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GULF POWER
A SOUTHERN COMPANY

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January 24, 2002

Ms. Blanca S. Bayo, Director
Division of the Commission Clerk and Administrative Services
Florida Public Service Commission
2540 Shumard Oak Boulevard
Tallahassee FL 32399-0870

Dear Ms. Bayo:

RE: Docket No. 010949-EI

Enclosed are an original and fifteen copies of Gulf Power Company's Prehearing Statement to be filed in the above docket.

Also enclosed is a 3.5 inch double sided, high density diskette containing the Statement in Adobe Acrobat 4.0 format as prepared on a Windows NT based computer.

Sincerely,

Gary Livingston
Regulatory Affairs Manager

lw

Enclosure

cc: Beggs and Lane
Jeffrey A. Stone, Esquire

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BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

IN RE: Petition of Gulf Power Company for an increase in its retail rates and charges.	Docket No. 010949-EI Date Filed: January 24, 2002

GULF POWER COMPANY'S PREHEARING STATEMENT

Gulf Power Company, ("Gulf Power", "Gulf", or "the Company"), by and through its undersigned attorneys, and pursuant to Order No. PSC-01-2035-PCO-EI and Rule 25-22.038(3), Florida Administrative Code, files this prehearing statement, saying:

A. APPEARANCES

JEFFREY A. STONE, Esquire, RUSSELL A. BADDERS, Esquire, and R. ANDREW KENT of Beggs & Lane, 700 Blount Building, 3 West Garden Street, P.O. Box 12950, Pensacola, FL 32576-2950 and RICHARD D. MELSON, Esquire of Hopping Green & Sams, P.A. 123 South Calhoun Street, P.O. Box 6526, Tallahassee, FL 32314
On behalf of Gulf Power Company.

B. WITNESSES[1]

Witness Name (Direct)	Subject Matter	Issues
T. J. Bowden	Rate Case Overview	34, 35, 37
C. A. Benore	Cost of Equity Capital	35
R. M. Saxon	Budget Process; General Plant; Customer Accounts; Service Fees	8, 19, 38, 39, 40, 41, 71, 94
R. L. McGee	Customer, Energy, Demand and Base Rate Revenue Forecasts; load research	2, 38, 86, 87
R. G. Moore	Smith Unit 3; Production Plant and O & M; Fuel Inventory	6, 10, 19, 20, 21, 24, 37, 41, 60, 61, 62
F. M. Fisher	Distribution Plant and O & M	3, 5, 7, 8, 12, 19, 21, 37, 41, 47, 64, 65, 66, 67, 68, 69
M. W. Howell	Transmission Plant and O & M; Generation and Transmission planning process	7, 19, 20, 21, 41, 42, 63
M. D. Neyman	Marketing O & M, Advertising	41, 48, 59, 118
R. J. McMillan	O & M Benchmark; A & G expenses; Taxes	14, 22, 23, 26, 28, 29, 30, 41, 42, 52, 53, 54, 55, 56, 57, 79, 80, 81
R. R. Labrato	2003 Projected Test Year Financial Forecast; Net Operating Income; Rate Base; Capital Structure; Revenue Deficiency	1, 3, 9, 10, 11, 13, 15, 16, 17, 18, 19, 21, 25, 27, 29, 30, 31, 32, 33, 34, 35, 36, 37, 38, 43, 44, 45, 46, 49, 58, 70, 72, 73, 74, 75, 76, 77, 78, 81, 82, 83, 84, 123, 124
M. T. O'Sheasy	Cost of Service Study	85, 88, 89, 101

[1] This section of Gulf's prehearing statement is intended to comply with that portion of the order establishing procedure requiring ". . . (a) The name of all known witnesses that may be called by the party, and the subject matter of their testimony . . .".

Witness Name	Subject Matter	Issues
(Direct, continued)		
J. I. Thompson	Rate Design	78, 86, 90, 91, 92, 93, 95, 96, 97, 98, 99, 100, 101, 102, 103, 104, 105, 106, 107, 108, 109, 110, 111, 112, 113, 114, 115, 116, 117, 119, 120, 121, 122
(Rebuttal)		
C. A. Benore	Cost of Equity Capital	35
D. S. Roff	Depreciation and Dismantlement	17, 18, 73, 74, 75
R. D. Bell	Employee Compensation	50, 51, 52, 53
T. S. Silva and S. C. Twery (panel)	Employee Compensation	50, 51, 52, 53
R. J. McMillan	Affiliate Transactions; Property Insurance expense; Wholesale costs	14, 42, 54, 55
R. M. Saxon	Budget Process; Customer Accounts Expense; General Plant	8, 71
R. G. Moore	Production Plant and O & M	24, 60, 61, 62
J. T. Kilgore, Jr.	Customer Complaints	4
F. M. Fisher	Distribution Plant and O & M; Reliability Incentive	3, 5, 7, 8, 64, 65, 66, 67, 68
M. W. Howell	Transmission Plant	7
M. D. Neyman	Advertising Expenses	48
R. R. Labrato	Depreciation and Dismantlement; Corporate Office Third Floor; Rate Case Expense; Reliability Incentive	3, 9, 17, 18, 34, 37, 58, 72, 73, 74, 75

C. EXHIBITS[2]

Witness	Proffered By	I.D. No.	Description
(Direct)			
C. A. Benore	Gulf	CAB-1	Index of Schedules 1-11; Summary of Model Results; Illustrative Example – Model Results; Occupational and Educational Qualifications; Relative Performance – Electric Stocks; Regulated Returns versus S&P 500; Regulated Returns versus Standard DCF; Gulf Power Company's Comparable Companies; Standard and Transformed DCF Results; Equity Risk Premium Analysis; Capital Asset Pricing Model; Comparable Earnings Model; Flotation Costs
R. M. Saxon	Gulf	RMS-1	Financial Planning Process; Test Year Construction Budget & Prior Period; Test Year O & M by function; Budget Process; Service Fees; O & M Benchmark Variance by Function Customer Accounts; MFR responsibility
R. L. McGee	Gulf	RMS-1	Retail Customer Forecast; Retail Energy Sales Forecast; Peak Demand Forecast; Retail Base Revenue Forecast; Short-Term Retail Forecast Accuracy; Load Research Data Summary by Rate; MFR responsibility

[2] This section of Gulf's prehearing statement is intended to comply with that portion of the order establishing procedure requiring ". . . (b) a description of all known exhibits, that may be used by the party, whether they may be identified on a composite basis, and the witness sponsoring each . . .".

Witness	Proffered By	I.D. No.	Description
(Direct Cont.)			
R. G. Moore	Gulf	______ RGM-1	Index to Schedules 1-11; Smith Unit 3 Construction Costs; Smith Unit 3 O & M; Smith Unit 3 Personnel Complement; Planned Outage Costs; Gulf's Generation & EFOR; O & M Benchmark Comparison; Production Steam Expense Summary; Generation Construction Budgets; MFR responsibility
F. M. Fisher, Jr.	Gulf	______ FMF-1	Index to Schedules 1-5; Customer Value Survey – All Customer Classes; Customer Value Survey by Customer Classes; O & M Benchmark Variance; MFR responsibility
M. W. Howell	Gulf	______ MWH-1	List of MFRs; O & M Benchmark Comparison
M. D. Neyman	Gulf	______ MDN-1	Comparison of O & M Benchmark to Test Year; O & M Benchmark Variance; MFR responsibility
R. J. McMillan	Gulf	______ RJM-1	Total Adjusted O & M Benchmark by Function; Benchmark Year Recoverable O & M by Function; 1990 SCS Charges Benchmark Functional Adjustment; Test Year Adjusted O & M; A & G – Other Benchmark Variance; MFR responsibility

Witness	Proffered By	I.D. No.	Description
(Direct Cont.)			
R. R. Labrato	Gulf	_____ RRL-1	Residential Rate Comparison; Financial Model Flowchart; Balance Sheets; Income Statements; Utility Plant Balances; 13-Month Avg Rate Base; 13-Month Avg Working Capital; Net Operating Income; Fuel Clause Revenues and Expenses; Energy Conservation Cost Recovery Clause Revenues and Expenses; Purchased Power Capacity Cost Recovery Clause Revenues and Expenses; Environmental Cost Recovery Clause Revenues and Expenses; Industry Ass'n Dues; Deloitte & Touche Memo on Depreciable Life of Combined Cycle Unit; Taxes Other than Income Taxes; Income Tax Adjustment; Interest Synchronization Adjustment; 13-Month Average Jurisdictional Cost of Capital; Calculation of Revenue Deficiency; Revenue Expansion Factor & NOI Multiplier; MFR responsibility
M. T. O'Sheasy	Gulf	_____ MTO-1	Cost of Service Study; Minimum Distribution System; MFR responsibility
J. I. Thompson	Gulf	_____ JIT-1	Outdoor Service – Lighting Pricing Methodology; Gulf Power's FlatBill Pilot Program; MFR responsibility; Proposed Tariff Sheets

