

MEMORANDUM

June 6, 1990

ORIGINAL  
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TO: DIVISION OF RECORDS AND REPORTING  
FROM: DIVISION OF LEGAL SERVICES (PALECKI) *MP*  
RE: ~~DOCKET NO. 891345-EI~~ - GULF POWER COMPANY

Enclosed for filing please find the original of the Errata Sheet and Amended Cost of Capital figures of Staff Witness Scott Seery in the above docket. This Supplemental Testimony was requested by Commissioner Beard at the Prehearing Conference on May 31, 1990.

MAP:cc  
Attachments  
cc: All Parties of Record

ACK \_\_\_\_\_  
AFA \_\_\_\_\_  
APP \_\_\_\_\_  
CAF \_\_\_\_\_  
CMU \_\_\_\_\_  
CTR 1 \_\_\_\_\_  
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DOCUMENT NUMBER-DATE  
04983 JUN -6 1990  
PSC-RECORDS/REPORTING

ERRATA SHEET

DOCKET NO. 891345-EJ  
 NAME: SCOTT SEERY  
 DATE: 6/4/90

Page	Line	
4	24	12.10% should be 12.25%
12	10	March should be April
13	9	11.00% should be 11.30%
13	23	April should be June
13	24	March should be May
14	9	3.191% should be 3.165%
14	18	April should be May
14	14	8.260% should be 8.475%
14	19	8.260% should be 8.475%
14	20	3.191% should be 3.165%
14	21	11.50% should be 11.65%
15	2	11.00% to 11.50% should be 11.30% to 11.65%
15	7	11.00% should be 11.30%
15	8	11.50% should be 11.65%
16	17	11.00% to 11.50% should be 11.30% to 11.65%
16	18	11.30% to 11.80% should be 11.60% to 11.95%
17	2	12.10% should be 12.25%
21	23	11.00% to 11.50% should be 11.30% to 11.65%
22	2	11.30% to 12.10% should be 11.60% to 12.25%
22	5	12.10% should be 12.25%

**INTEREST RATES**

	<u>Annual Averages</u>			<u>Average April 1990(1)</u>	<u>Third Quarter 1990(2)</u>	<u>Blue Chip Forecast</u>		
	<u>1987(1)</u>	<u>1988(1)</u>	<u>1989(1)</u>			<u>Fourth Quarter 1990(2)</u>	<u>First Quarter 1991(2)</u>	<u>Second Quarter 1991(2)</u>
	Aaa Utility	9.52%	10.05%			9.32%	9.60%	
Aa Utility	9.77%	10.26%	9.56%	9.81%				
A Utility	10.10%	10.49%	9.77%	9.92%	9.90%	9.80%	9.70%	9.70%
Baa Utility	10.53%	11.00%	9.97%	10.13%				
Prime Rate	8.10%	9.44%	10.83%	10.00%	10.00%	9.90%	9.90%	9.90%
Commercial Paper (30 day)	6.70%	7.72%	9.05%	8.32%	8.20%	8.10%	8.10%	8.10%
Long Term Treasury Yield	8.70%	9.04%	8.51%	8.74%	8.60%	8.50%	8.40%	8.40%

**INFLATION RATES(3)**

	<u>Annual Averages</u>			<u>Latest Actual(2) 4/27/90</u>	<u>Third Quarter 1990(2)</u>	<u>Blue Chip Forecast</u>		
	<u>1987(4)</u>	<u>1988(4)</u>	<u>1989(4)</u>			<u>Fourth Quarter 1990(2)</u>	<u>First Quarter 1991(2)</u>	<u>Second Quarter 1991(2)</u>
	Consumer Price Index	3.70%	4.10%			4.80%	8.20%	4.10%
GNP Deflator	3.30%	3.40%	4.20%	5.70%	4.00%	4.00%	4.10%	4.00%

**STOCK MARKET PERFORMANCE**

	<u>12/31/88</u>	<u>12/29/89</u>	<u>Percent Change</u>	<u>5/30/90</u>	<u>Percent Change(5)</u>
S & P 500	277.72	353.4	27.25%	360.86	2.11%
Dow Jones Industrial Average	2168.57	2753.2	26.96%	2878.56	4.55%
Dow Jones Utility Average	186.28	235.04	26.18%	212.15	-9.74%

