BEFORE THE

FLORIDA PUBLIC SERVICE COMMISSION

DOCKET NO 891345-EI

TESTIMONY AND EXHIBITS
OF
M. R. BELL

Gulf Power

GULF POWER COMPANY

Before the Florida Public Service Commission
Direct Testimony of
Mark R. Bell
In Support of Rate Relief
Docket No. 891345-EI
Date of Filing December 15, 1989

Q. Would you please state your name, business address, and occupation?

A. My name is Mark R. Bell. My business address is 133 Peachtree Street, N.E., Atlanta, Georgia, 30303. I am a partner in the accounting firm Arthur Andersen & Company.

Q. Would you please state your educational and professional background?

A. I joined Arthur Andersen & Co. in 1967 following graduation from St. Louis University with a Bachelor of Science degree in Accounting. I am a Certified Public Accountant in the states of Georgia, California, and Missouri, and I am a member of the American Institute of Certified Public Accountants (AICPA).

Q. Would you briefly describe the work of Arthur Andersen & Co.?

A. The firm has approximately 160 offices, of which about one-half are in the United States and the other half in other parts of the world. We work with all types of businesses, both regulated and nonregulated.

Q. What is the nature of the work you have performed at Arthur Andersen & Co.?

A. While I have had experience in a number of industries, a significant portion of my career has been devoted to regulated industries, including electric utilities, water and sewer, gas and telephone companies.

I have conducted and supervised independent audits of the financial statements of public utilities and have supervised work in connection with the issuance of securities of these companies. I have also assisted in numerous rate filings on a wide range of topics before various state regulatory bodies. My experience before the Florida Public Service Commission includes testifying in Gulf Power Company's last two retail rate hearings on my independent review of the Company's financial forecasting system. Consequently, I am familiar with the Company's forecasting techniques and its planning and control systems.

Q. What are your present responsibilities at

Arthur Andersen & Co.?

A. Currently, I am partner-in-charge of the audit division responsible for our regulated industries practice in the Atlanta office, which serves as the concentration office for our regulated industry services in the southeastern United States. In addition, I serve as the engagement partner for Gulf Power Company and several other electric utilities and telephone companies.

Q. What is the purpose of your testimony?

A. The purpose of my testimony is to present the results of my independent review of the financial forecasting system used by the Company, including my review of the accuracy with which the system forecasts the test period financial results, the overall reasonableness of the assumptions made by the Company to develop those results, and the consistency of the data used in applying those assumptions throughout the forecast.

Q. Do you have an exhibit which accompanies your testimony?

A. Yes.

Counsel: We ask that Mr. Bell's Exhibit, comprised of 3 Schedules, be

marked for identification as
Exhibit __ (MRB-1).

Q. Were all of the schedules in this exhibit prepared under your supervision?

A. Yes. Each schedule of this exhibit was prepared under my direction and supervision.

Q. Please describe your review of the financial forecast made by the Company for purposes of this proceeding.

A. The review was made under my direct supervision and consisted of two parts. The first part was a review of the Company's financial forecasting system itself; the second part was a review of the specific forecast of the 1990 test period as summarized in Mr. McMillan's Schedules 2 and 3.

Q. Do you have a schedule which shows an overview of the financial forecasting process?

A. Yes. My Schedule 1 illustrates, in summary form, the Company's process for preparing forecasts. This system is described in detail by Company witnesses Scarbrough, Parsons, Howell, Jordan, Lee, Kilgore, Bowers, Gilbert and McMillan. As the schedule illustrates, input is developed by various departments whose personnel are qualified in specific areas such as economic forecasting, operations, engineering, accounting, and finance. This input reflects the Corporate Business Plan as approved by the Company's top management as well as the key assumptions that are approved for consistent application throughout the forecast. The Corporate Planning Department has primary responsibility for collecting data to be used in the forecast from the appropriate source departments, communicating the forecast guidelines to those source departments, validating internal consistency of data, producing the financial model using the source budgets and obtaining appropriate management review and approval.

The Budget Committee reviews the forecast on a planning unit level both before and after the planning unit budget is allocated to FERC account numbers. The final approved forecast is an input to the Company's responsibility reporting system, which provides monthly and quarterly reports showing actual results compared to the forecast, and which management uses to control and monitor the various departments of the Company.

Q. Have there been any significant changes or enhancements to the financial forecasting system since your review in connection with the Company's 1984 retail rate case, Docket No. 840086-EI?

