite of the Company's efficiency and emphasis on improved productivity, the load growth on our system and the addition of generating capacity to serve this load, has resulted in a need for rate relief.

The present rates will remain in effect until new rates become operative under Florida Law. Gulf filed for interim rate relief to be effective immediately of \$22,847,000. This rate relief, subject to refund pending the final outcome of the hearing, will allow the Company the opportunity to receive a level of revenues sufficient to yield a fair rate of return. Copies of the rate case filing, including rate schedules, are available for inspection at any Gulf Power Company office. Company personnel are available at all Gulf offices to answer questions concerning this request. They may be contacted at the address or telephone number shown on your electric service bill. For your information, we are providing the address and telephone number of the Florida Public Service Commission's Consumer Affairs Department.

Consumer Affairs Department
Florida Public Service Commission
George Hanna, Director
101 East Gaines Street
Tallahassee, Florida 32301
1-800-342-3552 (Toll Free Number)

Supporting Schedules:

Recap Schedules: