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Douglas L. McCrary
President

the southern electric system

December 1, 1989

The Honorable Michael McK. Wilson
Chairman
Florida Public Service Commission
101 East Gaines Street
Tallahassee, FL 32399-0855

891345-EI

Dear Chairman Wilson:

It has now been nearly five years since Gulf Power Company last received a rate increase in response to the Company's request for rate relief from the Florida Public Service Commission. Throughout this period, we have worked to balance our corporate goal of remaining as competitive as possible in an increasingly competitive marketplace with our corporate obligations both to maintain the high quality of service for our customers, which we consider our hallmark, and to provide a reasonable level of financial integrity for the benefit of our customers and shareholders alike. We have successfully achieved rate stability and maintained our competitiveness as evidenced by the fact that Gulf Power Company's present rates, which have not changed in five years, are among the lowest in the country.

Beginning in 1989, the Company's current rates have not produced and will not produce revenues sufficient to allow a return adequate to maintain Gulf's financial integrity. In anticipation of this deterioration in the Company's earnings, and only after thorough consideration of all alternatives, Gulf filed a petition for rate relief based on a 1989 test year. That case, docket number 881167-EI, was withdrawn by the Company before completion out of respect for the Atlanta Federal Grand Jury and its investigation into certain matters involving Gulf Power. Gulf's desire to continue its full cooperation with the Grand Jury and the U.S. Attorney's Office impeded its ability to fully address matters of concern to this Commission. Gulf has now resolved the concerns of the Grand Jury and U.S. Attorney's Office with regards to the past activities of Gulf Power Company. Although the Company had reasonable and adequate internal controls in place, positive and specific enhancements to these safeguards have been implemented in order to provide reasonable assurance that such abuses which became the focus of the Grand Jury will not happen again at Gulf Power.

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It is important not to lose sight of the many significant accomplishments achieved by the many dedicated, ethical, and professional employees of Gulf Power--accomplishments which have in large part been responsible for allowing Gulf to achieve rate stability and simultaneously maintain both our competitiveness and our historically high quality of service to our customers. Our employees have increased their productivity, which has helped to keep our operating and maintenance expenses at reasonable levels. We have designed innovative rates and marketing efforts which have improved our load shape through increased kilowatt hour sales without a commensurate increase in weather sensitive peak demand. We have worked diligently to reach agreements with several of our large industrial customers to keep needed load on our system. Through arduous negotiations, we have successfully terminated or renegotiated our long-term fuel contracts and thereby obtained substantial reductions in our fuel costs. All of these efforts by our employees have provided and continue to provide substantial benefits to our customers.

Since the Company's last completed rate case, the unit power sales (UPS) involving Plant Daniel capacity have come to their scheduled end. In addition to the return of the Daniel capacity to retail service, approximately 63 megawatts of Gulf's Plant Scherer capacity which is not being "sold" to UPS customers is now available for use by the Company's retail customers. The Scherer capacity was not included in the last completed retail rate case. The dedication of this Daniel and Scherer capacity to Gulf's territorial system will ensure that Gulf's capacity reserves are at an acceptable level.

The inclusion of the Daniel and Scherer investment in retail rate base with the associated operating and maintenance expenses included in retail operations and the absence of retail rate relief in 1989 have caused Gulf's recent financial projections to show that the Company's present rates will continue to produce insufficient revenues to allow an adequate return for 1990 and beyond unless rate relief is forthcoming. The Company's only viable option consistent with its statutory obligation of service is to promptly make a request for rate relief from the Commission. We anticipate filing the required petition, rate schedules, and certain supporting documents by the end of the calendar year 1989. In anticipation of this filing, we request approval of the test period of calendar year 1990 for determination of full revenue requirements. Having analyzed the alternatives, we have determined that calendar year 1990 is by far the most representative of conditions expected to exist on Gulf's system in the near future.

Gulf also expects to file for interim relief under Section 366.071, Florida Statutes. Gulf's jurisdictional return on average common equity for the 12 months ending September 1989 as shown on the surveillance report filed with the Commission has fallen to 8.82 percent. Without timely interim relief, even if the full amount of the anticipated request for permanent relief is timely granted and implemented, present projections show that the 1990 jurisdictional return would be below 9 percent.

As I hope is evident from this letter, we are planning to file a request for rate relief only after long and serious deliberation. We strongly believe that pricing our product properly, thereby generating revenues sufficient for us to continue to maintain our traditional high quality of service and a reasonable level of financial integrity, is in the long-term best interest of our customers.

we request approval of a calendar year 1990 test year and assignment of a docket number. Your consideration and prompt attention concerning this request will be greatly appreciated.

Respectfully submitted,

GULF POWER COMPANY

By: D. L. McCrary
D. L. McCrary, President

cc: FLORIDA PUBLIC SERVICE COMMISSION
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