A. Yes. The Company has made several significant enhancements to its financial forecasting process.

Q. Please describe those enhancements.

A. First, the Company has implemented computer applications which provide interfaces of the output of the construction budget model and miscellaneous model calculations to the financial model. Previously, these items were manually interfaced.

Second, the Company has adopted the Utility Fuel Inventory Model (UFIM) developed by the Electric Power Research Institute (EPRI) to assist in the determination of a strategic coal inventory policy. This model was designed to "strike a balance" between the cost of holding fuel and the expected cost of running out of fuel.

Third, the Company has enhanced the long-term customer, energy, and demand forecasting methodologies by adopting various econometric models such as the REGIS, COMMEND and HELM models discussed in Mr. Kilgore's testimony.

Finally, the Company has made several changes in its O & M budget process related to (1) the reference levels used by the planning units in preparing their budgets, (2) the information used by the O & M Budget Review Committee, and (3) the budgeting of the personnel complement.

Q. Can you describe these changes to the Company's O & M budget process in further detail?

A. Yes. First, the Company has refined its procedures for establishing the reference levels used by each planning unit to budget O & M expenses. The 1990 reference level is defined as the 1989 budget less (1) nonrecurring items, (2) corporate controlled items, and (3) 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 12 months. Each planning unit must provide detailed justification for all expenses budgeted in excess of the reference level and this justification is closely scrutinized by Corporate Planning, the O & M Review Committee, and the Budget Committee. The reference level is discussed in further detail in Mr. Gilbert's testimony.

Second, Corporate Planning has added a new budget to actual comparison report to the information provided to the O & M Review Committee for use in its review of the O & M budget. This report provides a three-year historical analysis of budget to actual variations by FERC account for each planning unit. The O & M Review Committee carefully reviews all budget requests compared to prior years' history. To obtain the Committee's approval of budget requests, each planning unit must be able to explain and support any budget requests which appear unusual in light of prior year budget to actual variances.

Finally, the Company has established a methodology to adjust the forecast for a personnel "hiring lag." As discussed in Mr. Gilbert's testimony, this adjustment deducts from the forecast the estimated salaries associated with vacancies caused by normal turnover. I will discuss this adjustment further later in my testimony.

Q. Has the Company implemented any of the recommendations you made in your testimony in the Company's 1984 retail rate case relating to your review of the Company's 1984 forecast?

A. Yes. I noted that several of my previous recommendations were implemented. Among them were the following:

- The Company has automated the interface between its revenue subsystem and its financial model.
- The Company has developed complete, detailed, user-oriented system documentation for the financial model.
- The Corporate Planning Department now performs detailed reviews of each planning unit budget. Corporate Planning's reviews include reasonableness checks of amounts budgeted using the budget assumptions approved by management. The planning units are required to provide detailed justification for any areas that are budgeted for increases other than those due to inflation.

Q. In your review of the Company's forecasting process, did you note any further improvements that could be made?

A. Yes. I noted one area where further improvement in the system could be made. I considered this in my review of the forecast, and it does not modify my overall conclusions on the forecasting system. The recommendation is that the Company should continue to automate the miscellaneous forecast calculations and utilize the interface capabilities for the financial model. This would reduce the risk of clerical or data input errors and expedite the generation of the financial model.

Q. **Please describe the scope of your review of the financial forecasting system.**

A. I utilized a work program designed to evaluate the forecasting system in light of the relevant professional standards. My review indicated that the Company has a forecasting system which is effective and which meets all of the relevant professional standards for such a system.

Q. **What "relevant professional standards" did you use in evaluating the Company's financial forecasting system?**

A. I evaluated the Company's financial forecasting system against the professional standards outlined in the American Institute of Certified Public Accountants' (AICPA) "Guide For Prospective Financial Statements." This official pronouncement of the AICPA establishes the broad principles and requirements that govern the preparation of financial forecasts.

The AICPA guidelines provide a comprehensive statement relating to the preparation of forecasts and as such, can be used to determine that a forecast is prepared in a reasonable and prudent manner. The statement establishes a set of criteria against which a forecasting system can be evaluated. The implementation of the guidelines was intended to lead to increased confidence on the part of users that due care is exercised in the preparation of forecasts. The 11 specific guidelines in this statement are included in my Schedule No. 2.