(1) Moody's Bond Survey, 5/21/90

(2) Blue Chip Financial Forecasts, May 1, 1990

(3) % change from prior years

(4) Value Line, 4/20/90

(5) Not annualized, percent change since the beginning of the year

(6) Wall Street Journal, 5/30/90

Two-Stage, Annually Compounded  
 Discounted Cash Flow Analysis

COMPANY	***EXPECTED DIVIDENDS***				EXPECTED		EXPECTED	AVERAGE
	1990	1991	1992	1993	EPS	ROE	DIVIDEND GROWTH	STOCK PRICE
ALLEGHENY POWER	3.20	3.30	3.40	3.50	4.60	13.50	1.0323	38.000
BALTIMORE G&E	2.18	2.33	2.48	2.65	3.90	13.50	1.0433	29.375
CONS. EDISON	1.82	1.91	2.00	2.10	2.90	13.50	1.0372	25.125
DUKE POWER	3.20	3.38	3.56	3.76	5.85	13.00	1.0464	53.875
IOWA ILL. G&E	3.34	3.39	3.45	3.50	4.50	12.50	1.0278	43.188
IPALCO	1.80	1.88	1.96	2.05	2.75	12.50	1.0318	24.313
KANSAS P&L	1.80	1.85	1.90	1.95	2.75	13.50	1.0393	22.250
NORTHERN STS.	2.28	2.38	2.49	2.60	3.75	13.50	1.0414	34.625
OKLAHOMA G&E	2.51	2.60	2.70	2.80	3.50	15.00	1.0300	34.625
ORANGE & ROCK	2.35	2.45	2.55	2.65	3.80	13.00	1.0393	30.000
SCE	2.62	2.73	2.84	2.95	4.15	14.00	1.0405	36.750
SOUTHWEST P.S.	2.20	2.28	2.36	2.45	2.75	15.00	1.0164	28.438
TECO	<u>1.61</u>	<u>1.70</u>	<u>1.80</u>	<u>1.90</u>	<u>2.80</u>	<u>14.50</u>	<u>1.0466</u>	<u>28.250</u>
Average Dividend	<u>2.38</u>	<u>2.48</u>	<u>2.58</u>	<u>2.68</u>	<u>3.69</u>	<u>13.62</u>	<u>1.0363</u>	<u>33.9856</u>

The cost of equity is calculated using a Two-Stage, Annually Compounded Discounted Cash Flow Model:

$$P_0 * (1-fc) = \sum_{t=1}^n \frac{D_t}{(1+k)^t} + \frac{(D_n * (1+g_n)) / (k-g_n) * (1/(1+k))^n}{1}$$

Solving the above equation for k using:  $P_0 = \$32.9856$ ,  $fc = 3\%$ , and  $n = 4$

Provides a cost of common equity of: 11.285%

1. Data obtained or calculated from information provided in Value Line Ratings and Reports, Ed. 1, 3/23/90, Ed. 5, 4/20/90, and Ed. 11, 3/2/90.
2. The average stock price is the average of the high and low stock price for April 1990, S&P Stock Guide, May 1990.

RISK PREMIUM COST OF EQUITY

$K_e = \text{Risk Premium} + \text{Expected Risk-Free Rate} + \text{Bond Yield Differential}$

$$K_e = 3.165 + 8.475$$

$$K_e = \underline{11.65\%} \text{ (Rounded)}$$

Note

1. The expected risk-free rate is the forecasted long-term treasury yield obtained from "Blue Chip Financial Forecast", June 1, 1990.
2. The bond yield differential is based upon the difference between Aa2 and A2 bonds.