Witness (Rebuttal)	Proffered By	I.D. No.	Description
C. A. Benore	Gulf	______ CAB-2	Analyses of Regulatory Return; Investor Expected Market Returns; Arithmetic S&P 500 Return; Equity Risk Premium; Summary of Test Results; Performance of Electric Stocks; Risk Indicators; Stock Prices; Projected First Year Dividend; Projected Growth Rate; Transformed DCF Test; Rep Yield for L-T Treasury Bonds; Equity Risk Premium Results; Value Line Betas; CAPM Costs; Transformed CAPM Test; Value Line Projections
D. S. Roff	Gulf	______ DSR-1	Academic Background and Experience; Testimony Experience; Comparison of Depreciation Rates; Retired Generating Units; Capacity Weighted Life Spans
R. M. Saxon	Gulf	______ RMS-2	General Plant Budget; Budget Year 2002 and 2003 FERC/Sub by Month; Analysis of OPC POD 9 and POD 4
R. G. Moore	Gulf	______ RGM-2	Index to Schedules 1-7; Production O & M Analysis; Planned Outage, Baseline/Special Project Analysis; Production O & M Expense Analysis 2002-06; Planned Outage, Baseline/Special Project Analysis 2002-06; 2001 Capital Budget vs. Actual; Revised Interrogatory No. 18
J. T. Kilgore, Jr.	Gulf	______ JTK-1	Weather Related Complaint Activity

Witness	Proffered By	I.D. No.	Description
(Rebuttal Cont.)			
F. M. Fisher	Gulf	_____ FMF-2	Index to Schedules 1-6; Distribution Construction Budget; General Plant Budget; CEMI5
M. W. Howell	Gulf	_____ MWH-2	Transmission Construction Budget
R. R. Labrato	Gulf	_____ RRL-2	Corporate Office Third Floor; Detail of Rate Case Expenses for Outside Consultants; Revised Depreciation and Dismantlement

D. STATEMENT OF BASIC POSITION[3]

Gulf Power Company's Statement of Basic Position:

Gulf Power's basic position is that the Company's current rates and charges will not provide Gulf a reasonable opportunity to earn a fair and reasonable rate of return for the period June 2002 through May 2003 and beyond. Gulf filed this case seeking an annual increase in its rates and charges of approximately $69.9 million to begin on the commercial in-service date of Smith Unit 3, a 574 megawatt gas fired combined cycle generating plant currently under construction at Gulf's Smith Plant located outside of Panama City, Florida. The capital cost of this unit ($220.5 million) and the associated Operating and Maintenance (O & M) expenses are the major drivers behind this request for rate relief. The most reasonable period on which to base new rates and charges for Gulf is June 2002 through May 2003 which corresponds to the first 12 months following the anticipated commercial in-service date of Smith Unit 3. Since the anticipated commercial in-service date of Smith Unit 3 is on or before June 1, 2002, this period also corresponds with the first 12 months following the anticipated expiration of the stipulation and settlement approved by the Commission in Order No. PSC-99-2131-EI. As a result, the chosen test period appropriately corresponds to the first 12 months new rates resulting from this case will be in effect.

The Company's adjusted 13-month average jurisdictional rate base for the period June 1, 2002 through May 31, 2003 (the "May 2003 projected test year") is projected to be $1,198,502,000; and the jurisdictional net operating income is projected to be $61,378,000 using the rates currently in effect. These amounts do not include certain additional adjustments as detailed in the Company's positions on the issues listed below. The resulting adjusted jurisdictional rate of return on average rate base is projected to be 5.12%, while the return on common equity is projected to be 4.43% for the May 2003 projected test year (excluding the impact of those additional adjustments described above). Such a return is so low that it would severely jeopardize the Company's ability to finance future operations. The continued compulsory application of Gulf's present rates and charges after the commercial in-service date of Smith Unit 3 will result in the unlawful taking of the Company's property without just compensation, resulting in confiscation of the Company's property in violation of the guarantees of the state and federal constitutions.

The management and employees of Gulf have worked diligently to enable the Company to keep its rates low in spite of escalating costs, significant growth in customers to be served, and increased reliability requirements and other customer expectations caused by the widespread use of computers and other technology. The Company has succeeded in these efforts through a

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[3] This section of Gulf's prehearing statement is intended to comply with that portion of the order establishing procedure requiring "... (c) a statement of basic position in the proceeding ...".

deliberate and intense effort to increase the productivity and efficiency of all programs and operations. The Company's success in this regard is demonstrated by the fact that the growth of Gulf's O & M expenses since the 1990 test year applied in Gulf's last rate case through the May 2003 projected test year in this case is less than the compound growth rate for customers and inflation. This has resulted in Gulf's projected O & M for the May 2003 projected test year being under the Commission's Benchmark by $3.7 million. Although Gulf is projected to serve a customer base that will have grown by approximately 32 percent since the 1990 test year, it will do so in the May 2003 projected test year with nearly 10 percent fewer employees than in the 1990 test year.

Despite these successful efforts on the part of Gulf's management and employees to control and reduce expenses, the addition of the Smith Unit 3 generating capacity and increased O & M expenses associated with continuing to provide reliable service to Gulf's customers make the filing of this request for rate relief necessary. Although the addition of Smith Unit 3 with the associated O & M expenses is the primary driver behind Gulf's need for rate relief in this case, there are other significant factors that have increased the cost of providing electric service since Gulf's last rate case, Docket No. 891345-EI. These other significant factors include: the addition since 1990 of more than (1) 100,000 new customers; (2) 1400 miles of new distribution lines; and (3) 90 miles of new transmission lines; the replacement and repair of an aging electrical infrastructure; and the increased O & M costs associated with aging generating plants.

As a provider of retail electric service to the people of Northwest Florida, Gulf is obligated by statute to provide such service in a reasonable, "sufficient, adequate, and efficient" manner. Gulf has a similar obligation to provide its shareholders with a reasonable and adequate return on their investment. Without the revenue increase requested, Gulf cannot meet its obligations to either constituency in the long run. If Gulf is rendered unable to meet its obligations to the customers and shareholders due to inadequate rates, both stakeholder groups will suffer. The customers will suffer from less reliable service and eventually higher costs of electricity, while the shareholders will suffer from an inadequate and confiscatory return on investment and will seek other places to invest their money. For these and other reasons detailed in the testimony and exhibits of Gulf's witnesses filed with its petition in this case, Gulf is respectfully requesting an increase in rates and charges that will produce an increase in total annual revenues of at least $69,867,000 before adjustments as detailed in the Company's positions on the issues listed below.

E. STATEMENT OF ISSUES AND POSITIONS[4]

TEST PERIOD

Issue 1 Is Gulf's projected test period of the 12 months ending May 31, 2003 (May 2003 projected test year) appropriate?

GULF: Yes. Gulf's new combined cycle unit at Plant Smith is expected to be in commercial operation on or before June 1, 2002. The chosen test year is representative of Gulf's expected future operations after Smith Unit 3 is in service and is the first full year that new rates will be in effect. (Labrato)

Issue 2 Are Gulf's forecasts of Customers, KWH, and KW by Rate Class, for the May 2003 projected test year appropriate?

GULF: Yes. Gulf's forecasts are reasonable and appropriate. Gulf's forecasts are based on logical, well established, detailed methodologies which have consistently produced accurate results. Gulf's forecast of Customers, KWH, and KW by Rate Class for the May 2003 projected test year as filed in this docket are appropriate. (McGee)

QUALITY OF SERVICE

Issue 3 Should Gulf be required to establish a mechanism that would provide for a payment or credit to retail customers if frequent outages occur?

GULF: No. Gulf has demonstrated its commitment to providing reliable electric service and superior customer service. Such a mechanism could result in an electric utility focusing on one very narrow component of reliability and would be administratively burdensome. (Fisher, Labrato)

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[4] This section of Gulf's prehearing statement is intended to comply with that portion of the order establishing procedure requiring ". . . (d) a statement of each question of fact the party considers at issue, the party's position on each such issue, and which of the party's witnesses will address the issue; (e) a statement of each question of law the party considers at issue and the party's position on each such issue; [and] (f) a statement of each policy question the party considers at issue, the party's position on each such issue, and which of the party's witnesses will address the issue . . .". The issues listed in this section were developed by the parties at an issue identification meeting held January 14, 2002.

Issue 4 Should adjustments be made to Gulf's projected test year due to customer complaints?

GULF: No. One of Gulf's primary corporate goals is to be an industry leader in service and customer satisfaction. The employees of Gulf Power have demonstrated their commitment to this goal and have earned ratings from our customers that place us among the best in the industry. Consistent with our top rankings in providing satisfaction and value, customer complaints against Gulf Power have consistently been among the very lowest in the state. The Company has also conducted business over the past three and a half years without any apparent rules violations. (Kilgore)

Issue 5 Is the quality of electric service provided by Gulf adequate?

GULF: Yes. This is evidenced by Gulf's complaint activity being low and its rankings across all service and reliability attributes in customer surveys being consistently among the best in the industry. (Fisher)

RATE BASE

Issue 6 Should an adjustment be made to production related additions included in Plant in Service?

