BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

In re: Petition of Gulf Power Company for an increase in rates and charges.	DOCKET NO. 891345-EI ORDER NO. 22681 ISSUED: 3-13-90

The following Commissioners participated in the disposition of this matter:

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

ORDER SUSPENDING GULF POWER COMPANY'S NEW RATE SCHEDULES AND GRANTING INTERIM RATE RELIEF

BY THE COMMISSION:

By petition dated December 15, 1989, Gulf Power Company (Gulf, utility, or company) has requested a permanent increase in its rates and charges designed to generate an additional $26,295,000 of gross annual revenues. This request is based upon a projected 1990 test year and a 13-month average jurisdictional rate base of $923,562,000. It has requested an overall rate of return of 8.34%, which assumes an allowed rate of return on common equity of 13.0%. The most significant basis for the requested increase, according to Gulf, is the commitment of over 500 MW of additional capacity from its Plants Daniel and Scherer to territorial service from July 1, 1988 through January 31, 1989, and the O&M experses associated with this capacity. Additionally, the utility claims an increase in net operating income resulting from substantial capital additions in the transmission, distribution, and general plant areas as well as increased O&M expenses.

SUSPENSION OF PERMANENT RATES

Section 366.06(4), Florida Statutes, provides that we may, pending a final order in this rate proceeding, withhold consent to the operation of all or any portion of the new rate schedules provided that we deliver to the utility, within 60 days, a reason or written statement of good cause for withholding our consent. The Commission's recent practice, especially where a projected or partially projected test year has been involved, has been to completely suspend the permanent rate schedules in order to adequately and thoroughly examine the evidentiary basis for the new rates. Gulf's proposed rates are based upon a projected 1990 test year, the very nature of which requires that we withhold our consent to the operation of the new rate schedules. The use of the projected test year calls for many estimates and assumptions which have not yet been shown to be reasonable; among these are projections involving the impact of inflation on the utility's operating expenses and construction expenditures. We shall, therefore, suspend the operation of the rate schedules so that the projections underlying the request for a permanent rate increase can be more fully analyzed by our Staff and the intervenors.

INTERIM RATE RELIEF

Gulf Power Company has requested that if the Commission does suspend all of the permanent rate schedules, it consent to the operation of a portion of the rate schedules designed to increase gross annual revenues by $22,847,000. This request for interim rate relief is made pursuant to Section 366.071, Florida Statutes, the "Interim Rate" statute. Gulf has agreed to post bond or other corporate undertaking in the amount of any interim relief granted and to refund, in accordance with applicable Commission rules, any moneys ultimately found to be excessive. Gulf's request for $22,847,000 of interim rate relief is based on a test year of 13 months ending September 30, 1989; uses a year-end rate base of $902,707,000 and a return on common equity of 13.0%. If a year-end rate base is used and a return on common equity of 14.60% is used, the interim revenues requested increases to $25,805,000.

In compliance with Commission procedure, Gulf has also calculated interim relief based on a 13-month average rate base ending September 30, 1989. If a return on equity of 13.0% is applied to this average rate base, this produces interim revenues of $15,035,000; if a return on equity of 14.6% is applied, this produces revenues of $17,607,000.

Year-end versus average rate base

With regard to the use of 13-month average versus year-end rate base, we previously stated the conditions under which the use of year-end rate base was appropriate in Order No. 14538, issued on July 8, 1985. Order No. 14538 states, in relevant part:

> The company has relied upon a test period ending February 28, 1985, using year-end rate base, capital structure and capital costs. The staff has recommended that we rely upon average rate base, capital structure, and capital costs, citing problems inherent in the use of year-end rate base in this case.
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> In Order No. 11964 we announced our standard for the use of year-end rate base. There, we stated that we would allow year-end rate base "where there has been extraordinary growth or other circumstances to warrant such treatment." Although addition of the company's Big Bend Unit Four to Plant-in-Service is a significant year-end event, we believe that there are problems with a year-end calculation in this case and that use of average rate base, along with proforma adjustments, is a better alternative.
>
> It is not proper to use year-end rate base without recognizing related revenues and expenses. Accordingly, the company made a proforma adjustment for revenues and expenses associated with Big Bend Four. This illustrates the need to make significant adjustments to the year-end data in this case. Further, additional adjustments should be made to reflect year-end revenues and expenses. However, we believe that these are less reliable than an average calculation. For these reasons, we believe that we should rely upon average rate base with proforma adjustments for Big Bend Four investment, expenses and revenues.

<u>In re: Petition of Tampa Electric Company for authority to</u>

increase its rates and charges, Docket No. 850050-EI, Order No. 14538, issued on July 8, 1985, at 2.

The most significant factor behind Gulf's rate increase petition is the increase in its rate base used in serving its jurisdictional customers. Between July 1, 1988 and February 1, 1989 Gulf has committed over 500 MW of additional generating capacity at Plants Daniel and Scherer to territorial service which was previously sold under Unit Power Sales (UPS) contracts. This increased jurisdictional investment, Gulf argues, has caused it to experience "a precipitous drop in the company's return and the serious financial distress the company has endured in 1989 . . . [it] continues to face for 1990 if it is not granted immediate rate relief."