Q. Are these the same standards you used to evaluate the Company's financial forecast in its 1984 retail rate case?

A. No, not exactly. The AICPA's "Guide for Prospective Financial Statements," which was issued in 1986, established new standards for the preparation of financial forecasts. The new guidelines are essentially the same as those applicable at the time of the 1984 retail rate case except an additional standard has been added -- "Financial forecasts should be prepared in good faith." This new standard requires that forecasts be prepared without undue optimism or pessimism and that care be exercised to ensure that forecasts are not misleading to third-party users. The use of good faith has always been implicit in the guidelines for the preparation of financial forecasts. The new guidelines simply establish good faith as a separate explicit standard.

Q. **Please summarize the procedures utilized in your review of the Company's financial forecasting system.**

A. I employed the following procedures in reviewing the financial forecasting system. First, I developed an overall understanding of the Company's activities which, when combined, comprise its forecasting system. I also followed flow of data from the originating departments through the forecasting system to the final preparation of the forecast itself. This procedure was undertaken to complete my understanding of the processes used by the organizational units within the Company in the preparation of the financial forecast.

The second step of my review consisted of the identification and review of the specific procedures followed by the Company personnel in preparing the forecast. The purpose of this step was to verify that adequate procedures were in place to ensure the accuracy and completeness of the forecast if those procedures were followed.

Finally, certain compliance tests were performed, and certain documentation and reports were reviewed to verify that the system was in fact operating as designed. This work also included ensuring the internal consistency of data used in the forecast.

Q. Please describe your review of the specific 1990 forecast.

A. In addition to the work on the forecasting system which I just described, the clerical accuracy of the financial model input and output was tested on a scope basis. This included recalculating many of the computations made by the model. The input data was referenced to the appropriate source documents and was traced through the model processing into the forecast output, which is summarized on Schedules 2 and 3 of Mr. McMillan's testimony.

The key assumptions approved by management set forth in MFR F-17 were verified to be those actually used in the forecast. Further, the forecast was reviewed for the appropriate interrelationships of the data generated and for the conformity with proper rate making procedures and generally accepted accounting principles.

Q. During your review, did you note any changes or adjustments which should be reflected in the 1990 forecast for purposes of this proceeding?

A. Yes, I noted several adjustments which were identified either by Company personnel or my personnel. Most of these adjustments were made on Schedules 6 and 8 included in Mr. McMillan's testimony. These generally relate to the following areas:

(1) certain administrative and general expenses related to the IRS and Grand Jury investigations;

(2) certain utility plant and related accumulated depreciation items also related to the IRS investigation; and

(3) other miscellaneous items excluded from net operating income or rate base due to regulatory precedents.

Adjustments were not made, however for the following items:

(1) certain revenues were not forecasted;

(2) changes in the forecast will be necessary to reflect adjustments to be made related to certain exceptions noted in the recent Federal Energy Regulatory Commission (FERC) audit.

Q. Please discuss the revenues which the Company did not

forecast.

A. The Company did not forecast any economy energy sales. This treatment is consistent with prior forecasts and was discussed in the Company's 1984 retail rate case, Docket No. 840086-EI. Although I recognize that the large number of variables involved in economy energy transactions make these revenues very difficult to forecast, I continue to believe they should be included in the forecast. However, since 80 percent of economy energy sales profits are credited to retail ratepayers through the fuel adjustment clause, and the remaining 20 percent is retained by the Company's stockholders in compliance with Commission Order no. 12923, there is no consequential effect on the proposed retail rate increase resulting from the omission of these sales from the forecast.

Q. **Please describe the adjustments that will be made related to the FERC audit.**

A. Certain FERC findings have been recorded by the Company during 1989 and are properly reflected in the 1990 forecast. Other audit findings are currently being resolved and the related effects on the financial statements and thus, the 1990 forecast, have not been determined at this time. As discussed in Mr. McMillan's testimony, the Company will provide to the Commission any adjustments to the forecast which result upon final resolution of the FERC audit issues.

Q. Mr. Bell, you mentioned other adjustments related to the Grand Jury and IRS investigations which were reflected in the forecast and which are included on Schedules 6 and 8 in Mr. McMillan's testimony? Did you review these adjustments?

A. Yes. Given the concerns about the Company's accounting system and controls and the potential impact on the forecast related to the recent IRS and Grand Jury investigations, I performed detailed reviews of portions of the forecast related to those areas in the Company which could be affected. Specifically, I reviewed the forecasted costs associated with marketing, public relations, and legal expenses. I also reviewed the adjustments to test period operating income related to legal fees and to test period rate base related to charges for transformers and their repair.