GULF: No. The production related additions included in Plant in Service for Gulf's May 2003 projected test year are reasonable, prudent, and necessary and should be allowed. These amounts are necessary to construct and place into service Smith Unit 3 and to effectively maintain Gulf's existing fleet of generating units such that Gulf can continue to provide low cost, reliable generation to our customers. (Moore)

Issue 7 Should an adjustment be made to transmission and distribution related additions included in Plant in Service?

GULF: No. The transmission and distribution related additions included in Plant in Service for Gulf's May 2003 projected test year are reasonable, prudent, and necessary and should be allowed. These amounts are necessary to serve new customers, meet additional load growth from existing customers, and replace deteriorating facilities. (Fisher, Howell)

Issue 8 Should an adjustment be made to general plant additions included in Plant in Service?

GULF: No. The general plant additions included in Plant in Service for Gulf's May 2003 projected test year are reasonable, prudent, and necessary. The majority of these expenditures are to provide for improvements to buildings and land as well as the purchase of automotive equipment including mechanized line and service trucks. (Fisher, Saxon)

Issue 9 Should the deferral of the return on the third floor of the corporate offices be allowed in rate base?

GULF: Yes. In Gulf's last rate case, the Commission ordered the Company to remove the cost of the third floor from rate base, but has allowed the Company to earn a deferred return on the third floor investment in anticipation of future recovery. The third floor is fully utilized and, therefore, the investment as well as the deferred return should be included in rate base. Including the accumulated balance of the deferred return on the third floor in rate base and amortizing the balance over a period of 3 years is also consistent with the provision included in Gulf's revenue sharing plan, resulting from a stipulation approved by Order No. PSC-99-2131-S-EI. That approved stipulation allows Gulf the discretion to amortize up to $1 million per year to reduce the accumulated balance of the deferred return on the third floor. The balance of the deferred return as originally filed should be reduced in the amount of $693,000 jurisdictional ($855,000 system). This adjustment is necessary to take into account amortization of the deferred return that was booked during 2001 and the change in amortization for the May 2003 projected test year (as discussed in Issue 72). (Labrato)

Issue 10 Should an adjustment be made to Smith Unit 3?

GULF: No. The $220,495,000 requested for the construction of Plant Smith Unit 3 is reasonable and prudent. In Docket No. 990325-EI, the Commission stated its belief that "the cost is reasonable and is comparable to the cost of combined cycle units recently approved by this Commission for other utilities." The change in estimated cost between the need determination docket and this docket is due mainly to over $13 million in AFUDC that was not included in the amount shown in the need determination docket (Docket No. 990325-EI). The updated amount is still substantially below the next lowest alternative evaluated in Docket No. 990325-EI. (Labrato, Moore)

Issue 11 Is Gulf's decision to include Smith Unit 3 in rate base consistent with Gulf's proposal in Docket No. 010827-EI to transfer ownership of Smith Unit 3 to Southern Company and purchase the plant's output?

GULF: Yes. It is consistent in that both arrangements allow for the power supply and reliability needs of Gulf's customers to be met by Smith Unit 3, for which need was certified by the Commission in Order No. PSC-99-1478-FOF-EI in Docket No. 990325-EI and both arrangements protected the financial integrity of the Company by providing for timely cost recovery for the costs associated with the unit through rates charged to Gulf's retail customers. From the outset, it was the Company's position in Docket No. 010827-EI that a prompt and final decision approving the proposed purchased power arrangement was necessary around the 1st of September in order for the proposal to be viable as an alternative to traditional rate base treatment for Smith Unit 3. In late August, when it became apparent that such a result was not possible, the Company withdrew its petition in that docket and ultimately filed its petition in this case on September 10, 2001. (Labrato)

Issue 12 What are the appropriate adjustments, if any, to Gulf's test year rate base to account for the additional security measures implemented in response to the increased threat of terrorist attacks since September 11, 2001?

GULF: Adjustments should be made to rate base for the May 2003 projected test year to reflect the impact of investments in additional security measures implemented in response to the increased threat of terrorist attacks since September 11, 2001. Gulf is in the process of quantifying the impact of these additional security measures on Plant in Service, Accumulated Depreciation and CWIP. (Fisher)

Issue 13 Should the capitalized items currently approved for recovery through the Environmental Cost Recovery Clause be included in rate base for Gulf?

GULF: No. The Company has filed its case assuming that the capitalized items currently approved for recovery through the Environmental Cost Recovery Clause (ECRC) continue to be recovered through the ECRC. The ECRC factors approved by the Commission for 2002 were calculated consistent with this assumption. The impact on the customer is essentially the same whether the capital costs are recovered through base rates or through the ECRC. (Labrato)

Issue 14 Should adjustments be made for the rate base effects of transactions with affiliated companies for Gulf?

GULF: No. The rate base effects of transactions with affiliated companies are properly reflected in Gulf's rate case filing. (McMillan)

Issue 15 Has the Company removed all non-utility activities from rate base?

GULF: Yes. The Company has removed from rate base the investment, accumulated depreciation, and working capital amounts related to the Company's non-utility activities. (Labrato)

Issue 16 Is Gulf's requested level of Plant in Service in the amount of $1,966,492,000 ($2,015,013,000 system) for the May 2003 projected test year appropriate?

GULF: No. The requested level of plant-in-service should be adjusted to reflect the investment associated with additional security measures as discussed in Issue 12. (Labrato)

Issue 17 What adjustments should be made to the Accumulated Depreciation to reflect the Commission's decision in Docket No. 010789-EI?

GULF: If the Commission approves the increase in depreciation expense and dismantlement costs (Issue 73) as recommended in the Staff Report on Gulf's 2001 Depreciation Study in Docket No. 010789-EI, an adjustment in the amount of $1,099,000 jurisdictional ($1,122,000 system) should be made to increase accumulated depreciation to take into account the change in the 13-month average accumulated depreciation balance. The calculation of this adjustment is shown on Mr. Labrato's rebuttal testimony Exhibit RRL-2, Schedule 3. (Labrato, Roff)

Issue 18 Is Gulf's requested level of Accumulated Depreciation in the amount of $854,099,000 ($876,236,000 system) for the May 2003 projected test year appropriate?

GULF: No. The requested level of accumulated depreciation should be adjusted to reflect the adjustments recommended in the Company's positions on Issues 12 and 17 related to additional security measures and Gulf's 2001 Depreciation Study. (Labrato, Roff)

Issue 19 Is Gulf's requested level of Construction Work in Progress in the amount of $15,850,000 ($16,361,000 system) for the May 2003 projected test year appropriate?

GULF: Yes. The requested level of construction work in progress in the amount of $15,850,000 jurisdictional ($16,361,000 system) is appropriate for purposes of computing base rate revenue requirements. This amount properly reflects the construction expenditures and plant clearings that are expected in the May 2003 projected test year. (Fisher, Howell, Labrato, Moore, Saxon)

Issue 20 Should an adjustment be made to Plant Held for Future Use for Gulf's inclusion of the Caryville site in rate base?

GULF: No. The Caryville site is certified under the Power Plant Siting Act and continues to be a viable site for future baseload coal capacity in Gulf's system. Because of the extreme difficulty in certifying new sites due to stringent environmental requirements, Caryville may well be the only available site on which to locate future coal-fired generation in northwest Florida. Inclusion of the Caryville site in rate base as Plant Held for Future Use is still a prudent decision by this Commission. (Howell, Moore)

Issue 21 Is Gulf's requested level of Property Held for Future Use in the amount of $3,065,000 ($3,164,000 system) for the May 2003 projected test year appropriate?

GULF: Yes. The requested level of Property Held for Future Use in the amount of $3,065,000 ($3,164,000 system) is appropriate for purposes of computing base rate revenue requirements. (Fisher, Howell, Labrato, Moore)

Issue 22 Should an adjustment be made to prepaid pension expense in its calculation of working capital?

GULF: No. The projected balance of prepaid expense has been properly reflected in the calculation of working capital. (McMillan)

Issue 23 Should an adjustment be made to rate base for unfunded Other Post-retirement Employee Benefit (OPEB) liability?

GULF: No. The projected balance of Other Post-retirement Employee Benefits has been properly reflected in the calculation of working capital. (McMillan)

Issue 24 Should any adjustments be made to Gulf's fuel inventories?

GULF: No. Gulf's request for working capital related to fuel inventories is prudent and designed to achieve an optimum fuel inventory level that balances the cost of replacement fuel and/or energy against the carrying cost of inventory. Any adjustment that would lower inventories beyond the level Gulf has requested would result in higher fuel cost. The amount Gulf is requesting is reasonable and in the best interest of our customers. The requested fuel inventories in this case are consistent with the methodology applied by the Commission in Gulf's last rate case. In that case, the Commission allowed coal inventory of 90 days projected burn or the amount of projected inventory at each plant, whichever is less. Gulf's requested coal inventory for the May 2003 projected test year of 695,829 tons ($26.8 million) is less than the amount previously allowed of 784,887 tons ($37.0 million). (Moore)

Issue 25 Is Gulf's requested level of Working Capital in the amount of $67,194,000 ($69,342,000 system) for the May 2003 projected test year appropriate?