ESTIMATED MONTHLY RISK PREMIUMS  
 AA/Aa ELECTRIC UTILITY INDEX  
 JUNE 1980 - MAY 1990

YEAR	MONTH	Cost of Equity Electric	Risk Free Rate	Risk Premium	
1980	JUN	15.912	10.150	5.762	
	JUL	15.475	9.740	5.735	
	AUG	15.735	10.200	5.535	
	SEP	16.375	10.940	5.435	
	OCT	16.314	11.360	4.954	
	NOV	16.923	11.630	5.293	
	DEC	17.492	12.300	5.192	
	1981	JAN	17.354	12.350	5.004
		FEB	17.180	12.050	5.130
		MAR	17.805	12.680	5.125
		APR	17.572	12.590	4.982
		MAY	17.630	13.080	4.550
JUN		17.793	13.440	4.353	
JUL		16.890	12.820	4.070	
AUG		17.095	13.490	3.605	
SEP		16.845	14.050	2.795	
OCT		17.280	14.590	2.690	
NOV		17.220	14.590	2.630	
DEC		16.513	13.080	3.433	
1982	JAN	16.450	13.280	3.170	
	FEB	16.750	14.160	2.590	
	MAR	16.546	14.070	2.476	
	APR	15.817	13.370	2.447	
	MAY	15.627	13.240	2.387	
	JUN	15.650	13.050	2.600	
	JUL	16.030	13.750	2.280	
	AUG	16.263	13.400	2.863	
	SEP	15.865	12.540	3.325	
	OCT	15.302	11.860	3.442	
	NOV	15.058	10.840	4.218	
	DEC	15.354	10.460	4.894	
1983	JAN	15.584	10.600	4.984	
	FEB	15.287	10.640	4.647	
	MAR	15.350	10.890	4.460	
	APR	14.880	10.650	4.230	
	MAY	14.946	10.490	4.456	
	JUN	14.860	10.520	4.340	
	JUL	14.846	10.950	3.896	
	AUG	15.080	11.440	3.640	
	SEP	15.133	11.780	3.353	

ESTIMATED MONTHLY RISK PREMIUMS

YEAR	MONTH	Cost of Equity Electric	Risk Free Rate	Risk Premium
1984	OCT	14.723	11.620	3.103
	NOV	14.230	11.550	2.680
	DEC	13.970	11.680	2.290
	JAN	14.220	11.810	2.410
	FEB	14.385	11.650	2.735
	MAR	14.764	11.810	2.954
	APR	14.860	12.280	2.580
	MAY	14.970	12.580	2.390
	JUN	15.048	13.320	1.728
	JUL	15.330	13.430	1.900
	AUG	15.198	13.240	1.958
	SEP	14.895	12.630	2.265
1985	OCT	14.490	12.340	2.150
	NOV	14.027	12.000	2.027
	DEC	14.058	11.550	2.508
	JAN	13.984	11.510	2.474
	FEB	13.898	11.460	2.438
	MAR	14.050	11.560	2.490
	APR	13.902	11.920	1.982
	MAY	13.522	11.550	1.972
	JUN	13.360	11.080	2.280
	JUL	13.056	10.480	2.576
	AUG	13.340	10.620	2.720
	SEP	13.836	10.700	3.136
1986	OCT	13.832	10.780	3.052
	NOV	13.784	10.660	3.124
	DEC	13.484	10.190	3.294
	JAN	12.926	9.680	3.246
	FEB	12.810	9.590	3.220
	MAR	12.405	9.260	3.145
	APR	11.934	8.150	3.784
	MAY	11.975	7.580	4.395
	JUN	11.877	8.130	3.747
	JUL	11.632	8.270	3.362
	AUG	11.036	7.880	3.156
	SEP	10.683	7.740	2.943
1987	OCT	10.998	8.100	2.898
	NOV	11.094	8.060	3.034
	DEC	10.968	7.820	3.148
	JAN	10.731	7.660	3.071
	FEB	10.649	7.620	3.029
	MAR	10.798	7.710	3.088
	APR	11.000	7.640	3.360
	MAY	11.652	8.350	3.302
	JUN	11.668	8.850	2.818
	JUL	11.378	8.670	2.708

**ESTIMATED MONTHLY RISK PREMIUMS**

YEAR	MONTH	Cost of Equity Electric	Risk Free Rate	Risk Premium	
1988	AUG	11.515	8.770	2.745	
	SEP	11.453	9.060	2.393	
	OCT	11.477	9.670	1.807	
	NOV	11.925	9.730	2.195	
	DEC	11.787	9.100	2.687	
	JAN	12.000	9.230	2.770	
	FEB	11.692	8.930	2.762	
	MAR	11.435	8.480	2.955	
	APR	11.632	8.640	2.992	
	MAY	11.918	8.970	2.948	
	JUN	11.932	9.300	2.632	
	JUL	11.486	9.110	2.376	
1989	AUG	11.774	9.280	2.494	
	SEP	11.907	9.420	2.487	
	OCT	11.820	9.140	2.680	
	NOV	11.690	8.960	2.730	
	DEC	11.790	9.090	2.700	
	JAN	11.710	9.100	2.610	
	FEB	11.785	9.050	2.735	
	MAR	11.964	9.150	2.814	
	APR	11.822	9.310	2.512	
	MAY	11.792	9.170	2.622	
	JUNE	11.572	8.930	2.642	
	JUL	11.150	8.370	2.780	
1990	AUG	11.038	8.160	2.878	
	SEPT	11.003	8.230	2.773	
	OCT	11.118	8.290	2.828	
	NOV	11.255	8.120	3.135	
	DEC	11.036	8.000	3.036	
	JAN	10.696	8.000	2.696	
	FEB	10.936	8.370	2.566	
	MAR	11.162	8.630	2.532	
	APR	10.996	8.730	2.313	
	MAY	11.285	8.920	2.365	
	<b>AVERAGE</b>				<b>3.165</b>