Q. During your review of these specific areas, did anything come to your attention that causes you to believe that the 1990 financial forecast specifically includes costs related to the alleged irregularities discussed in the Company's plea agreement with the United States Government, or legal fees forecasted as a result of activities associated with the Grand Jury or IRS investigations?

A. No. I specifically reviewed the 1990 budget support for various marketing and public relations activities and compared the 1990 budget to the corresponding 1989 budget. I noted that certain costs, such as those for retainers for certain outside services, were included in the 1989 budget but were specifically excluded in 1990. In addition, I reviewed the O & M amounts budgeted for legal fees, including those amounts allocated to Gulf by Southern Company Services. I noted the budgeted costs included amounts related to the IRS and Grand Jury investigations. These amounts were specifically excluded from Net Operating Income (NOI) as an adjustment included in Mr. McMillan's Schedule 8. Although I cannot give absolute assurance that no costs related to any prior irregular activities are budgeted in 1990, I did not note any such budgeted costs in my review which were not specifically excluded from NOI by the Company.

I also reviewed the Company's adjustment to rate base related to transformers and other costs which were determined to be improperly capitalized due to illegal activities. Again, although I cannot say with absolute assurance that all such charges have been identified and properly removed from rate base, I believe the Company has made a good faith effort to identify such items and to properly adjust the forecast.

Q. **Mr. Bell, did you have any additional findings which would affect the 1990 forecast used in this proceeding?**

A. Yes. I noted that the hiring lag adjustment made by the Company in its O & M forecast does not necessarily reflect the Company's hiring plans and may result in an overstatement of O & M expenses in the forecast. However, I also noted that the Company's forecast for union salaries was understated. The effect of understating these wages would essentially offset the effect of understating the hiring lag.

Q. **During the course of your review, did you note any variances between the assumptions used in the forecast and conditions as they subsequently developed?**

A. Yes. I noted three areas where conditions changed between the time the forecast was prepared and the date of my review. In each case, the forecast was based on the best information available at the time, but conditions outside the control of the Company subsequently developed in a manner different from that reflected in the forecast.

First, the forecast was prepared using an estimated salary increase of 3 percent for union personnel. Subsequent to the forecast preparation, the union contract was renegotiated and an actual base salary increase of 3.7 percent was determined. Thus, as I discussed previously in my testimony, O & M expenses related to union wages are understated in the Company's 1990 forecast. In addition, several union positions were upgraded which will also result in additional salaries expense which was not forecasted.

Second, the Company used an estimated 1990 inflation rate (as measured by the CPI--all urban consumers) of 4.4 percent in the 1990 forecast. Subsequently, some economists have raised their projections of the 1990 increase in the CPI to as high as 6.0 percent. Although the inflation rate assumed by the Company is certainly not unreasonable, the forecast may, in fact, understate those expenses affected by the CPI.

Finally, two changes have occurred subsequent to the preparation of the forecast related to items that affect the Company's capital structure, and thus cost of capital. First, it has been determined that a

$3 million capital contribution from the Southern Company forecasted for December, 1989, will not be received. Second, a deferred tax liability of $1.9 million has been reclassified to current income tax liabilities. At the time the forecast was prepared, the Company did not believe the tax liability would be payable in 1989. The total effect of these two changes is a slight increase in revenue requirement.

Q. Mr. Bell, does the 1990 forecast represent the actual plans of the Company for that year?

A. Yes, it does. The 1990 forecast becomes the budget for 1990.

Q. Are the people responsible for preparing the budget also held accountable for achieving it?

A. Yes. The final approved budget becomes the basis for the Responsibility Reporting System. The budget is prepared at the section or location level by the appropriate managers and supervisors. These budgets are combined into departmental budgets, and departmental budgets are combined into planning unit budgets. These budgets are then forwarded to the four functional Vice Presidents before being reviewed by the Budget Committee and President. The Responsibility

Reporting System follows the same line of reporting.

The Responsibility Reporting System generates monthly budget-to-actual comparisons at the section or location level. Summary reports are prepared on a monthly basis for review by higher levels within the Company. At the end of each quarter, reports are prepared at the planning unit level which provide a detailed explanation for budget variances greater than 5 percent and $1,000. In addition, a positive statement must be made as to whether or not it is estimated that the budget will be achieved by the end of the year. If the budget cannot be achieved by the end of the year, then approval must be obtained at the Vice President and Budget Committee levels. If the budget variance is not approved, then the planning unit must take the necessary steps to come within the budget for the year.