GULF: No. The requested level of working capital should be reduced to reflect the adjustment recommended in the Company's position statement on Issue 9 related to amortization of the deferred return on the third floor. (Labrato)

Issue 26 What is the appropriate regulatory treatment for the balance sheet impacts from FAS 133 for Gulf?

GULF: There is no test year impact related to FAS 133. (McMillan)

Issue 27 Is Gulf's requested rate base in the amount of $1,198,502,000 ($1,227,644,000 system) for the May 2003 projected test year appropriate?

GULF: No. The requested rate base should be revised to reflect the adjustments discussed in the Company's positions on Issues 9, 12 and 17 related to the deferred return on the third floor, additional security measures, and revised depreciation rates. (Labrato)

COST OF CAPITAL

Issue 28 Has Gulf appropriately reflected Internal Revenue Service Notice 2001-82 in its projected May 2003 test year?

GULF: There is no test year impact related to Internal Revenue Service Notice 2001-82. (McMillan)

Issue 29 What is the appropriate amount of accumulated deferred taxes to include in the capital structure?

GULF: The appropriate amount of accumulated deferred taxes is $121,471,000 jurisdictional ($124,457,000 system) for purposes of calculating the weighted average cost of capital. (Labrato, McMillan)

Issue 30 What is the appropriate amount and cost rate of the unamortized investment tax credits to include in the capital structure?

GULF: The appropriate amount of unamortized investment tax credits is $16,584,000 jurisdictional ($16,992,000 system) and the appropriate cost rate is 9.48% for purposes of calculating the weighted average cost of capital. The investment tax credit cost rate has been revised from 9.70% as originally filed to reflect the changes in amounts and rates of the long-term debt and preferred stock sources of capital. (Labrato, McMillan)

Issue 31 Have rate base and capital structure been reconciled appropriately?

GULF: Yes. The reconciliation of rate base and capital structure for the current filing is presented in MFR Schedule D-12a. (Labrato)

Issue 32 What is the appropriate cost rate for short term debt for the May 2003 projected test year?

GULF: The appropriate cost of short-term debt for the May 2003 projected test year is 4.61%. The short-term debt cost rate has been revised from 6.02% as originally filed based on the most recent forecast of short-term interest rates for the test year. (Labrato)

Issue 33 What is the appropriate cost rate for long term debt for the May 2003 projected test year?

GULF: The appropriate cost rate for long-term debt for the May 2003 projected test year is 6.44%. The long-term debt cost rate has been revised from 7.08% as originally filed to 6.44%. The Company has completed the issuance of all permanent financing impacting the May 2003 projected test year. Therefore, the long-term debt cost rate was revised to reflect the actual rates of senior notes issued. In addition, the cost rates for the Company's variable rate pollution control bonds were revised based on the most recent forecast of short-term interest rates for the test year. (Labrato)

Issue 34 In setting Gulf's ROE for use in establishing Gulf's revenue requirements and Gulf's authorized range, should the Commission make an adjustment to reflect Gulf's performance?

GULF: Yes. Gulf Power Company has demonstrated through the testimony of several witnesses in this case, including customer testimony at Gulf's service hearings, that it has provided high quality service to its customers at low rates with excellent customer satisfaction ratings. In recognition of this achievement and to emphasize the importance to the Company of continuing a high level of performance in the areas of customer satisfaction, customer complaints, transmission and distribution reliability, and generating plant availability, the Commission should increase the return on equity for purposes of setting rates and expand the authorized return on equity range. Inasmuch as achieving a high level of performance in these areas is such a fundamental and vital element in providing electric service to customers, the Commission should increase the return on equity used for setting rates by a minimum of 50 to 100 basis points over the Company's cost of equity as determined by the Commission. The adjustment to the authorized range is discussed in Issue 37. (Bowden, Labrato)

Issue 35 What is the appropriate return on equity (ROE) to use in establishing Gulf's revenue requirements?

GULF: The appropriate ROE to use in establishing Gulf's revenue requirements should be set at 13.0% plus an adjustment to reflect Gulf's performance as determined in Issue 34. (Benore, Bowden, Labrato)

Issue 36 What is the appropriate weighted average cost of capital including the proper components, amounts and cost rates associated with the capital structure?

GULF: Based on a 13.0% cost of equity, the appropriate weighted average cost of capital for Gulf is 8.35% for the May 2003 projected test year. As discussed in Issue 35, Gulf believes that the ROE to be used for setting rates should include an adjustment to reflect Gulf's performance. The weighted average cost of capital has been revised from 8.64% as originally filed to 8.35%. The revised cost of capital reflects the actual amounts and rates of all permanent financing impacting the May 2003 projected test year, including senior notes and preferred securities, revised amounts and rates for short-term debt, and revised rates for variable rate pollution control bonds. (Labrato)

Issue 37 What is the appropriate authorized range on ROE to be used by Gulf for regulatory purposes on a prospective basis?

GULF: The appropriate authorized range on ROE to be used by Gulf should have a spread of 150 basis points or more above and below the return on equity used for the purpose of setting rates (authorized range of 300 basis points). Gulf Power Company has demonstrated that it has provided high quality service to its customers at low rates with excellent customer satisfaction ratings through the testimony of several Company witnesses. Therefore, the Commission should allow a broader range than the traditional 100 basis points above and below the revenue set point (authorized range of 200 basis points) for regulatory purposes on a prospective basis. This will allow the Company an incentive for maintaining its high level of performance on such matters as customer satisfaction, history of customer complaints, transmission and distribution reliability, and generating unit availability. An expanded range provides the Company flexibility needed in the managing its business operations to maintain its favorable credit rating and attract investors for future growth. In addition, the expanded range could facilitate the implementation of sharing plans such as the one currently in place for Gulf Power. (Bowden, Fisher, Labrato, Moore)

NET OPERATING INCOME

Issue 38 Is Gulf's projected level of Total Operating Revenues in the amount of $372,714,000 ($379,009,000 system) for the May 2003 projected test year appropriate?

GULF: No. Gulf's projected level of Total Operating Revenues for the May 2003 projected test year should be reduced to reflect the impact of the Commission-approved change to the PPCC calculation as discussed in Issue 45. (Labrato, McGee, Saxon)

Issue 39 What are the appropriate inflation factors for use in forecasting the test year budget?

GULF: The following inflation (C.P.I.) factors are appropriate for the May 2003 test year: 2.43% for 2002 and 2.40% for 2003. (Saxon)

Issue 40 Should the commission accept Gulf Power's modified zero based budget as support for the requested increase?

GULF: Yes. The modified zero based budget methodology used by Gulf is a proven and accurate method of budgeting to meet its resource management needs. This methodology gives the planning units the ability to build their budget program by program each year. The methodology was used to develop the budget for the May 2003 projected test year, which reasonably reflects expected future operations during the period that new rates will be in effect. (Saxon)

Issue 41 Is Gulf's requested level of O&M Expense in the amount of $182,419,000 ($186,354,000 system) for the May 2003 projected test year appropriate?

GULF: No. The projected O & M Expense for the May 2003 projected test year should be adjusted to reflect the impact of specific adjustments proposed by the Company as set forth Issues 47, 49, and 55. (Fisher, Howell, McMillan, Moore, Neyman, Saxon)

Issue 42 Should wholesale energy costs to Gulf Power be adjusted?

GULF: No. Gulf has properly identified and excluded $243,000 related to wholesale customers in the calculation of jurisdictional adjusted net operating income. (McMillan, Howell)

Issue 43 Has Gulf made the appropriate test year adjustments to remove fuel revenues and fuel expenses recoverable through the Fuel Adjustment Clause?

GULF: Yes. As shown on Mr. Labrato's direct testimony Exhibit RRL-1, Schedule 8 and Schedule 9, the Company has removed from NOI the fuel revenues and expenses recoverable through the Fuel Clause for purposes of determining base rate revenue requirements. (Labrato)

Issue 44 Has Gulf made the appropriate test year adjustments to remove conservation revenues and conservation expenses recoverable through the Conservation Cost Recovery Clause?

GULF: Yes. As shown on Mr. Labrato's direct testimony Exhibit RRL-1, Schedule 8 and Schedule 10, the Company has removed from NOI the conservation revenues and expenses recoverable through the Energy Conservation Cost Recovery Clause for purposes of determining base rate revenue requirements. (Labrato)

Issue 45 Has Gulf made the appropriate test year adjustments to remove capacity revenues and capacity expenses recoverable through the Capacity Cost Recovery Clause?