## BOND YIELD DIFFERENTIALS

Moody's Bond Survey/Public Utility Bond Yield Averages

YEAR	MONTH	Aa2	SPREAD	Aa3	SPREAD	A1	SPREAD	A2	SPREAD	A3	SPREAD	Baa1	SPREAD	Baa2
	APR	9.81	0.04	9.85	0.04	9.88	0.04	9.92	0.07	9.99	0.07	10.06	0.07	10.13
	MAR	9.6	0.08	9.68	0.08	9.77	0.08	9.85	0.07	9.92	0.07	9.99	0.07	10.06
	FEB	9.57	0.06	9.63	0.06	9.70	0.06	9.76	0.07	9.83	0.07	9.89	0.07	9.96
1990	JAN	9.39	0.06	9.45	0.06	9.50	0.06	9.56	0.06	9.62	0.06	9.68	0.06	9.74
	DEC	9.26	0.06	9.32	0.06	9.38	0.06	9.44	0.05	9.49	0.05	9.55	0.05	9.60
	NOV	9.25	0.09	9.34	0.09	9.42	0.09	9.51	0.04	9.55	0.04	9.60	0.04	9.64
	OCT	9.28	0.09	9.37	0.09	9.45	0.09	9.54	0.03	9.57	0.03	9.61	0.03	9.64
	SEP	9.35	0.08	9.43	0.08	9.50	0.08	9.58	0.04	9.62	0.04	9.66	0.04	9.70
	AUG	9.27	0.08	9.35	0.08	9.44	0.08	9.52	0.04	9.56	0.04	9.60	0.04	9.64
	JUL	9.23	0.09	9.32	0.09	9.41	0.09	9.50	0.05	9.55	0.05	9.59	0.05	9.64
	JUN	9.37	0.09	9.46	0.09	9.55	0.09	9.64	0.05	9.69	0.05	9.75	0.05	9.80
	MAY	9.79	0.07	9.86	0.07	9.92	0.07	9.99	0.10	10.09	0.10	10.19	0.10	10.29
	APR	10.02	0.05	10.07	0.05	10.13	0.05	10.18	0.10	10.28	0.10	10.39	0.10	10.49
	MAR	10.05	0.06	10.11	0.06	10.17	0.06	10.23	0.09	10.32	0.09	10.41	0.09	10.50
	FEB	9.93	0.05	9.98	0.05	10.02	0.05	10.07	0.10	10.17	0.10	10.28	0.10	10.38
1989	JAN	9.89	0.06	9.95	0.06	10.02	0.06	10.08	0.10	10.18	0.10	10.28	0.10	10.38
	DEC	9.90	0.05	9.95	0.05	10.01	0.05	10.06	0.13	10.19	0.13	10.31	0.13	10.44
	NOV	9.79	0.06	9.85	0.06	9.91	0.06	9.97	0.11	10.08	0.11	10.20	0.11	10.31
	OCT	9.80	0.03	9.83	0.03	9.87	0.03	9.90	0.15	10.05	0.15	10.20	0.15	10.35
	SEP	10.34	0.09	10.43	0.09	10.52	0.09	10.61	0.17	10.78	0.17	10.96	0.17	11.13
	AUG	10.85	0.11	10.96	0.11	11.06	0.11	11.17	0.17	11.34	0.17	11.52	0.17	11.69
	JUL	10.76	0.09	10.85	0.09	10.95	0.09	11.04	0.16	11.20	0.16	11.36	0.16	11.52
	JUN	10.52	0.09	10.61	0.09	10.70	0.09	10.79	0.16	10.95	0.16	11.11	0.16	11.27
	MAY	10.53	0.09	10.62	0.09	10.72	0.09	10.81	0.19	11.00	0.19	11.19	0.19	11.38
	APR	10.29	0.08	10.37	0.08	10.46	0.08	10.54	0.23	10.77	0.23	11.00	0.23	11.23
	MAR	9.92	0.06	9.98	0.06	10.03	0.06	10.09	0.20	10.29	0.20	10.49	0.20	10.69
	FEB	9.91	0.06	9.97	0.06	10.04	0.06	10.10	0.18	10.28	0.18	10.47	0.18	10.65
1988	JAN	10.52	0.08	10.60	0.08	10.68	0.08	10.76	0.19	10.95	0.19	11.15	0.19	11.34
	DEC	10.78	0.07	10.85	0.07	10.91	0.07	10.98	0.19	11.17	0.19	11.36	0.19	11.55
	NOV	10.62	0.07	10.69	0.07	10.75	0.07	10.82	0.19	11.01	0.19	11.21	0.19	11.40