Q. Have you verified that the Responsibility Reporting System you have just described is operating as designed?

A. Yes. On a test basis, I have verified by examination of supporting evidence that the Responsibility Reporting System is operating as described above.

Q. Mr. Bell, what conclusions have you drawn from your

review of the Company's financial forecasting system and the 1990 forecast?

A. In my opinion, the financial forecasting system and the procedures employed in the preparation of the forecasted data are in compliance with the guidelines in the American Institute of Certified Public Accountants' "Guide for Prospective Financial Statements."

My review indicated that the systems and procedures used by the Company are in place and are operating effectively. The data flow is subject to validation, and the forecast includes all important data. There is adequate participation, review, and approval by management.

The forecasted data on Schedules 2 and 3 of Mr. McMillan's exhibit is an accurate simulation of the financial results of the underlying assumptions and those assumptions provide a reasonable basis for the forecast. If these assumptions prove true, the 1990 forecasted test period results should become the actual financial results of the Company except for the effect of the differences discussed earlier in my testimony.

Although the key assumptions developed and approved by management represent future events not susceptible to verification at the time the forecast was prepared, they were developed in good faith in a reasonable and prudent manner and were obtained from reliable sources.

Q. Mr. Bell, you stated that the 1990 forecast is based upon assumptions not susceptible to present verification. How can the Commission be assured that the use of the forecast in this rate proceeding is fair to the Company's customers?

A. The testimony of several Company witnesses describes in detail how the financial forecasting system works and the accuracy with which it projects actual results. I have previously concluded that this system can be relied upon to develop forecasts in a reasonable and prudent manner which represent the most probable financial result of the forecast test year. My review confirms that management has a well-developed system with an ability to accurately forecast the cost of service.

In addition, an analysis of the components of the forecast revenue requirements will show that the components which affect the level of base rates are not susceptible of misestimation to any great degree and the Company has historically forecasted these components with great accuracy.

Q. Please explain.

A. The Commission has adopted a fuel adjustment cost recovery mechanism which provides for the recovery of fuel cost. The Commission has established a similar mechanism for the recovery of certain conservation program expenditures. Therefore, these costs have no impact on the proposed adjustments to base rates and can be eliminated from further analysis.

What remains to affect base rates is other operating expenses, return, taxes on return, and the marginal revenue from variations between forecasts and actual base rate revenues. Recent history shows that variation between forecast and actual amounts of these items has been minimal in relation to total revenue requirements applicable to base rates.

Q. What is the basis for this conclusion?

A. I have analyzed the comparisons of forecast to actual amounts for the years 1985, 1986, 1987 and 1988 as shown on Schedule 3 of my exhibit. My analysis excludes fuel and conservation clause revenues and energy revenues associated with unit power and other off-system sales agreements which are treated as nonjurisdictional by this Commission. I applied the percentage variance for these years to the actual base rate revenues for those years in order to evaluate the significance of these variances in terms of total base rate revenue. The impact of these variances is minimal, as shown by my analysis.

Most of the operating expense items are relatively fixed in nature, and when considered in light of known cost levels in prior years, their cost can be easily forecast, particularly in the short run. Therefore, the cost of operations applicable to base rates is not susceptible to misestimation to any great degree, given the level of sophistication of the Company's forecasting process.

In addition, an integral part of the forecasting system described earlier in my testimony is the Company's Responsibility Reporting System. This Responsibility Reporting System supports the Company's financial planning and control process and enhances the ability of management to achieve forecast results insofar as economic events, activities, and costs are controllable. For example, management requires specific plans of action to correct interim budget-to-actual deviations to the extent expenditures are controllable.

Q. Why do your calculations on Schedule 3 not include amounts for variances between forecast and actual return on common equity, income taxes, and fuel and interchange costs?

A. The appropriate return on common equity for the test period is a matter that will be determined by decision of the Commission. Income taxes are a function of the return on equity capital. Hence, the historical forecast variation range is not relevant. Fuel and interchange costs are recovered through the fuel and purchased power recovery clause as I previously discussed.