The company's Surveillance Reports, however, reveal that Gulf's overall rate of return has increased, not decreased, from September through November of 1989. Its average and year-end rate of returns have increased from 6.99% and 6.58% to 7.3% and 6.99%, respectively, in this time period. The rates of return should also increase in December, 1989 due to the unprecedented cold weather experienced in that month. This increase in revenues will have a positive impact on Gulf's return during the pendency of this rate case. Therefore, in our opinion, Gulf will not experience "financial distress" during the interim period to the extent that a year-end rate base is warranted. Further, Gulf has not made adjustments to recognize revenues and expenses associated with the increased investment recorded in February, 1989. Given all of the above, we find that Gulf has not justified the use of a year-end rate base, but should use a 13-month average rate base ending September 30, 1989 for interim purposes.

Rate Base

We have determined that the appropriate rate base for interim purposes is $785,912,000 as shown on Schedule 1 attached to this order. This amount incorporates the adjustments listed below.

Accumulated depreciation and depreciation expense

In 1984, Gulf purchased a 25% interest in Plant Scherer Unit No. 3 from Georgia Power, an affiliated company. The unit was under construction at the time of purchase. The purchase price was $1,964,394 ($6,937,131 System) in excess of the costs recorded on the books of Georgia Power. In determining the purchase price, Georgia Power used the amount in Account 107 (Construction Work in Progress) less the AFUDC accrual, plus state income taxes on the sale and a carrying charge based on its incremental debt and equity costs. The difference of $1,964,394 ($6,937,131 System) represents an amount in excess of actual construction cost of the generating unit.

The excess costs paid by Gulf Power were noted as Audit Exception No. 4 in the FPSC audit conducted as a result of the rate case filed by Gulf in late 1988 and withdrawn in June, 1989. Both our Staff and that of the Federal Energy Regulatory Commission (FERC) made known their concern regarding a purchase price which exceeded the original cost of Georgia Power Company. Gulf has renegotiated the purchase price resulting in a refund of $6,937,131. The company adjusted its books in December, 1989 to reflect the refund in the negotiated purchase price. Since the adjustment was made subsequent to the interim test year, it is appropriate to reduce Plant-in-service by $1,964,394 ($6,937,131 System), for the Acquisition of 25% of Scherer Unit No. 3, reduce accumulated depreciation by $190,153 ($671,515 System) and reduce depreciation expense by $78,453 ($277,485 System).

Acquisition adjustment - Plant Scherer

In 1987, the company purchased a portion of the common facilities at Plant Scherer from the City of Dalton and Oglethorpe Power Corporation. The company recorded an acquisition adjustment as a result of the purchase. The company recorded the amortization of the acquisition adjustment by charges to Account 406, Amortization of Electric Plant Acquisition Adjustments. (Above-the-Line)

Commission policy requires that a utility seek Commission approval of the accounting treatment for an acquisition adjustment. If the Commission determines the acquisition adjustment is unreasonable or imprudent, it may disallow recovery in rate base and expenses and require below-the-line treatment. Gulf has not requested our approval of this adjustment.

The FERC addressed the accounting for the acquisition adjustment in its draft audit report and recommended that Gulf:

> revise accounting procedures to ensure that the amortization of the Plant Scherer acquisition adjustment be recorded below-the-line in Account 425.

On November 2, 1988, the company received a response letter from the FERC's Chief Accountant on the proposed journal entries related to the acquisition. The Chief Accountant ordered the company to amortize the acquisition adjustment to Account 425, Miscellaneous Amortization, a below-the-line account. The Chief Accountant indicated that the company could resubmit its request to amortize the acquisition adjustment to Account 406 if it was granted above-the-line treatment by the Florida Commission.

According to the instructions for Account 406, Amortization of Electric Plant Acquisition Adjustments, as found in the Uniform System of Accounts:

> This account shall be debited or credited, as the case may be, with amounts includible in operating expenses, <u>pursuant to approval or order of the Commission,</u> ... (Emphasis added.)

Since approval for including this acquisition adjustment in rates has not been formally requested or given by this body and in fact has been specifically denied by the FERC, we find that rate base should be reduced by $2,458,067 ($8,680,507 System), Accumulated Depreciation and Amortization reduced by $108,402 ($382,817 System) and expenses reduced by $72,155 ($255,211 System).

<u>Southern Company Services building</u>

In 1984 Southern Company Services cancelled the construction of a building, the costs of which were allocated to all the system operating companies. A total of $715,752 was allocated to Gulf. The company charged $369,305 to operating expense and capitalized $346,447. (Audit Exception No. 3, Docket No. 881167-EI.)

According to the Uniform System of Accounts, expenditures for cancelled construction projects should be charged to Account 426.5, Other Deductions (below-the-line), or to the appropriate operating expense account. Gulf agreed with this exception and made the appropriate entries on the books in May 1989. Although the company made an adjustment to expenses in its filing removing the expense portion, no adjustment was made reducing Plant-in-Service. For eight months of the interim period, September, 1988 through April, 1989, the building costs were included in rate base. ($338,262 x 8 -:- 13 = $208,161). Therefore, it is appropriate to reduce average Plant in Service $208,161 ($213,198 System). Since the company's books were adjusted in May, 1989, no adjustment should be made to the company's requested September 30, 1990 year-end rate base.

Bonifay and Graceville office buildings

Gulf included in its last rate case the cost of newly constructed office facilities in Bonifay and Graceville. We stated in Order No. 14030 that: "We are not convinced that sufficient evidence has been introduced to justify the total cost of these buildings." We also stated that this issue would be left open until Gulf's next rate case at which time the company would be given the opportunity to justify the entire cost of the projects. In that rate case, we disallowed $20,000 for the Bonifay building and $23,000 for the Graceville building. The basis for the adjustment was to disallow all construction costs in excess of $67 per square foot, which is a cost supported by the Means Survey provided by Gulf in that proceeding.