	OCT	11.11	0.08	11.19	0.08	11.26	0.08	11.34	0.19	11.53	0.19	11.72	0.19	11.91
	SEP	10.66	0.19	10.85	0.19	11.03	0.19	11.22	0.12	11.34	0.12	11.46	0.12	11.58
	AUG	10.05	0.13	10.18	0.13	10.32	0.13	10.45	0.15	10.60	0.15	10.75	0.15	10.90
	JUL	9.70	0.15	9.85	0.15	10.00	0.15	10.15	0.16	10.31	0.16	10.46	0.16	10.62
	JUN	9.61	0.14	9.75	0.14	9.88	0.14	10.02	0.15	10.17	0.15	10.31	0.15	10.46
	MAY	9.63	0.09	9.72	0.09	9.82	0.09	9.91	0.16	10.07	0.16	10.24	0.16	10.40
	APR	9.15	0.08	9.23	0.08	9.30	0.08	9.38	0.16	9.54	0.16	9.69	0.16	9.85
	MAR	8.64	0.10	8.74	0.10	8.83	0.10	8.93	0.09	9.02	0.09	9.10	0.09	9.19
	FEB	8.69	0.10	8.79	0.10	8.90	0.10	9.00	0.08	9.08	0.08	9.16	0.08	9.24
1987	JAN	8.62	0.11	8.73	0.11	8.84	0.11	8.95	0.11	9.06	0.11	9.16	0.11	9.27
	DEC	8.81	0.10	8.91	0.10	9.02	0.10	9.12	0.12	9.24	0.12	9.37	0.12	9.49
	NOV	9.01	0.09	9.10	0.09	9.19	0.09	9.28	0.14	9.42	0.14	9.55	0.14	9.69
	OCT	9.24	0.09	9.33	0.09	9.43	0.09	9.52	0.14	9.66	0.14	9.81	0.14	9.95
	SEP	9.28	0.08	9.36	0.08	9.44	0.08	9.52	0.15	9.67	0.15	9.81	0.15	9.96
	AUG	9.03	0.09	9.12	0.09	9.20	0.09	9.29	0.14	9.43	0.14	9.56	0.14	9.70
	JUL	9.05	0.11	9.16	0.11	9.26	0.11	9.37	0.11	9.48	0.11	9.58	0.11	9.69
	JUN	9.36	0.09	9.45	0.09	9.53	0.09	9.62	0.14	9.76	0.14	9.89	0.14	10.03
	MAY	9.38	0.07	9.45	0.07	9.52	0.07	9.59	0.14	9.73	0.14	9.88	0.14	10.02
	APR	8.87	0.09	8.96	0.09	9.05	0.09	9.14	0.16	9.30	0.16	9.47	0.16	9.63
	MAR	9.16	0.11	9.27	0.11	9.37	0.11	9.48	0.14	9.62	0.14	9.77	0.14	9.91
	FEB	9.98	0.09	10.07	0.09	10.17	0.09	10.26	0.16	10.42	0.16	10.58	0.16	10.74
1986	JAN	10.44	0.12	10.56	0.12	10.67	0.12	10.79	0.15	10.94	0.15	11.09	0.15	11.24
	DEC	10.57	0.13	10.70	0.13	10.84	0.13	10.97	0.17	11.14	0.17	11.31	0.17	11.48
	NOV	11.10	0.13	11.23	0.13	11.36	0.13	11.49	0.18	11.67	0.18	11.86	0.18	12.04
	OCT	11.61	0.13	11.74	0.13	11.88	0.13	12.01	0.17	12.18	0.17	12.35	0.17	12.52
	SEP	11.68	0.15	11.83	0.15	11.98	0.15	12.13	0.20	12.33	0.20	12.52	0.20	12.72
	AUG	11.65	0.16	11.81	0.16	11.97	0.16	12.13	0.20	12.33	0.20	12.53	0.20	12.73
	JUL	11.55	0.17	11.72	0.17	11.90	0.17	12.07	0.21	12.28	0.21	12.49	0.21	12.70
	JUN	11.68	0.15	11.83	0.15	11.98	0.15	12.13	0.18	12.31	0.18	12.48	0.18	12.66
	MAY	12.65	0.16	12.81	0.16	12.96	0.16	13.12	0.17	13.29	0.17	13.45	0.17	13.62
		Aa2	SPREAD	Aa3	SPREAD	A1	SPREAD	A2	SPREAD	A3	SPREAD	Baa1	SPREAD	Baa2
	AVERAGE		0.094		0.094		0.094		0.134		0.134		0.134	