Q. Please summarize your testimony.

A. Based upon the review described earlier in my testimony, in my opinion, the financial forecasting system used by the Company conforms with relevant professional standards, is adequate for its purpose, is complete and logically founded, and can be relied upon to produce consistent, reliable results.

With only the immaterial differences discussed earlier in my testimony, the 1990 forecast represents an accurate simulation of the financial results which should occur if the key assumptions prove true. While the key assumptions represent future events not susceptible to present verification, they were developed in good faith in a reasonable and prudent manner. In my opinion, the use of a 1990 forecasted test period is appropriate for setting rates.

Q. Does this conclude your testimony?
A. Yes, it does.

AFFIDAVIT

STATE OF FLORIDA)

COUNTY OF ESCAMBIA)

Before me the undersigned authority personally appeared M. R. Bell, who first being duly sworn, says that he is the witness named in the testimony to which the Affidavit is attached; that he prepared said testimony and any exhibits included therein on behalf of Gulf Power Company in support of its petition for an increase in rates and charges in Florida Public Service Commission Docket No. 881167-EI; and that the matters and things set forth herein are true to the best of his knowledge and belief.

Dated at Pensacola, Florida this 11 of December, 1989.

Mark R Bell

M. R. Bell

Sworn to and subscribed before me this 11 day of December, 1989.

John D. Scott

Notary Public

Notary Public, Dekalb County, Georgia
My Commission Expires May 1, 1990

Florida Public Service Commission
Docket No. 891345-EI
GULF POWER COMPANY
Witness: M. R. Bell
Exhibit No.___ (MRB-1)

INDEX	SCHEDULE NUMBER
Overview of Financial Forecasting Process	1
AICPA Guidelines for Prospective Financial Statements	2
Prior Year's Forecast to Actual Variance as a Percent of Operating Revenues	3

Florida Public Service Commission
Docket No. 891345-EI
GULF POWER COMPANY
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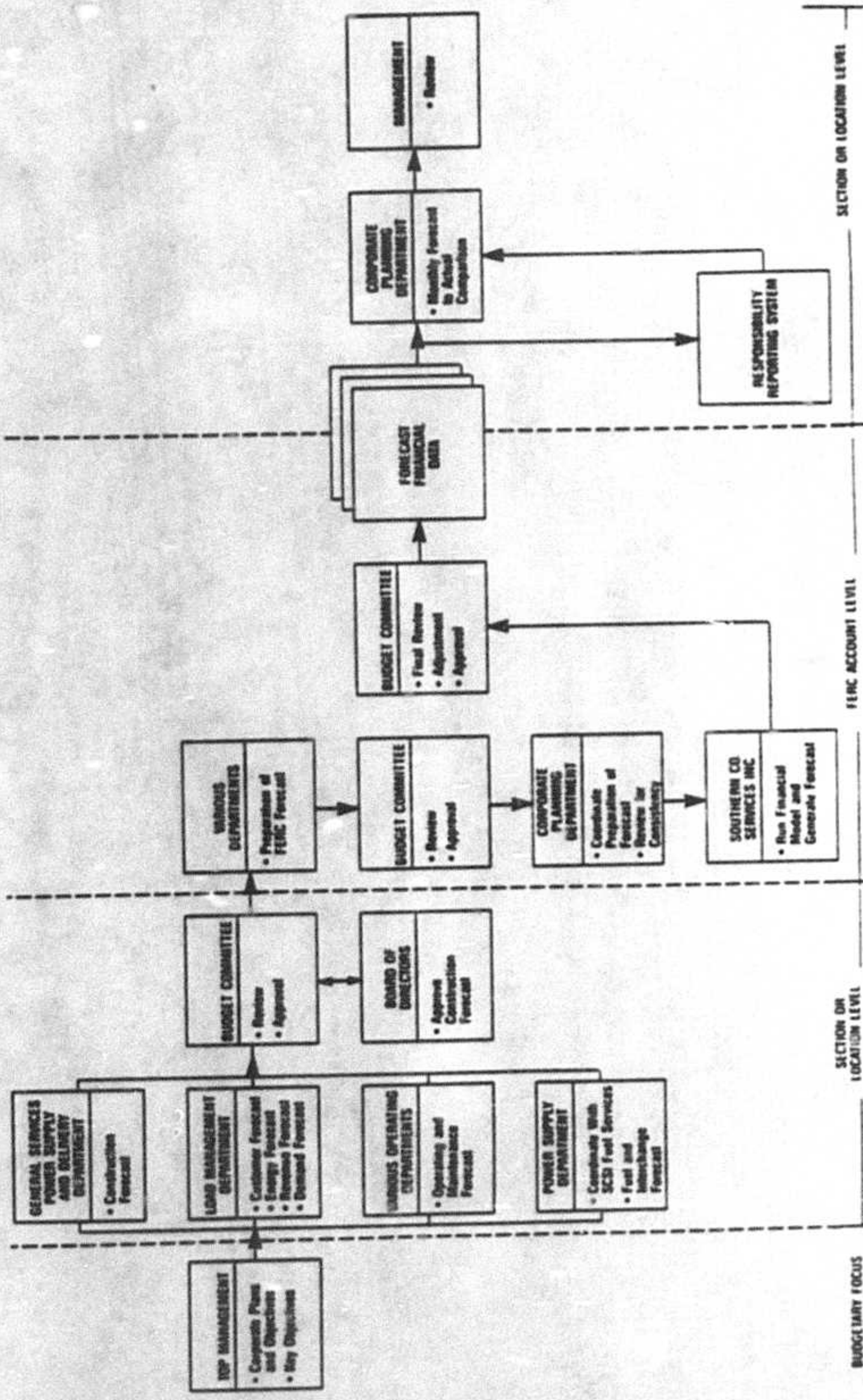
Exhibit No.___ (MRB-1)
Schedule 1