Therefore, consistent with our finding in the last rate case, we are reducing plant-in-service by $43,000 ($46,000 System) and accumulated depreciation by $5,000 ($5,000 System) for a net reduction of $38,000 ($41,000 System).

Accumulated depreciation

Normally Gulf computes one-half month's depreciation on projects in the month that they are completed and transferred to Account 106, Completed Construction Not Classified-Electric. Due to clerical errors, depreciation prior to 1988 was not calculated on two major projects for a period of several weeks after transfer to Account 106. The depreciation on these two projects totaled $67,760 ($69,374 System). Gulf agreed that depreciation expense for these projects was incorrect and made the correction to accumulated depreciation in February, 1989. Since September 30, 1989 average rate base included five months of the above amount, it is necessary to remove five-thirteenths of the amount, or $26,072 ($26,682 System).

AFUDC

The FERC audit of Gulf noted that AFUDC was improperly capitalized beyond the in-service date on two major projects. The Uniform System of Accounts, as well as the Florida Public Service Commission Rules, require that the accrual of AFUDC cease when projects are placed into or are ready for service. An overaccrual of AFUDC results in a higher than actual amount being recorded in Plant in Service balances. The total amount of the AFUDC overaccrual was $56,250 ($57,611 System). Gulf agreed with this adjustment and made the necessary journal entries in February, 1989 to remove the full overaccrual from rate base. For this docket, however, the overaccrual from September, 1988 through January, 1989 remains on the books and must be removed. The amount of the overaccrual is equal to five months of the 13 months average or $21,635 ($22,158 System). Therefore, Plant in Service should be reduced by $21,635 ($22,158 System) to remove from rate base the AFUDC overaccrual.

Working capital

Gulf has requested a total of $52,330,000, on a jurisdictional basis, in working capital for fuel inventory. Of this total, approximately 91 percent is fuel stored at generating facilities and 9 percent is coal in-transit to plants.

Gulf Power Company has established a coal inventory policy of maintaining a 105 days burn level for the 1990 test year. The MFRs indicate a test year inventory of about 104 days burn. Gulf's policy is based upon the results of a computer model developed by EPRI. We allowed a 107.5 day inventory level in the last rate case based upon a different inventory model. Our Staff is of the opinion that the computer model is acceptable, but a key factor in determining optimal inventory level using this methodology is the set of input parameters and assumptions. These input parameters are extremely complex. Modification of these parameters can significantly alter the optimal inventory target. That being the case, our Staff has recommended that we use the 90 day generic coal inventory policy as stated in Order No. 12645 to calculate allowable coal inventory levels for interim purposes. This results in a reduction of $6,709,553 on a jurisdictional basis ($6,926,568 System).

Our Staff also recommends that the same generic policy be employed to determine allowable heavy and light fuel oil inventory levels. Gulf did not offer any justification for the levels of inventory maintained for these fuels. The generic policy would allow a 45 day level for heavy oil at an average burn rate and a 30 day level for light oil at a high rate of burn. Gulf does not project to use heavy oil in the test year and Staff recommends the entire amount be disallowed. This would reduce working capital by $1,028,727 ($1,062,000 System). Staff also recommends that light oil inventory be reduced by $119,432 ($123,295 System).

At this time, our Staff has recommended that no adjustment be made to working capital for amounts associated with in-transit coal. Gulf has requested $5,429,391 (jurisdictional) for in-transit coal. Staff notes that Gulf included $9,700,253 (jurisdictional) in accounts payable - coal for the test year. If in-transit coal is adjusted, accounts payable will also have to be adjusted. That being the case, Staff is of the opinion that the adjustments would offset each other.

We approve the adjustments recommended by Staff and discussed above with the following modifications. First, that 50% of the heavy oil inventory remain in the fuel component of working capital. Second, that the fuel inventory associated with Plant Scherer be removed consistent with our decision to remove Plant Scherer from rate base for interim purposes. This would result in a reduction to working capital of $2,757,000.

Plant in service

Staff's calculation of a rate base of $826,678,000 includes both 63 MW of Plant Scherer and 100 MW of Plant Daniel which were not approved as part of Gulf's last rate case. We find that Plant Daniel is properly included in the calculation of interim rates, but that the additional 63 MW of Plant Scherer is not. This is based upon our understanding that approximately 42 MW of that additional capacity would have been sold pursuant to UPS contracts with Gulf States Utilities (Gulf States) had Gulf States not breached those contracts.

Net Operating Income

We have determined the appropriate amount of net operating income to be $61,392,000 as shown on Schedule 1 attached to this order. The adjustments to the income statement which results in this figure are discussed below.

O&M expense

Gulf has calculated $111,323,000 ($113,742,000 System) in O&M Expenses for the test year as shown on MFR Schedule G-14. In arriving at this amount, the company made adjustments consistent with its last rate case, adjustments to remove Unit Power Sales (UPS) and other adjustments which appear reasonable.

On MFR Schedule G-32 Gulf has calculated an O&M benchmark variance of $7,530,000. Included in the expenses used to calculate this variance were expenses associated with plant used to make U.P.S. sales. For purposes of calculating the O&M benchmark variance, it appears appropriate to remove UPS expenses, resulting in a variance of $376,000 ($7,530,000 - $7,154,000). Notwithstanding the fact that the O&M benchmark variance is $376,000, we approve of additional expense reductions in the amount of $5,343,000 ($5,583,000 system) as discussed below.