GULF: No. As shown on Mr. Labrato's direct testimony Exhibit RRL-1, Schedule 8 and Schedule 11, the Company has removed from NOI the capacity revenues and expenses recoverable through the Purchased Power Capacity Cost Recovery Clause (PPCC) for purposes of determining base rate revenue requirements. An additional adjustment in the amount of $1,652,000 jurisdictional ($1,652,000 system) should be made to reduce capacity clause revenues to be consistent with the calculation of the PPCC factors established through Order No. PSC-01-2516-FOF-EI in Docket No. 010001-EI. The PPCC factors have been adjusted downward to remove the adjustment related to the net capacity revenues previously embedded in Gulf's base rates. (Labrato)

Issue 46 Has Gulf made the appropriate test year adjustments to remove environmental revenues and environmental expenses recoverable through the Environmental Cost Recovery Clause?

GULF: Yes. As shown on Mr. Labrato's direct testimony Exhibit RRL-1, Schedule 8 and Schedule 12, the Company has removed from NOI the environmental revenues and expenses recoverable through the Environmental Cost Recovery Clause for purposes of determining base rate revenue requirements. (Labrato)

Issue 47 What are the appropriate adjustments, if any, to Gulf's test year operating expenses to account for the additional security measures implemented in response to the increased threat of terrorist attacks since September 11, 2001?

GULF: Adjustments should be made to operating expenses for the May 2003 projected test year to reflect the impact of the costs of additional security measures implemented in response to the increased threat of terrorist attacks since September 11, 2001. Gulf is in the process of quantifying the impact of these additional security measures on O & M expense and depreciation expense. (Fisher)

Issue 48 Should an adjustment be made to advertising expenses for the May 2003 projected test year?

GULF: No. Gulf Power Company depends on advertising as one of the primary methods of communicating with our customers. This communication results in a greater awareness of the various products and services that are available to customers. This awareness affects beliefs and behaviors about programs that are beneficial to the customer. Belief in energy efficiency programs results in program participation. Advertising establishes credibility and loyalty, which are essential for the success of Gulf's energy conservation programs. Adjustments to the May 2003 projected test year advertising expenses would reduce the level of success of Gulf's demand side management and conservation programs. (Neyman)

Issue 49 Has Gulf made the appropriate adjustments to remove lobbying expenses from the May 2003 projected test year?

GULF: No. As shown on Mr. Labrato's direct testimony Exhibit RRL-1, Schedule 8, page 3 of 3, adjustments 13 and 24 were made consistent with the Commission's direction in the last rate case to exclude lobbying expenses. However, an additional adjustment in the amount of $7,000 jurisdictional ($7,000 system) should also be made to remove the industry association dues for Associated Industries of Florida, as noted in the Commission Staff's audit report Exception No. 2, since these dues relate to lobbying activities. (Labrato)

Issue 50 Should an accrual for incentive compensation be allowed?

GULF: Yes. The full accrual amount for the May 2003 projected test year should be allowed. Gulf's compensation philosophy links base and incentive compensation to provide base salaries at or near the median of an appropriate external comparator group and through incentive pay, up to top quartile pay for exceptional performance. Recent reviews of total cash compensation (base + incentive) indicate that Gulf Power is currently paying its employees "at market." (Bell, Silva, Twery)

Issue 51 Should an adjustment be made to Gulf's requested level of Salaries and Employee Benefits for the May 2003 projected test year?

GULF: No. The levels requested are necessary to maintain a competitive compensation and benefits package for Gulf Power employees. A competitive package is required to attract, retain, and motivate employees. Our surveys and analysis indicate that the requested levels are both reasonable and appropriate to maintain the competitiveness of our salaries and benefits. (Bell, Silva, Twery)

Issue 52 Should an adjustment be made to Other Post Employment Benefits Expense for the May 2003 projected test year?

GULF: No. The appropriate amount for other post employee benefits expense is included in the May 2003 projected test year. (Bell, McMillan, Silva, Twery)

Issue 53 Should an adjustment be made to Pension Expense for the May 2003 projected test year?

GULF: No. The appropriate amount for pension expense is included in the May 2003 projected test year. (Bell, McMillan, Silva, Twery)

Issue 54 Should adjustments be made for the net operating income effects of transactions with affiliated companies for Gulf?

GULF: No. Gulf's projected O & M expenses related to affiliate transactions are conservative, and based upon the 2002 SCS Budget, Gulf's May 2003 projected test year expenses are understated by $1.5 million. (McMillan)

Issue 55 Should an adjustment be made to the accrual for storm damage for the May 2003 projected test year?

GULF: The appropriate amount for the property damage reserve accrual of $3,245,000 jurisdictional ($3,500,000 system) is included in the May 2003 projected test year. This is consistent with the Commission's decision in Order No. PSC-96-1334-FOF-EI approving a reserve target level of $25.1 million to $36 million based on a storm damage study filed as required by the Commission. However, property insurance expenses should be increased $623,000 due to an increase in our property insurance costs as a result of the terrorist events of September 11th. (McMillan)

Issue 56 Should an adjustment be made to the accrual for the Injuries & Damages reserve for the May 2003 projected test year?

GULF: No. The appropriate amount for the injuries and damages reserve accrual of $1,144,000 jurisdictional ($1,200,000 system) is included in the May 2003 projected test year. (McMillan)

Issue 57 Should interest on tax deficiencies for the May 2003 projected test year be included above-the-line?

GULF: The May 2003 projected test year does not include any interest on tax deficiencies. (McMillan)

Issue 58 Should an adjustment be made to Rate Case Expense for the May 2003 projected test year?

GULF: No. The amount of rate case expense included in the May 2003 projected test year is reasonable and appropriate. The appropriate amortization period for rate case expense is four years, which is consistent with the amortization period approved by the Commission in Gulf's last rate case. (Labrato)

Issue 59 Should an adjustment be made to marketing expenses for Gulf's marketing of high efficiency electric technologies for heating and water heating?

GULF: No. Gulf's marketing of high efficiency electric technologies for heating, water heating and other end uses is beneficial to the participating customer, the Company, and to the general body of customers. In terms of high efficiency energy technologies, the Company provides information on competing equipment efficiencies (electric technologies versus electric technologies and electric technologies versus natural gas technologies when applicable).

Gulf Power Company provides information on end-use technologies and efficiencies in all market segments in an effort to influence choices toward the most efficient and cost-effective technology. The Company's efforts are directed at reducing the customer's peak demand and annual energy consumption consistent with the customer's lifestyle and budget.

Chapter 366.81, Florida Statutes, authorizes the FPSC "...to require each utility to develop plans and implement programs for increasing energy efficiency and conservation within its service area, subject to approval of the commission." The Company's programs related to marketing high efficiency electric technologies are directly aligned with the Legislative intent and findings in Chapter 366.81. Each of the Company's programs is designed and intended to reduce or control the growth in energy consumption and weather-sensitive peak demand. (Neyman)

Issue 60 What is the appropriate amount of expense to include for planned outages?

GULF: The appropriate amount for the test year is $13,980,000. Since Gulf's last rate case in 1990, its generating units have aged significantly and have been required to produce more electricity on an annual basis. This equipment is subjected to extremely high stresses due to the high pressures and temperatures at which they operate. During the past twelve years, Gulf has worked hard to maintain these units so that they have continued to provide reliable low cost service to our customers. The fact that our rates are among the lowest in the nation is a testament to the value we provide our customers. The requested amount of O & M dollars for planned outages in the May 2003 projected test year is essential to continue to operate, maintain and support Gulf's entire generating fleet. (Moore)

Issue 61 What is the appropriate amount of expense to include for special projects?

GULF: The appropriate amount for the test year is $2,726,000. Special projects are identified as those projects significant in costs that are tracked individually to enhance cost control and ensure acceptable performance. The level of special projects cost included in the test year is representative of cost that will be incurred in future years. In the past, special projects would have been included in baseline. Gulf now identifies these projects as separate items within its budgeting process. Breaking out special projects from baseline provides Gulf with a means by which to manage those dollars, to ensure that the right dollars are spent on issues that maximize the benefits in terms of performance, reliability and efficiency. Some examples of special projects are upgrading the trippers on Crist Units 4 and 5, rebuilding coal chutes, rebuilding crane bucket, and ash landfill projects. In all there are 40 special projects scheduled for the test-year. (Moore)

Issue 62 Should an adjustment be made to Production Expenses for the May 2003 projected test year?

GULF: No. The company's request of $74,522,000 jurisdictional ($77,202,000 system) for the May 2003 projected test year is the appropriate amount to effectively maintain and operate Gulf's generating fleet. In 1990, the Commission established rates under which Gulf has effectively served its customers with reliable low cost electricity. Through 1998, Gulf was able to maintain and operate the generating fleet through the prudent management of the limited resources available. Gulf's high customer satisfaction rating and low Equivalent Forced Outage Rate (EFOR) attest to the success of our strategy. The dollars requested are reasonable and necessary for Gulf to continue to efficiently and effectively serve its customers. The amounts requested for the May 2003 projected test year are representative of costs that will continue to be incurred in future years. (Moore)

Issue 63 Should an adjustment be made to Transmission Expenses for the May 2003 projected test year?