OVERVIEW OF FINANCIAL FORECASTING PROCESS



Florida Public Service Commission
Docket No. 891345-EI
GULF POWER COMPANY
Witness: M. R. Bell
Exhibit No.___ (MRB-1)
Schedule 2

American Institute of
Certified Public Accountants'
Guidelines for Prospective
Financial Statements

1. Financial forecasts should be prepared in good faith.

2. Financial forecasts should be prepared with appropriate care by qualified personnel.

3. Financial forecasts should be prepared using appropriate accounting principles.

4. The process used to develop financial forecasts should provide for seeking out the best information that is reasonably available at the time.

5. The information used in preparing financial forecasts should be consistent with the plans of the entity.

6. Key factors should be identified as a basis for assumptions.

7. Assumptions used in preparing financial forecasts should be appropriate.

8. The process used to develop financial forecasts should provide the means to determine the relative effect of variations in the major underlying assumptions.

9. The process used to develop financial forecasts should provide adequate documentation of both the financial forecasts and the process used to develop them.

10. The process used to develop financial forecasts should include, where appropriate, the regular comparison of the financial forecasts with attained results.

11. The process used to prepare financial forecasts should include adequate review and approval by the responsible party at the appropriate levels of authority.

Florida Public Service Commission
Docket No. 891345-EI
GULF POWER COMPANY
Witness: M. R. Bell
Exhibit No.___ (MRB-1)
Schedule 3

Prior Years' Forecast to Actual Variances as a Percent of Operating Revenue

Line No.	Year Forecasted	Weighted Average Effect — Actual Over (Under) Forecast 1985	1986	1987	1988
1.	OPERATING REVENUE, excluding fuel and conservation clause revenue and energy revenue related to unit power and other off-system sales agreements (Note 5)	2.0%	1.9%	(0.4)%	(1.5)%
	OPERATING EXPENSES AND RETURN:				
2.	Fuel and purchased power (Note 1)				
3.	Income taxes (Note 2)				
4.	Return on common equity (Note 3)				
5.	Operation and maintenance (Notes 4 & 5)	(0.3)%	1.0%	2.1%	(1.3)%
6.	Depreciation and amortization	0.6	0.4	(0.4)	(0.3)
7.	Taxes other than income	0.2	0.4	0.3	0.3
8.	Preferred stock dividends	(0.1)	-	-	-
9.	Interest	(0.1)	(0.2)	0.2	0.1
10.	Weighted cost of service variance for lines 5-9	0.3%	1.6%	2.2%	(1.2)%

NOTE 1: No variance shown because changes in fuel and purchased power costs are covered by the fuel adjustment clause.

NOTE 2: No variance shown for income taxes because this cost is a function of the return on common equity. See Note 3.

NOTE 3: No variance shown for return on common equity since this is a matter which will be determined by decision of the commission.

NOTE 4: Excludes conservation clause expenses and over/under recovery of fuel expenses.

NOTE 5: 1988 amounts exclude all sales to Gulf States Utilities and the related provision for uncollectibles account.