1. Transmission Rents - $1,786,582 ($2,011,000 System) In its justification of transmission line expenses, Gulf made three changes to the benchmark calculation with which we disagree. First, the 1984 base year value was reported as $962,000. As shown in Order No. 14030, the amount allowed was $956,000. Second, we disallowed $425,000 of transmission line rental expense for Plant Daniel due to the impact of customer growth. Gulf has tried to include this amount in determining its benchmark, but did not provide a justification for the expense. This appears to be an attempt to pass through a

previously disallowed cost. Lastly, the company has included $1,898,000 in expenses for Plant Scherer line rentals. The net effect of these three adjustments is to disallow $1,786,582 ($2,011,000 System).

2. Sales Expenses - $669,414 ($669,414 System) The company removed from expenses $824,000 for area and economic development, $27,000 for marketing support, and $1,000 for investigation expenses, for a total removal of $852,000. The remaining $825,074 consists of $155,660 in expenses for the Street and Outdoor Lighting Program, "Shine Against Crime", $82,193 in expenses for Ally Information and Education, $566,312 for the Heat Pump Program, and $20,909 for Training. In Gulf's tax savings docket, our Staff has recommended the allowance of expenses associated with the street lighting program and the disallowance of all other expenses in the sales function because these functions were seen as unnecessary or duplicating existing Gulf programs. Additionally, Gulf did not request any Sales Expense in its last rate case. For these reasons, we will allow $155,660 of expenses for the Street and Outdoor Lighting Program and disallow $669,414 of the other expenses described above.

3. Customer Service Expenses - $2,596,000 ($2,596,000 System) Prior to Gulf's 1984 rate case, approximately 50% of the conservation expenses were recovered through base rates and the balance was recovered through the ECCR mechanism. In 1984, we ruled that 100% of the conservation expenses should be recovered through ECCR. Subsequently, we denied recovery of certain programs through the ECCR clause for which Gulf is now seeking base rate recovery.

Gulf made adjustments to its benchmark calculation to include $2,248,000 in the Customer Services area and $348,000 in Other A&G for previously disallowed ECCR programs, which were not included in the company's last rate case. Gulf has not provided any justification for the recovery of these expenses in base rates. We find that these programs should not be included in base rates for interim purposes since the programs appear to duplicate standards already required by the Department of Community Affairs' building code and information and services available from numerous other sources.

Through interrogatories, our Staff was provided information regarding "Centsable Contractor Weekends" held at the San Destin Hilton where Gulf entertained contractors. Audit Disclosure No. 31 discusses a Frequent Flyer Program that allows builders and HVAC contractors to receive awards as an incentive to increase the efficiency and quality of energy saving technologies. Expenses for these programs were charged to the customer service functional area and were associated with the Good Cents Program.

These activities go beyond the normal operating functions of a utility and should not be financed by the ratepayers. Therefore, we find that $2,596,000 ($2,596,000 System) for former ECCR programs should be disallowed.

4. Lobbying and Other Expenses - $291,373 ($306,550 System) The FERC Uniform System of Accounts as prescribed by this Commission contains the following below-the-line expense account for recording lobbying and other related expenses:

> 426.4 Expenditures for certain civic, political and related activities.
>
> This account shall include expenditures for the purpose of influencing public opinion with respect to the election or appointment of public officials, referenda, legislation, or ordinances (either with respect to the possible adoption of new referenda, legislation or ordinances or repeal or modification of existing referenda, legislation or ordinances) or approval, modification, or revocation of franchises; or for the purpose of influencing the decisions of public officials, but shall not include such expenditures which are directly related to appearances before regulatory or other governmental bodies in connection with the reporting utility's existing or proposed operations.

In its permanent rate filing, Gulf included in its Minimum Filing Requirements, Schedule C-29, Lobbying and Other Political Expenses. The purpose of the schedule is to provide us with all expenses for lobbying and related expenses which are included for recovery in Net Operating Income.

The company's response to this schedule is: "No lobbying and other political expenses are included in determining Net Operating Income. All are accounted for "below-the-line." (Emphasis added) This same MFR schedule and response was included in the company's last rate case (Docket No. 840086-EI) and the recent rate case which was withdrawn by the company (Docket No. 881167-EI).

Based on information recently supplied to our Staff, Gulf recorded above-the-line during the interim test year the following expenses: $291,373 ($306,550 System) expenses incurred by Mr. Earl Henderson, a registered lobbyist; lobbying expenses allocated to Gulf from the Southern Company and certain other expenses incurred by Mr. Jack Connell. Subsequent to the interim test year, December, 1989, the company started charging these expenses below-the-line.

After reading the description of expenditures to be recorded in Account 426.4, stated above, it would appear that these expenses should have been recorded below-the-line. We are disturbed that Gulf may have miscategorized these expenses in this and other previous rate cases. Thus, we will reduce interim test year expenses by $291,373 ($306,550 System) and will closely examine these expenses in the full rate proceeding to determine the proper amount, if any, which should have been recorded above-the-line.

When the adjustments discussed above are added to the adjustment related to the removal of Plant Scherer from rate base, the appropriate amount of O&M expense is $106,004,000 for the interim period.

Depreciation and Amoritization

The appropriate amount of depreciation and amoritization expense after the removal of Plant Scherer from rate base is $41,476,000.