GULF: No. The total requested transmission O&M expenses of $7,922,000 jurisdictional ($8,210,000 system) for the May 2003 projected test year are under the benchmark and are reasonable, prudent, and necessary in order for Gulf to provide a high level of reliability to its growing number of customers. (Howell)

Issue 64 Should an adjustment be made to cable inspection expense?

GULF: No. Injecting a selected group of cables will reduce the likelihood of outages caused by premature failures. The recent changes in the manufacturer's warranty improve the economics of this process and have resulted in Gulf reinstating cable injection. (Fisher)

Issue 65 Should an adjustment be made to substation maintenance expense?

GULF: No. To adhere to Gulf's substation maintenance program and to prevent failures of this aging equipment, the budgeted funds are needed to return six existing substation technicians that have been assigned to construction projects back to their normal maintenance activities. (Fisher)

Issue 66 Should an adjustment be made to tree trimming expense?

GULF: No. This level of funding is necessary to allow Gulf to transition from the present spot trimming program to a more effective tree trim cycle and reduce tree related outages, which have escalated in recent years. (Fisher)

Issue 67 Should an adjustment be made to pole line inspection expense?

GULF: No. The level of expense budgeted for this program is necessary to maintain Gulf's aging pole plant to avoid more expensive repairs in the future. (Fisher)

Issue 68 Should an adjustment be made to street and outdoor light maintenance expense?

GULF: No. The amount requested is appropriate due to the increase in the number of lighting facilities and the group relamping program. (Fisher)

Issue 69 Should an adjustment be made to Distribution Expenses for the May 2003 projected test year?

GULF: No. The total requested distribution O & M expenses of $32,974,000 jurisdictional ($33,048,000 system) for the May 2003 projected test year are reasonable and necessary. Gulf has made prudent decisions to hold down costs during the last twelve years. The distribution expenses for the test year are necessary to continue to provide reliable service to Gulf's customers. These test year expenses are also representative of the levels that will continue to be incurred in the future. (Fisher)

Issue 70 Should an adjustment be made to Bad Debt Expense for the May 2003 projected test year?

GULF: No. The amount of bad debt expense of $1,544,000 jurisdictional ($1,544,000 system) included in the May 2003 projected test year is appropriate for purposes of determining base rate revenue requirements. (Labrato)

Issue 71 Should an adjustment be made to Customer Accounts Expense for the May 2003 projected test year?

GULF: No. The amount of Customer Accounts Expense of $16,659,000 jurisdictional ($16,662,000 system) included in Gulfs May 2003 projected test year is reasonable, prudent, and necessary. An error was found in the breakdown of Customer Accounts Expense that did not affect the total Customer Accounts Expense in the test year. $489,000 that was budgeted in Postage should have been budgeted in Customer Operations. The corrected May 2003 projected test year Postage amount of $1,173,000 compares favorably to the 2000 actual amount of $1,119,000. With this correction of an additional $489,000 included in Customer Operations, the May 2003 projected test year amount for Customer Operations is still under the 2000 actual amount. A change in the allocation of corporate and district facility charges was made in 2001 to more accurately assign Customer

Record expenses to the functions. This increased the amount charged to Customer Record expense by $658,000 over 2000 actual. Prior to 2001, these expenses were budgeted and charged to Administrative and General expense. (Saxon)

Issue 72 If the deferral of the return on the third floor of the corporate offices is allowed in rate base, what amortization period should be used?

GULF: The accumulated balance of the deferred return on the third floor should be amortized over a period of 3 years. This treatment is consistent with the provision included in Gulf's revenue sharing plan, resulting from a stipulation approved by the Commission in Order No. PSC-99-2131-S-EI, allowing Gulf the discretion to amortize up to $1 million per year to reduce the accumulated balance of the deferred return on the third floor. The amount of amortization of the deferred return in the May 2003 projected test year as originally filed should be reduced in the amount of $336,000 jurisdictional ($342,000 system) to take into account amortization booked during 2001. Also, see Issue 9 for the adjustment to the accumulated balance of the deferred return. (Labrato)

Issue 73 What adjustments, if any, should be made to the depreciation expense and the fossil dismantlement accrual to reflect the Commission's decision in Docket No. 010789-EI?

GULF: An adjustment to expense in the amount of $1,232,000 jurisdictional ($1,257,000 system) should be made to reflect an increase in depreciation expense and dismantlement costs based on the Staff Report on Gulf's 2001 Depreciation Study. The calculation of this adjustment is shown on Mr. Labrato's rebuttal testimony Exhibit RRL-2, Schedule 3. Also, see Issue 17 for the adjustment to accumulated depreciation. (Labrato, Roff)

Issue 74 What is the appropriate depreciation rate and dismantlement provision for Smith Unit 3?

GULF: The appropriate depreciation rate for Smith Unit 3 is 5 percent and the dismantlement provision is $310,000 (system) for the May 2003 projected test year. The dismantlement provision has been revised from $251,000 as originally filed to reflect the recommendation made in the Staff Report on Gulf's 2001

Depreciation Study. The increase in the Smith Unit 3 dismantlement provision has been included in the adjustment discussed in Issue 73. (Labrato, Roff)

Issue 75 Should an adjustment be made to Depreciation Expense for the May 2003 projected test year?

GULF: Yes. An adjustment should be made to increase depreciation to reflect Staff's recommendation in its report on Gulf's Depreciation Study as discussed in Issue 73. The calculation of this adjustment is shown on Mr. Labrato's rebuttal testimony Exhibit RRL-2, Schedule 3. (Labrato, Roff)

Issue 76 What adjustments, if any, should be made to the projected test year expenses to recognize implementation of FAS 143?

GULF: None. Gulf is currently in the process of assessing the impacts of FAS 143. This assessment is not expected to be complete until mid to late 2002. However, any differences in depreciation methodology between what is prescribed by FAS 143 and what is approved by the FPSC for rate purposes are expected to be treated as regulatory assets or liabilities. Therefore, Gulf does not expect any impact on NOI as a result of adopting FAS 143. (Labrato)

Issue 77 What adjustments, if any, should be made to the projected test year expenses to recognize implementation of the AcSEC Statement of Position regarding accounting for certain costs and activities related to property, plant, and equipment?

GULF: None. This is a proposed standard and there are significant issues to be resolved before it is finalized. It is unclear at this time what the ultimate outcome of this proposal, including the timing of implementation, will be. (Labrato)

Issue 78 Should the total amount of Gross Receipts tax be removed from base rates and shown as a separate line item on the bill as proposed by Gulf Power in its filing.

GULF: Yes. Gulf's proposed base rates in its rate case filing reflect the removal of Gross Receipts tax as shown on MFR Schedules E-11, E-15, E-16a, E-16c and E-16d. (Labrato, Thompson)

Issue 79 Should an adjustment be made to Taxes Other Than Income Taxes for the May 2003 projected test year?

GULF: No. The appropriate amount for taxes other than income taxes are included in the May 2003 projected test year. (McMillan)

Issue 80 Should an adjustment be made to the consolidating tax adjustments for the May 2003 projected test year?

GULF: No. The consolidating tax adjustments do not effect jurisdictional adjusted net operating income. (McMillan)

Issue 81 Should an adjustment be made to Income Tax expense for the May 2003 projected test year?

GULF: No. The appropriate amount for income tax expense is included in the May 2003 projected test year. (McMillan, Labrato)

Issue 82 Is Gulf's projected Net Operating Income in the amount of $61,378,000 ($61,658,000 system) for the May 2003 projected test year appropriate?

GULF: No. The projected net operating income for the May 2003 test year should be adjusted to reflect the impact of specific adjustments proposed by the Company as set forth Issues 45, 47, 49, 55 and 73. (Labrato)

REVENUE REQUIREMENTS

Issue 83 What is the appropriate revenue expansion factor and the appropriate net operating income multiplier, including the appropriate elements and rates for Gulf?

GULF: The appropriate revenue expansion factor for Gulf is 60.3110 and the appropriate net operating income multiplier is 1.658072. These factors are different from the factors included in the Company's original filing. The numerator of the bad debt rate calculation, as shown on MFR Schedule C-58, was found to be in error. A revised calculation of the revenue expansion factor and NOI multiplier was provided in response to Staff's Interrogatory No. 75. These factors also include the gross receipts tax rate of 1.5%. The gross receipts tax was removed from total revenue requirements in the calculation of proposed base rates, since the Company is proposing to remove the gross receipts tax from base rates and show it as a separate line item on the bill. (Labrato)

Issue 84 Is Gulf's requested annual operating revenue increase of $69,867,000 for the May 2003 projected test year appropriate?

GULF: No. The requested increase should be adjusted to reflect the impact of adjustments proposed by the Company as set forth in other issues. (Labrato)

COST OF SERVICE AND RATE DESIGN

Issue 85 Is Gulf's proposed separation of costs and revenues between the wholesale and retail jurisdictions appropriate?