**Comparison of Gulf Power Company's Overall Cost of Capital  
 and Tie Ratio for Given Equity Ratios and Cost Rates**

**39.85% Equity (1), 12.25% Allowed Return on Equity**

**Gulf Power Company  
 Test Year Ended 12/31/90**

	Company Total <u>Per Books</u>	% of <u>Total</u>	<u>Cost</u>	Weighted <u>Cost</u>	Pre-Tax Weighted <u>Cost</u>
Short-Term Debt	\$4,432	0.37%	8.00%	0.03%	0.03%
Long-Term Debt	\$481,823	40.50%	8.72%	3.53%	3.53%
Common Equity	\$367,404	30.88%	12.25%	3.78%	6.07%
Preferred Stock	\$67,432	5.67%	7.75%	0.44%	0.70%
Customer Deposits	\$15,775	1.33%	7.65%	0.10%	0.10%
Inv. Tax Credits - Zero Cost	\$858	0.07%	0.00%	0.00%	0.00%
Inv. Tax Credits - Wtd. Cost	\$48,068	4.04%	10.00%	0.40%	0.65%
<u>Deferred Taxes</u>	<u>\$203,823</u>	<u>17.13%</u>	<u>0.00%</u>	<u>0.00%</u>	<u>0.00%</u>
	\$1,189,515	100.00%		8.29%	11.08%
				TIE Ratio	<u>3.03</u>

**43.28% Equity (1), 11.80% Allowed Return on Equity**

**Gulf Power Company  
 Test Year Ended 12/31/90**

	Company Total <u>Per Books</u>	% of <u>Total</u>	<u>Cost</u>	Weighted <u>Cost</u>	Pre-Tax Weighted <u>Cost</u>
Short-Term Debt	\$29,659	2.49%	8.00%	0.20%	0.20%
Long-Term Debt	\$431,439	36.27%	8.72%	3.16%	3.16%
Common Equity	\$398,648	33.51%	11.80%	3.95%	6.34%
Preferred Stock	\$61,345	5.16%	7.75%	0.40%	0.64%
Customer Deposits	\$15,775	1.33%	7.65%	0.10%	0.10%
Inv. Tax Credits - Zero Cost	\$858	0.07%	0.00%	0.00%	0.00%
Inv. Tax Credits - Wtd. Cost	\$48,068	4.04%	9.96%	0.40%	0.65%
<u>Deferred Taxes</u>	<u>\$203,823</u>	<u>17.13%</u>	<u>0.00%</u>	<u>0.00%</u>	<u>0.00%</u>
	\$1,189,615	100.00%		8.22%	11.09%
				TIE Ratio	<u>3.20</u>

(1) Equity as a percent of total investor sources of capital.

Summary of Cost of Equity Analysis

	DCF Analysis	Risk Premium Analysis
Cost of Equity for AA Electric Utility Index	11.30%	11.65%
Risk Adjustment - Bond Yield Differential to Move to an A rated Electric Utility	.30%	.30%
Cost of Equity for A Rated Electric Utility	11.60%	11.95%
Recommended return on Common Equity for Gulf Power Company	12.25%	