Current Income Tax Expense

As shown on Schedule 1 attached to this order, the appropriate amount of current income tax expense is $18,090,000. This calculation takes into account an interest synchronization adjustment of $710,000. In addition, there is a $1,644,000 reduction in income taxes related to the amortization of the investment tax credit. The net income tax liability is $16,446,000.

Return on equity

Pursuant to Section 366.071, Florida Statutes, the proper return on common equity to use in the calculation of interim relief is the floor of the last authorized rate of return, i.e., 14.6%. However, Gulf has used 13.0% in the calculation of its interim relief request as the more reasonable rate of return on common equity to use given current market conditions. That being the case, we find that Gulf has waived the right to use the statutory 14.6% in the calculation of interim rate relief under Section 366.071, Florida Statutes.

Fair Rate of Return

Consistent with our decision to use a 13-month average rate base, we will use the average capital structure and costs for the test period. The cost rate for the return on equity, as discussed above, will be 13.0%. The approved rate of return for interim purposes is 8.26% calculated as shown on Schedule 2 attached to this order.

Revenue Deficiency

Based on the approved rate base, net operating income and rate of return, we find that Gulf is entitled to an interim increase in rates and charges designed to generate $5,751,000 in additional annual revenues, calculated as shown on the attached Schedule 4.

Rate Structure

In compliance with Rule 25-6.0435(2)(a), Florida Administrative Code, the interim increase will be spread among the rate classes on a uniform percentage of base rate revenues. The increase will be collected within each rate class by increasing all base rate charges and credits (customer, demand, non-fuel KWH charges, etc.) by the uniform percentage. This results in a uniform increase of 2.43%.

Based on the above, it is

ORDERED by the Florida Public Service Commission that the rate schedules filed by Gulf Power Company on December 15, 1989, providing for a permanent increase in annual revenues of $26,295,000 be and the same are hereby suspended pending public hearings and a final order in this case. It is further

ORDERED that the Request for Interim Increase filed by Gulf Power Company is granted in part. Gulf Power Company is authorized to increase its rates and charges, on an interim basis and in conformance with this order, to generate additional annual revenues of $5,751,000. It is further

ORDERED that the interim increase authorized herein shall be reflected on bills rendered for meter readings taken on or after 30 days from the date of the Commission's decision, or March 10, 1990. It is further

ORDERED that the interim rates approved herein are collected subject to refund, with interest, upon a corporate undertaking.

BY ORDER of the Florida Public Service Commission, this 13th day of MARCH, 1990.

STEVE TRIBBLE, Director
Records and Reporting

by: Kay Flynn
Chief, Bureau of Records

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NOTICE OF FURTHER PROCEEDINGS OR JUDICIAL REVIEW

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

Any party adversely affected by this order, which is preliminary, procedural or intermediate in nature, may request: 1) reconsideration within 10 days pursuant to Rule 25-22.038(2), Florida Administrative Code, if issued by a Prehearing Officer; 2) reconsideration within 15 days pursuant to Rule 25-22.060, Florida Administrative Code, if issued by the Commission; or 3) judicial review by the Florida Supreme Court, in the case of an electric, gas or telephone utility, or the First District Court of Appeal, in the case of a water or sewer utility. A motion for reconsideration shall be filed with the Director, Division of Records and Reporting, in the form prescribed by Rule 25-22.060, Florida Administrative Code. Judicial review of a preliminary, procedural or intermediate ruling or order is available if review of the final action will not provide an adequate remedy. Such review may be requested from the appropriate court, as described above, pursuant to Rule 9.100, Florida Rules of Appellate Procedure.

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07-FEB-90

GULF POWER COMPANY
DOCKET NO. 891345-EI
SEPTEMBER 1989 TEST YEAR
13 MONTH AVERAGE RATE BASE
(000)

SCHEDULE 1
Page 1 of 3
INTERIM

	(1) ADJUSTED JURIS. AS FILED	(2) PLANT SCHERER ACQUISITION ADJUSTMENT	(3) PLANT SCHERER 63 MW	(4) SCS BUILDING CANCELLATION	(5) BONIFAY & GRACEVILLE OFFICES	(6) ACCUMULATED DEPRECIATION ERRORS	(7) AFUDC OVERACCRUAL	(8) FUEL INVENTORY GENERIC LEVEL	(9) TOTAL ADJUSTMENTS	(10) ADJUSTED TOTAL
PLANT IN SERVICE	$1,145,119	($4,422)	($49,960)	($208)	($43)		($22)		($54,655)	$1,090,464
ACCUMULATED DEPRECIATION	(395,093)	298	4,093		5	(26)			4,370	(390,723)
NET PLANT IN SERVICE	750,026	(4,124)	(45,867)	(208)	(38)	(26)	(22)		(50,285)	699,741
CONSTRUCTION WORK IN PROGRESS	11,979								0	11,979
PROPERTY HELD FOR FUTURE USE	3,306								0	3,306
									0	0
									0	0
NET UTILITY PLANT	765,311	(4,124)	(45,867)	(208)	(38)	(26)	(22)		(50,285)	715,026
WORKING CAPITAL	73,643		(2,133)					(624)	(2,757)	70,886
TOTAL RATE BASE	$838,954	($4,124)	($48,000)	($208)	($38)	($26)	($22)	($624)	($53,042)	$785,912
OPERATING REVENUES	$243,500								$0	$243,500
OPERATING EXPENSES:										
O&M - OTHER	111,323		(522)						(522)	110,801
O&M - INTERCHANGE	(3,907)		4,453						4,453	546
DEPRECIATION & AMORTIZATION	43,213	(150)	(1,587)						(1,737)	41,476
AMORT. OF INVESTMENT CREDIT	(1,741)		97						97	(1,644)
TAXES OTHER THAN INCOME	18,426		(244)						(244)	18,182
INCOME TAXES-CURRENTLY PAYABLE	16,103	56	(790)						(734)	15,369
DEFERRED INCOME TAXES - NET	0								0	0
INVESTMENT TAX CREDIT - NET	0								0	0
TOTAL OPERATING EXPENSES	183,417	(94)	1,407	0	0	0	0	0	1,313	184,730
NET OPERATING INCOME	$60,083	$94	($1,407)	$0	$0	$0	$0	$0	($1,313)	$58,770
ACHIEVED RATE OF RETURN	7.16%								0.32%	7.48%

