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BEFORE THE

FLORIDA PUBLIC SERVICE COMMISSION

In The Matter of	DOCKET NO. 891345-EI
Application of GULF POWER COMPANY for an increase in rates and charges.	HEARING SEVENTH DAY ATERNOON SESSION

VOLUME - XV

Pages 2184 through 2319

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JUN 19 1990

Florida Public Service Commission

FPSC Hearing Room 106
Fletcher Building
101 E. Gaines Street
Tallahassee, Florida 32399

Tuesday June 19, 1990

Met pursuant to adjournment at 12:37 p.m.

BEFORE: COMMISSIONER MICHAEL McK. WILSON, CHAIRMAN
COMMISSIONER GERALD L. GUNTER
COMMISSIONER THOMAS M. BEARD
COMMISSIONER BETTY EASLEY

APPEARANCES:

(As heretofore noted.)

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DOCUMENT NO.
05421-90
6-19-90

I N D E X

WITNESSES

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EXHIBITS

P R O C E E D I N G S

(Hearing convened at 12:37 p.m.)

MR. BURGESS: Chairman Wilson, we had finished with Mr. Wright, as I recall, and we were getting ready to go to our next witness. We have three witnesses that I anticipate perhaps finishing today. Mr. Larkin, Mr. Schultz and Mr. Rosen. Mr. Rosen has a commitment tomorrow. I would like to, if at all possible, to be able to finish him today.

Mr. Larkin has a commitment the following day that he would like to be able to get back to his office to prepare for, and Mr. Schultz has the most flexible schedule of our three witnesses.

Because of that, I would like to be able to take Mr. Larkin first, followed by Mr. Rosen, followed by Mr. Schultz.

I've notified Mr. Holland of my intention and I've notified Mr. Vandiver of my intention. Also, in a off-the-record conversation, Major Enders also became aware of this intention, so rather than speak for them I would just ask the Commission for the opportunity to take my witnesses in that order and let the parties speak their acquiesence or objection.

MR. HOLLAND: Mr. Chairman, I was notified or I was requested about 10:00 this morning. We had prepared the cross examination in a particular order. It is somewhat cumbersome and awkward to have to go back and readvise. I have done that in the short period of time between 10:00 o'clock and now.

Yesterday we were ready to go forward with a certain order and we had to delay that and bring some other people in, which made it very awkward for us and again today. Given all that, though I am prepared to go forward with Mr. Larkin with cross examination, and I would announce -- and part of the reason that I'm not opposing this any more strenuously than I am is that Mr. Bell, one of our rebuttal witnesses, has to go on on Thursday. But I'm announcing it a little bit ahead of time so everybody can be prepared for him.

MR. BURGESS: I appreciate Mr. -- Oh, I'm sorry.

MR. HOLLAND: I'm through.

CHAIRMAN WILSON: Anybody else have anything to say about this?

MR. VANDIVER: Mr. Burgess called me last night; I said I have no objection. I have no objection. I would note however that the witnesses generally are here for the convenience of the Commission, and not the other way around.

COMMISSIONER BEARD: I very carefully in the prehearing asked this question, okay, and I understand that there was a missed date given, but for when the correction was given. I didn't get it because I went back to my prehearing order, it still contained the same date; that's all well and good, I understand this, but as one prehearing officer, the next time I ask the question, you all better get the answer right the first time.

MR. BURGESS: I understand that, Commissioner Beard; and, in fact, even now if you said -- the Commission were to rule that it couldn't be done and they had to stick around, they would be here. They would be here; they are under contract with us and they would be here.

CHAIRMAN WILSON: Are there any other things that --

MR. BURGESS: No. None that I have.

CHAIRMAN WILSON: -- that anybody else has?

COMMISSIONER EASLEY: How about on the rebuttal side, when we get there?

MR. HOLLAND: Mr. Bell is the only one. I think that we will be along and he can be taken in order, but I'm not certain of that. I hope that that's the case but he does have a commitment on Friday.

COMMISSIONER EASLEY: Whatever we are going to do, let's do it.

COMMISSIONER BEARD: I've got a commitment on Saturday to fix the fence. So we really need to boogie.

MR. BURGESS: That's fine with me.

CHAIRMAN WILSON: All right. Call your witness.

MR. BURGESS: Yes. Mr. Larkin.

MR. PALECKI: Commissioners, we had an evidentiary matter concerning a late-filed for Mr. O'Sheasy, which was the last thing we discussed last night; and we were instructed to call it to your attention again today. Should we carry on with that now or should --

CHAIRMAN WILSON: That was the rerun of the cost of service study?

MR. PALECKI: That is correct.

CHAIRMAN WILSON: Are you still asking for that exhibit?

MR. PALECKI: Yes, we would still request it, based on the reasons that we stated yesterday. (Pause)

MR. BURGESS: Commissioner Wilson, I don't believe this witness has been sworn.

CHAIRMAN WILSON: Wait, I still need to rule --

MR. BURGESS: Oh, I apologize. I thought --

CHAIRMAN WILSON: -- on that late-filed exhibit.

I tell you, Mr. Palecki, I'm still in the position that I haven't really been convinced that it's worth the time and effort it would take to do that for the benefit we're going to get from it, quite frankly.

MR. PALECKI: Commissioners, we still have some rate of return witnesses from the other parties. Perhaps the testimony that comes out through those rate of return witnesses will accent the need for this even further.

CHAIRMAN WILSON: You mean rate structure?

MR. PALECKI: Rate structure.

CHAIRMAN WILSON: All right, you can renew the request.

MR. PALECKI: Thank you.

CHAIRMAN WILSON: Mr. Larkin, have you been sworn?