GULF: Yes. Wholesale allocations are predominantly based upon the 12 MCP methodology with some revenues and expenses allocated upon the energy allocator. These methods are based upon cost causation. This is consistent with Gulf's prior rate case and was approved by this Commission. It also has traditionally been FERC's preferred methodology. (O'Sheasy)

Issue 86 Are Gulf's estimated revenues from sales of electricity by rate class at present rates for the projected May 2003 test year appropriate?

GULF: Yes. Gulf's estimated revenues are appropriate. Gulf has accurately applied the appropriate tariffs to the billing determinants projected for the May 2003 test year. The resulting estimated revenues from sales of electricity by rate class at present rates for the May 2003 test year as filed in this docket are appropriate. (McGee, Thompson)

Issue 87 Is the method used by Gulf to develop its estimates by rate class of the 12 monthly coincident peak hour demands and the class non-coincident peak hour demands appropriate?

GULF: Yes. Gulf's method is sound and appropriate. Gulf's estimates of 12CPKW and NCPKW for the test year are based on the results of Gulf's 1999 Load Research Study filed with the FPSC. Appropriate adjustments were made to the 1999 data reflecting known and anticipated May 2003 projected test year changes in customer loads. (McGee)

Issue 88 What is the appropriate cost of service methodology to be used in designing Gulf's rates?

GULF: The appropriate methodology to be used in designing rates is that filed by Gulf in this proceeding as Attachment A to MFR Schedule E-1 and in the Exhibit MTO-1. This cost of service methodology was the approved method of the Commission in Gulf's previous rate case with one exception. The Minimum Distribution System (MDS) was used in the cost of service study to determine customer and demand related cost The MDS was used in order to adhere more closely to sound cost causative principles. (O'Sheasy)

Issue 89 What is the appropriate treatment of distribution costs within the cost of service study?

GULF: Where possible, direct assignments are appropriate. An example is the direct assignment of customer substations. For demand related distribution cost, NCP is appropriate. An example is the demand-related portion of Account 368 – line transformers allocated upon NCP. For customer related cost, the customer allocator is appropriate. An example of this is the customer-related portion of Account 364 – Poles and Fixtures allocated upon the average number of customers at levels 4 and 5. Note: Where cost must be divided into demand and customer component, the Minimum Distribution System (MDS) is appropriate in order to adhere more closely with sound cost causative principles. (O'Sheasy)

Issue 90 If a revenue increase is granted, how should it be allocated among the customer classes?

GULF: The increase should be spread among the rate classes as shown in MFR E-11 of Gulf's filing. This allocation gives consideration to cost-of-service, moving rate classes toward parity, fairness, and value. All of these are important and appropriate considerations. (Thompson)

Issue 91 What are the appropriate demand charges?

GULF: The appropriate demand charges based on Gulf's original filing are listed below. These charges are subject to revision to reflect the impact, if any, of additional adjustments identified by Gulf in other issues. (Thompson)

Rate Schedule	Monthly Demand Charge
GSD	$5.23
LP	$8.66
PX	$8.20
GSDT	$2.81 (On-Peak) $2.49 (Maximum)
LPT	$6.95 (On-Peak) $1.75 (Maximum)
PXT	$7.61 (On-Peak) $0.68 (Maximum)

Issue 92 What are the appropriate energy charges?

GULF: The appropriate energy charges based on Gulf's original filing are listed below. These charges are subject to revision to reflect the impact, if any, of additional adjustments identified by Gulf in other issues. (Thompson)

Rate Schedule	Energy Charge
RS	4.124 ¢/kWh
GS	5.257 ¢/kWh
GSD	1.271 ¢/kWh
LP	0.543 ¢/kWh
PX	0.303 ¢/kWh
RSVP	1.800 ¢/kWh – P_1 3.021 ¢/kWh – P_2 7.798 ¢/kWh – P_3 29.000 ¢/kWh – P_4
GSTOU	15.963 ¢/kWh (Summer On-Peak) 5.660 ¢/kWh (Summer Intermediate) 2.076 ¢/kWh (Summer Off-Peak) 3.086 ¢/kWh (Winter All-Hours)
GSDT	1.271 ¢/kWh
LPT	0.543 ¢/kWh
PXT	0.300 ¢/kWh

Issue 93 What are the appropriate customer charges?

GULF: The appropriate customer charges based on Gulf's original filing are shown below. These charges are subject to revision to reflect the impact, if any, of additional adjustments identified by Gulf in other issues. (Thompson)

Rate Schedule	Monthly Customer Charge
RS, RSVP	$12.00
GS, OSIV	$15.00
GSD, GSDT, GSTOU	$40.00
LP, LPT	$226.00
PX, PXT	$566.38
RTP	$1,000.00

Issue 94 What are the appropriate service charges?

GULF: The appropriate service charges are listed below: (Saxon)

Connection of Initial Service	$30.00
Connection of Existing Service	$30.00
Restoration of Service (after violation of rules)	$35.00
Restoration of Service After Hours (after violation of rules)	$55.00
Restoration of Service at Pole (after violation of rules)	$95.00
Premise Visit	$20.00
Connection of Temporary Service	$110.00
Investigation of Unauthorized Use	$75.00
Returned Item Charge ≤ $50	$25.00
Returned Item Charge > $50 and ≤ $300	$30.00
Returned Item Charge > $300	$40.00

Issue 95 What are the appropriate Street (OS-I) and Outdoor (OS-II) lighting rate schedule charges?

GULF: The appropriate OS-I and OS-II charges are those shown in the tariffs filed by Gulf. These charges are subject to revision to reflect the impact, if any, of additional adjustments identified by Gulf in other issues. The proposed charges were developing using the same approach as Gulf has used in all street and outdoor lighting additions and modifications approved by the FPSC in recent years. (Thompson)

Issue 96 How should Gulf's time-of-use rates be designed?

GULF: Gulf's time-of-use rates should be designed using the Existing Time-of-Use Modification (ETM) method for revising incumbent, or existing, commercial/industrial Time-of-Use Rates. (Thompson)

Issue 97 What are the appropriate charges under the Interruptible Standby Service (ISS) rate schedule?

GULF: Gulf proposes to continue using the same charges currently in effect for this rate schedule. There are no customers taking service on this rate at this time. (Thompson)

Issue 98 What are the appropriate charges under the Standby and Supplementary Service (SBS) rate schedule?

GULF: Gulf has proposed changes to the Standby and Supplementary rate schedule which simplify the rate by removing the Supplemental Energy (SE) option. The appropriate charges are listed below. These charges are subject to revision to reflect the impact, if any, of additional adjustments identified by Gulf in other issues. (Thompson)

Contract Demand	100 to 499 kw	500 to 7,499 kw	7,500 kw and above
Customer Charge	$248.20	$248.20	$591.01
Demand Charge			
Local Facilities Charge	$1.66	$1.23	$0.31
On-Peak	$2.41	$7.16	$7.61
Reservation Charge	$0.99	$0.99	$0.98
Daily Demand Charge	$0.46	$0.46	$0.46
Energy Charge (per kWh)	1.177¢	0.311¢	0.300¢

Issue 99 What is the appropriate rate design for Gulf's Real Time Pricing (RTP) rate schedule?

GULF: Gulf is not proposing a change to the current rate. The current rate was approved by this Commission in September 1999. This rate contains a $1,000 monthly customer charge and hourly energy charges that are delivered to customers a day ahead of their applicability. The proposed design is appropriate. (Thompson)

Issue 100 What is the appropriate monthly charge under Gulf's Goodcents Surge Protection (GCSP) rate schedule?

GULF: A charge of $3.45 per month is proposed for Good Cents Surge Protection. This proposed charge is the same as the currently approved charge. (Thompson)

Issue 101 What are the appropriate transformer ownership discounts?

GULF: The appropriate transformer ownership discounts are those filed by Gulf. Gulf proposed no changes from the present charges. These discounts were updated in Gulf's last rate case, and are still appropriate to recognize differences in service voltage levels. (O'Sheasy, Thompson)

Issue 102 What is the appropriate minimum monthly bill demand charge under the PX rate schedule?

GULF: The appropriate minimum monthly bill demand charges under the PX rate schedule is $9.856/kw/month. These charges are subject to revision to reflect the impact, if any, of additional adjustments identified by Gulf in other issues. (Thompson)

Issue 103 What is the appropriate minimum monthly bill demand charge under the PXT rate schedule?

GULF: The appropriate minimum monthly bill demand charges under the PXT rate schedule is $9.830/kw/month. These charges are subject to revision to reflect the impact, if any, of additional adjustments identified by Gulf in other issues. (Thompson)

Issue 104 If the Commission decides to recognize migrations between rate classes, how should the revenue shortfall, if any, be recovered?

GULF: Gulf Power's proposed rates are designed recognizing that customers may migrate, or move, to different rates for which they are eligible but are not currently on. This occurs when rate changes make alternative rates more economical. Recognition of this migration should be handled by allowing consideration of such migrations in the rate design process, as Gulf has done. (Thompson)

Issue 105 Should Gulf's GST and RST rate schedules be eliminated?