GULF POWER COMPANY
DOCKET NO. 891345-EI
SEPTEMBER 1989 TEST YEAR
13 MONTH AVERAGE RATE BASE
(000)

	(10) ADJUSTED TOTAL FROM PAGE 1	(11) LOBBYING EXPENSE	(12) TRANSMISSION RENTALS	(13) CUSTOMER SERVICES	(14) SALES	(15) INTEREST RECONCIL-IATION	(16)	(17)	(18) TOTAL ADJUSTMENTS	(19) ADJUSTED TOTAL
PLANT IN SERVICE	$1,090,464								$0	$1,090,464
ACCUMULATED DEPRECIATION	(390,723)								0	(390,723)
NET PLANT IN SERVICE	699,741								0	699,741
CONSTRUCTION WORK IN PROGRESS	11,979								0	11,979
PROPERTY HELD FOR FUTURE USE	3,306								0	3,306
	0								0	0
	0								0	0
NET UTILITY PLANT	715,026								0	715,026
WORKING CAPITAL	70,886								0	70,886
TOTAL RATE BASE	$785,912								$0	$785,912
OPERATING REVENUES	$243,500								$0	$243,500
OPERATING EXPENSES:										
O&M - OTHER	110,801	(291)	(1,787)	(2,596)	(669)				(5,343)	105,458
O&M - INTERCHANGE	546								0	546
DEPRECIATION & AMORTIZATION	41,476								0	41,476
AMORT. OF INVESTMENT CREDIT	(1,644)								0	(1,644)
TAXES OTHER THAN INCOME	18,182								0	18,182
INCOME TAXES-CURRENTLY PAYABLE	15,369	110	672	977	252	710			2,721	18,090
DEFERRED INCOME TAXES - NET	0								0	0
INVESTMENT TAX CREDIT - NET	0								0	0
TOTAL OPERATING EXPENSES	184,730	(181)	(1,115)	(1,619)	(417)	710			(2,622)	182,108
NET OPERATING INCOME	$58,770	$181	$1,115	$1,619	$417	($710)			$2,622	$61,392
ACHIEVED RATE OF RETURN	7.48%								0.33%	7.81%

GULF POWER COMPANY
DOCKET NO. 891345-EI
13 MONTH AVERAGE RATE BASE
EXPLANATION OF ADJUSTMENTS

SCHEDULE 1
Page 3 of 3
INTERIM

07-FEB-90

RATE BASE

COLUMN NO.

(2) - THIS ADJUSTMENT REMOVES THE PLANT SCHERER UNIT 3 ACQUISITION ADJUSTMENT ($6,937,131; A/D $671,515) AND THE ACQUISITION ADJUSTMENT FOR COMMON FACILITIES ($8,680,507; A/D $382,817) FROM RATE BASE AND THE RELATED AMORTIZATION FROM THE INCOME STATEMENT. THE ACQUISITION ADJUSTMENTS AND AMORTIZATION HAVE NOT BEEN APPROVED BY THE COMMISSION.

(3) - THIS ADJUSTMENT REMOVES 63 MW OF PLANT SCHERER UNIT 3 FROM RATE BASE AND THE RELATED EXPENSES FROM THE INCOME STATEMENT.

(4) - THIS ADJUSTMENT REMOVES FROM RATE BASE THE COST OF A SOUTHERN COMPANY SERVICES BUILDING CANCELLED PRIOR TO CONSTRUCTION.

(5) - THIS ADJUSTMENT REMOVES THE UNJUSTIFIED EXCESS COST OF THE BONIFAY AND GRACEVILLE BUILDINGS THAT WAS DISALLOWED IN GULF'S LAST RATE CASE.

(6) - THIS ADJUSTMENT INCREASES ACCUMULATED DEPRECIATION TO CORRECT ERRORS IN DEPRECIATION ON TWO MAJOR PROJECTS.

(7) - THIS ADJUSTMENT REMOVES FROM PLANT-IN-SERVICE AFUDC IMPROPERLY CAPITALIZED BEYOND THE IN-SERVICE DATE OF THE CRIST WAREHOUSE AND NAVAL AIR STATION SUBSTATION UPGRADE.

(8) - THIS ADJUSTMENT REDUCES THE FUEL INVENTORY BY $624,000 ($644,000 SYSTEM) TO CONFORM WITH THE COMMISSION'S GENERIC FUEL INVENTORY POLICY AND REMOVES $2,133,000 ($7,542,000 SYSTEM) ASSOCIATED WITH PLANT SCHERER.

NOI ADJUSTMENTS

(11) - THIS ADJUSTMENT REMOVES FROM O&M EXPENSES LOBBYING EXPENSES IMPROPERLY CHARGED ABOVE-THE-LINE.

(12) - THIS ADJUSTMENT REDUCES O&M EXPENSES FOR PREVIOUSLY DISALLOWED TRANSMISSION LINE RENTALS ASSOCIATED WITH PLANT DANIEL AND TRANSMISSION LINE RENTALS FOR PLANT SCHERER THAT WERE NOT JUSTIFIED BY THE COMPANY.

(13) - THIS ADJUSTMENT REMOVES FROM O&M EXPENSES FORMER ECCR PROGRAMS NOT JUSTIFIED BY THE COMPANY FOR RECOVERY IN BASE RATES.

(14) - THIS ADJUSTMENT REMOVES FROM O&M EXPENSES SALES EXPENSES WHICH WERE SEEN AS UNNECESSARY OR WHICH DUPLICATE EXISTING GULF PROGRAMS.

(15) - THIS ADJUSTMENT IS SIMPLY A MATHEMATICAL CALCULATION BASED ON THE CHANGES IN THE CAPITAL STRUCTURE AS A RESULT OF THE RATE BASE AND CAPITAL STRUCTURE RECONCILIATION.

Gulf Power Company
Docket No. 891345-EI

Schedule 2

Gulf Power Company
13-Month Average Capital Structure
Interim Rate Relief
Test Year Ending 9/30/89
Staff Position

Capital Components	Total Per Books	Direct Adjust-ments	Non-Utility Adjust-ments	Less: Unit Power Sales	Pro Rata Adjust ments	System Adjusted	Juris-dictional Factor	Adjusted Capital Structure	Non-Utility Adjust-ments	Pro Rata Adjust-ments	Staff Adjusted	Ratio	Cost Rate	Wtd. Cost
Long-Term Debt	$496,851	($82,154)	$0	($81,522)	($12,242)	$320,933	97.58861%	$313,194	$0	($19,801)	$293,393	37.33%	8.59%	3.21%
Short-Term Debt	$1,115	$0	$0	$0	($41)	$1,074	97.58861%	$1,048	$0	($66)	$982	0.12%	10.29%	0.01%
Preferred Stock	$69,028	$0	$0	($13,387)	($2,044)	$53,597	97.58861%	$52,304	$0	($3,307)	$48,997	6.23%	7.62%	0.48%
Common Equity	$357,854	($19,434)	($14,858)	($52,590)	($9,956)	$261,016	97.58861%	$254,722	$0	($16,105)	$238,617	30.36%	13.00%	3.95%
Customer Deposits	$15,546	$0	$0	$0	($571)	$14,975	100.00000%	$14,975	$0	($947)	$14,028	1.78%	7.66%	0.14%
Deferred Taxes	$200,428	($27,244)	$0	$0	($6,363)	$166,821	97.58861%	$162,798	$0	($10,293)	$152,505	19.40%	0.00%	0.00%
ITCs - Zero Cost	$1,033	$0	$0	$0	($38)	$995	97.58861%	$971	$0	($61)	$910	0.12%	0.00%	0.00%
ITCs - Wtd. Cost	$50,762	$0	$0	($9,336)	($1,522)	$39,904	97.58861%	$38,942	$0	($2,462)	$36,480	4.64%	10.32%	0.48%
	$1,192,617	($128,832)	($14,858)	($156,835)	($32,778)	$859,314		$838,954	$0	($53,042)	$785,912	100.0%		8.26%

Calculation of JDIC Rate

Capital Components	Adjusted Amount	Ratio	Cost Rate	Wtd. Cost
Common Equity	$254,722	41.07%	13.00%	5.34%
Preferred Stock	$52,304	8.43%	7.62%	0.64%
Long-Term Debt	$313,194	50.50%	8.59%	4.34%
	$620,220	100.00%		10.32%