GULF: Yes. Though these rates have been in place for over twenty years, there has never been any significant interest in these rate structures by our customers. There are better alternatives now available for the small number of customers that are currently on these rates such as rate RSVP for rate RST and rate GSTOU for rate GST. (Thompson)

Issue 106 Should Gulf's Supplemental Energy (SE) Rate Rider be eliminated?

GULF: Yes. The usefulness of this rate has been surpassed by more recent offerings such as Real Time Pricing (RTP). (Thompson)

Issue 107 Gulf proposes to eliminate the Optional Method of Meter Payment provision in its GSDT rate schedule that allows customers to make an initial payment as a contribution-in-aid-of-construction to offset a portion of the additional cost of time-of-use metering. Is this appropriate?

GULF: Yes. The optional method of meter payment is not necessary since the proposed customer charge for rate GSDT is identical to that for rate GSD. These customer charges are the same because there is no longer additional cost to the Company associated with time-of-use metering for GSDT. (Thompson)

Issue 108 Should Gulf eliminate its OS-IV rate schedule and transfer the customers served under the rate to their otherwise applicable rate schedules, as required by order No. 23573 in Docket No. 891345-EI?

GULF: No. Field research conducted after Gulf's last rate case to obtain load data indicated that there was virtually no effect on peak demands from OS-IV customers. This research and our market experience with the affected customers necessitate that Gulf continues to make this rate available. (Thompson)

Issue 109 Should the proposed changes to Gulf's Standby and Supplementary Service Rate (SBS) be approved?

GULF: Yes. The current rate is complicated and it is difficult for customers to be able to predict or understand the economic consequences of their operational decisions related to their on-site generation. The proposed changes make this rate easier for our customers and represent a better pricing approach. (Thompson)

Issue 110 What is the appropriate monthly fixed charge carrying rate to be applied to the installed cost of OS-I and OS-II additional lighting facilities for which there is no tariffed monthly charge?

GULF: The appropriate monthly fixed charge rate to be applied to installed cost of additional lighting facilities for which there is no tariffed monthly charge is 1.78% per month. (Thompson)

Issue 111 Are the proposed revisions to the estimated kilowatt hour consumption of Gulf's high pressure sodium and metal halide lighting fixtures appropriate?

GULF: Yes. These revised KWH's are based on manufacturer's specifications for the equipment involved. (Thompson)

Issue 112 Gulf has proposed to add a provision to its OS-I and OS-II lighting schedules that allows customers to change to different fixtures prior to the expiration of the initial lighting contract term. Is this provision appropriate?

GULF: Yes. This change allows greater flexibility to customers in choosing lighting offerings during the term of their contracts. This option has been requested by Gulf's customers. (Thompson)

Issue 113 Should the Street Lighting (OS-I) and Outdoor Lighting (OS-II) subparts of Gulf's Outdoor Service rate schedule be merged?

GULF: Yes. Merging the subparts of OS-I and OS-II serves to simplify the tariff and avoid unnecessary complication for customers and employees. (Thompson)

Issue 114 Should Gulf's proposed methodology for determining the price of new street and outdoor lighting offerings be approved?

GULF: Yes. The methodology proposed by Gulf retains the approach used in recent years to develop prices for new street and outdoor lighting offerings, but allows Gulf to develop such pricing without the need for specific approval of the resulting prices. This allows greater flexibility in offering lighting options to Gulf's customers. (Thompson)

Issue 115 Should Gulf's proposed new FlatBill pilot program be approved?

GULF: Yes. This pricing program offers residential and small commercial customers the opportunity to purchase retail electric service at a fixed or flat monthly bill amount, customized for each customer. This pilot program which is a small-scale experiment would provide Gulf the opportunity to gain valuable information about effects of such a program. (Thompson)

Issue 116 Should Gulf's proposed new Rate Schedule GSTOU be approved?

GULF: Yes. This is an additional option for the GSD/GSDT customers with a different structure since it does not contain a distinct demand charge. The rate is simpler for customers to understand and would allow customers to more effectively manage energy costs. (Thompson)

Issue 117 Is Gulf's proposed reduction in the contract term required under its Real Time Pricing (RTP) rate schedule from five years to one year appropriate?

GULF: Yes. The perceived risk associated with the five year term inhibits customer participation in Rate RTP. Feedback from customers who have considered and rejected this rate indicates that the five year commitment is a "deal breaker". (Thompson)

Issue 118 Is the GoodCents Select program cost effective?

GULF: Yes. Gulf has calculated the cost-effectiveness of the GoodCents Select program after making a number of proposed changes, including those shown in Rate Schedule RSVP contained in Schedule 4 of Exhibit JIT-1 to the direct testimony of J. I. Thompson. The analysis indicates that the program remains cost-effective with a Rate Impact Measure Test result of 1.531 and a Participants' Test result of 1.273. (Neyman)

Issue 119 What is the appropriate design and level of charges for the Residential Service Variable Pricing (RSVP) rate schedule?

GULF: As shown on Rate Schedule RSVP, Tariff Sheet No. 6.76, included with Gulf's filing, the proposed RSVP charges are compatible with Rate Schedule RS, enhance the **GoodCents** *Select* program, and are designed consistent with currently approved charges. (Thompson)

Issue 120 Are Gulf's proposed changes to the P2 and P3 pricing periods under its RSVP rate schedule appropriate?

GULF: Yes. This change removes a disincentive for participation, and does so without negatively affecting conservation benefits. (Thompson)

Issue 121 Are Gulf's proposed changes to the Participation Charge and Reinstallation Fee charged under Rate RSVP appropriate?

GULF: Yes. The proposed amounts represent updated costs of the equipment that is installed and maintained in participating households. (Thompson)

Issue 122 Should Gulf's proposed changes to the applicability section of its Budget Billing optional rider be approved?

GULF: Yes. These changes will bring consistency of the applicability of Budget Billing across rate schedules, and will extend the customer benefits of this optional rider. (Thompson)

OTHER ISSUES

Issue 123 How will this docket be affected if the provisions in the Stipulation approved in Order No. PSC-99-2131-S-EI are not achieved?

GULF: The only provision in the stipulation approved by the Commission in Order No. PSC-99-2131-S-EI that has an affect on this case is the requirement that new rates not take effect until after the Expiration Date of the stipulation which is defined therein as "the earlier of (a) the day before the commercial in-service date of Smith Unit 3; or December 31, 2002." The Commission's decision setting rates in this case should include a statement that new rates will be applied to bills rendered on the date normally specified by the Commission following a vote to approve final rate schedules or the commercial in-service date of Smith Unit 3, whichever is later. (Labrato)

Issue 124 Should Gulf be required to file, within 60 days after the date of the final order in this docket, a description of all entries or adjustments to its annual report, rate of return reports, and books and records which will be required as a result of the Commission's findings in this rate case?

GULF: Although Gulf will file this information if required by the Commission, the Company requests that it be allowed 90 days after the date of the final order in this docket in order to comply with these post decision filing requirements. This length of time is consistent with the amount of time contemplated for compliance in Docket No. 001148-EI (see Issue No. 157 as set forth in Order No. PSC-02-0102-PCO-EI, Issued January 16, 2002). (Labrato)

F. STIPULATED ISSUES[5]

GULF: Yet to be determined.

G. PENDING MOTIONS[6]

GULF: There are no pending motions at this time. Gulf has at least one pending notice of intent to request confidential classification of certain documents (see Document No. 00811-02 filed 1/23/2002). Gulf anticipates the filing of one or more requests for confidential classification prior to the hearing in this case. Gulf will provide an updated list of all pending requests for confidentiality prior to the prehearing conference.

[5] This section of Gulf's prehearing statement is intended to comply with that portion of the order establishing procedure requiring ". . . (g) a statement of issues that have been stipulated to by the parties . . . ".

[6] This section of Gulf's prehearing statement is intended to comply with that portion of the order establishing procedure requiring ". . . (h) a statement of all pending motions or other matters the party seeks action upon; [and] (i) a statement identifying the parties' pending requests or claims for confidentiality . . .".

H. OTHER MATTERS[7]

GULF: To the best knowledge of counsel, Gulf has complied, or is able to comply, with all requirements set forth in the orders on procedure and/or the Commission rules governing this prehearing statement. If other issues are raised for determination at the hearing set for February 25 through March 1, 2002, Gulf respectfully requests an opportunity to submit additional statements of position and, if necessary, file additional testimony.

Dated this 24th day of January, 2002.

Respectfully submitted,

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[7] This section of Gulf's prehearing statement is intended to comply with that portion of the order establishing procedure requiring notice by the prehearing conference of a party's intent to use proprietary confidential business information at the hearing and "... (j) a statement as to any requirement set forth in this order that cannot be complied with, and the reasons therefore."

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

In re: Request for rate increase by)
Gulf Power Company)
______________________________) Docket No. 010949-EI

Certificate of Service

I HEREBY CERTIFY that a copy of the foregoing has been furnished this 24th day of January 2002 by U.S. Mail to the following:

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