GULF POWER COMPANY
DOCKET NO. 891345-EI
O & M BENCHMARK VARIANCE BY FUNCTION
1989

SCHEDULE 3
Page 1 of 3

	Steam Production (000)	Other Production (000)	Other Power Supply (000)	Trans. Rents (000)	Trans. Other (000)	Total Trans. (000)	Distribution (000)	Customer Accounts (000)	Customer Service (000)	Sales (000)	Prod Rel Adm.& Gen. (000)	Other Adm. & General (000)	Total Adm.&Gen. (000)	Total (000)
1984 FPSC Allowed O&M Less Direct Fuel, ECCR & Purchased Power-System	$35,502	$81	$1,020	$962	$2,335	$3,297	$7,670	$6,074	$1,505	$0	$3,043	$21,006	$24,049	$79,198
Reconciling Adjustments														
Amort. of Unavailable Oil	(51)													(51)
Capacity Payments	716													716
UPS Allocation Error											342		342	342
Adjusted 1984 FPSC Allowed O&M	36,167	81	1,020	962	2,335	3,297	7,670	6,074	1,505	0	3,385	21,006	24,391	80,205
True-Up of 1984 Comp. Multiplier Adj. to actual CPI-Cust. Growth	0	0	0	0	0.0368 53	53	0.0368 167	0.0368 140	0.0368 33	0.0368 0	0	0.0368 373	373	766
1984 Allowed O&M less Direct Fuel, ECCR & Purchased Power-System	36,167	81	1,020	962	2,388	3,350	7,837	6,214	1,538	0	3,385	21,379	24,764	80,971
Add Plant Daniel Related Adj. Docket 840036-EI				425		425					1,573		1,573	1,998
Former ECCR Programs Moved to Base Rates									2,248			348	348	2,596
Total O&M Base Adjusted for Plant Daniel & Fromer ECCR	36,167	81	1,020	1,387	2,388	3,775	7,837	6,214	3,786	0	4,958	21,727	26,685	85,565
1984 - 9/89 Compound Multiplier	1.1800	1.1800	1.1800	1.1800	1.3890		1.3890	1.3890	1.3890	1.3890	1.1800	1.3890		
Interim O&M Benchmark - System	42,677	96	1,204	1,637	3,317	4,954	10,886	8,631	5,259	0	5,850	30,179	36,029	109,736
Plant Scherer & Associated Trans Line Rents	1,393			1,898	22	1,920					318		318	3,631
Interim Benchmark less Direct Fuel & Pur. Power-System	44,070	96	1,204	3,535	3,339	6,874	10,886	8,631	5,259	0	6,168	30,179	36,347	113,367
Interim Actual O&M less Direct Fuel & Pur. Power-System	52,819	24	1,086	3,139	2,945	6,084	13,907	6,714	5,564	1,677	5,640	31,902	37,542	125,417
NOI O&M Adjustments	0	0	0	0	0	0		642	(1,758)	(852)	0	(2,552)	(2,552)	(4,520)
Interim Actual Adjusted O&M -System	52,819	24	1,086	3,139	2,945	6,084	13,907	7,356	3,806	825	5,640	29,350	34,990	120,897
Benchmark Variance - Adj. System	8,749	(72)	(118)	(396)	(394)	(790)	3,021	(1,275)	(1,453)	825	(528)	(829)	(1,357)	7,530
Staff Adjustments-System	(1,393)	0	0	(2,011)	(22)	(2,033)	0	0	(2,596)	(669)	(318)	(307)	(625)	(7,316)
Unit Power Sales O&M Exp.														(7,154)
Adjusted Variance-System	7,356	(72)	(118)	(2,407)	(416)	(2,823)	3,021	(1,275)	(4,049)	156	(846)	(1,136)	(1,982)	(6,940)

GULF POWER COMPANY
DOCKET NO. 891345-EI

COMPOUND MULTIPLIERS

Year	Total Customers	% Increase	Compound Multiplier	CPI Amount	% Increase	Compound Multiplier	Inflation and Growth Multiplier
1984	239,956		1.00000	1.039335		1.00000	1.0000
1985	253,135	5.492%	1.05492	1.076250	3.552%	1.03552	1.0924
1986	263,646	4.152%	1.09873	1.096917	1.920%	1.05540	1.1596
1987	271,448	2.959%	1.13124	1.137084	3.662%	1.09405	1.2376
1988	277,883	2.371%	1.15806	1.183500	4.082%	1.13871	1.3187
Sept 12 MTD 1989	282,408	1.628%	1.17692	1.226500	3.633%	1.18008	1.3889

TRUE - UP OF BASE YEAR MULTIPLIERS (1979 - 1984), PROJECTED TO ACTUAL*

	Compound Multiplier	Compound Multiplier	Inflation and Growth Multiplier
1984 ACTUAL	1.23006	1.4316	1.7610
1984 PROJECTED	1.20439	1.4316	1.7242
DIFFERENCE	0.0257	0.0000	0.0368

* 1984 ACTUAL CPI WAS 4.3% AND CUSTOMER GROWTH WAS 5.503%.
1984 PROJECTED ASSUMES CPI WAS 4.3% AND CUSTOMER GROWTH WAS 3.31%.

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GULF POWER COMPANY
DOCKET NO. 891345-EI
1989 O & M BENCHMARK VARIANCE BY FUNCTION (SYSTEM)

Issue	Steam Production (000)	Nuclear Production (000)	Other Production (000)	Other Power Supply (000)	Trans-mission (000)	Distribution (000)	Customer Accounts (000)	Customer Service (000)	Sales (000)	Admin. & General (000)	Total (000)
1 Transmission Line Rentals					(2,011)						(2,011)
2 Sales									(669)		(669)
3 Customer Service								(2,596)			(2,596)
4 Lobbying Expenses										(307)	(307)
12 Plant Scherer O&M Exp.	(1,393)				(22)					(318)	(1,733)
											0
											0
											0
											0
											0
											0
											0
											0
											0
											0
											0
											0
											0
											0
TOTAL SYSTEM	(1,393)	0	0	0	(2,033)	0	0	(2,596)	(669)	(625)	(7,316)

07-FEB-90

GULF POWER COMPANY
DOCKET NO. 881167-EI
SEPTEMBER 1989 TEST YEAR
13 MONTH AVERAGE RATE BASE

SCHEDULE 4
INTERIM

	(1) AVERAGE PER COMPANY	(2) AVERAGE STAFF ADJUSTED
JURISDICTIONAL ADJUSTED RATE BASE	$838,954	$785,912
REQUIRED RATE OF RETURN	8.26%	8.26%
REQUIRED NET OPERATING INCOME	69,298	64,916
JURISDICTIONAL ADJUSTED NOI	60,083	61,392
NOI DEFICIENCY/(EXCESS)	9,215	3,524
NOI MULTIPLIER	1.631699	1.631699
REVENUE DEFICIENCY/(EXCESS)	$15,035	$5,751
REQUIRED RETURN ON EQUITY	13.00%	13.00%
ACHIEVED RATE OF RETURN	7.16%	7.81%

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