MR. LARKIN: No, sir.

HUGH LARKIN, JR.

appeared as a witness on behalf of the Citizens of the State of Florida, and after being first duly sworn, testified as follows:

DIRECT EXAMINATION

BY MR. BURGESS:

Q Please state your name and business address, please?

A My name is Hugh Larkin, Jr. My business address is 15728 Farmington Road, Lavonia, Michigan, 48154.

Q Mr. Larkin, have you prefiled testimony in this docket?

A Yes.

Q Do you have any corrections or amendments to make to that testimony?

A Yes. They have been made in revised exhibits to my testimony.

MR. BURGESS: Commissioners, we have provided the court reporter with a clean copy of the testimony with all the changes, and we have handed out to all the parties and the Commission the exhibits that have been revised.

Q (By Mr. Burgess) Mr. Larkin, can you point out the changes that have been made in the exhibits that have been handed out.

A Sure. Six of the exhibits have been revised to reflect errors or corrections of calculations.

That would be Exhibit HL-1, HL-2, HL-8, HL-10, HL-11, and HL-12. And the results of those is to decrease the decrease that we had originally recommended from a decrease of 11,791,000 to 8,625,000.

Q Mr. Larkin, with the changes that you have identified, would your testimony today be the same as it was prefiled?

A Yes.

MR. PURGESS: Commissioner, I would ask that the testimony prefiled by Mr. Larkin be inserted into the record as though read.

CHAIRMAN WILSON: Without objection, it will be so inserted into the record.

MR. BURGESS: And I believe, unless I miscounted, that Mr. Larkin has exhibits which have been previously identified as 319 through 330 and I believe they have been stipulated for entry into the record.

CHAIRMAN WILSON: All right.

(Exhibits Nos. 319 through 330 inclusive stipulated into evidence.)

MR. BURGESS: We don't -- we're not suggesting that Mr. Larkin provide the Commission with a summary. As is the normal case with accounting witnesses that cover a large number of issues, each of the adjustments stands on its own for its own rationale. And rather than go through and identify each adjustment, we would simply suggest that the witness stands ready for cross examination.

DIRECT TESTIMONY OF HUGH LARKIN, JR.
ON BEHALF OF THE CITIZENS OF FLORIDA
BEFORE THE
FLORIDA PUBLIC SERVICE COMMISSION
GULF POWER COMPANY
DOCKET NO. 891345-EI

INTRODUCTION

Q. WHAT IS YOUR NAME, OCCUPATION, AND BUSINESS ADDRESS?

A. My name is Hugh Larkin, Jr. I am a Certified Public Accountant licensed in the States of Michigan, Alaska, and Florida and the senior partner in the firm of Larkin & Associates, Certified Public Accountants, with offices at 15728 Farmington Road, Livonia, Michigan 48154.

Q. HAVE YOU PREPARED AN APPENDIX DESCRIBING YOUR QUALIFICATIONS AND EXPERIENCE?

A. Yes. I have attached Appendix I which is a summary of my experience and qualifications.

Q. BY WHOM WERE YOU RETAINED AND WHAT IS THE PURPOSE OF YOUR TESTIMONY?

A. My firm was retained by the Florida Public Counsel to review the rate increase request made by Gulf Power Company ("Gulf", or "Company"). I have reviewed the Company's filing as it related to various accounting and revenue requirement issues. Helmuth W. Schultz III has assisted in the Gulf Power Company rate request analysis and has also filed testimony in this docket.

<u>Conclusions on Gulf's Rate Increase Request</u>

Q. WOULD YOU PLEASE SUMMARIZE YOUR FIRM'S CONCLUSIONS REGARDING THE COMPANY'S RATE INCREASE REQUEST?

A. I have concluded that the Gulf Power Company has overstated its revenue increase request. In fact, a rate reduction of $8,625,000 is justified. Our analysis which incorporates the recommendations of Dr. Richard Rosen and Mr. James Rothschild has indicated that the Company has overstated its requirements in almost every area of the rate filing. The rate base has been overstated in several areas. If authorized by the Commission at the level requested by the Company, it will result in excess earnings to Gulf Power and its major stockholder, the Southern Company. If the Commission were to authorize the rate level requested by Gulf Power, ratepayers would be required to pay excessive rates which would not be justified by legitimate expenses which should be included for ratemaking purposes.

Q. PLEASE INDICATE THE MAJOR AREAS WHERE GULF POWER'S REVENUE REQUEST IS OVERSTATED.

A. The Company has overstated the rate base in several areas. Plant in service has been overstated. Additionally, Dr. Richard Rosen will testify that the Company's rate base allocation for unit power sales is understated. Additional plant and expenses should be allocated to the Company's unit power sales.

I have also concluded that the Company's requests for plant held for future use and working capital are overstated. These items should be reduced for purposes of establishing rates in this case.

In the area of operating income, Dr. Rosen has concluded that the Company's projection of retail sales is understated and should be adjusted. Mr. Schultz's review of the budgeted expenses has led us to the conclusion that expenses must be reduced in order to establish rates at a proper level.

Exhibit 311 (HL-1) shows the revenue requirement after adjustment for the issues that I have summarized. This schedule indicates that rates should be reduced by $8,625,000.

Q. HOW WILL YOUR TESTIMONY BE ORGANIZED?

A. My testimony will be organized in the following manner:

1. Rate Base Adjustments
2. Unit Power Sales Adjustments
3. Retail Sales Adjustment
4. Depreciation and Amortization Expense
5. Interest Synchronization
6. Income Taxes

RATE BASE

Q. WHAT IS THE FIRST AREA OF THE COMPANY'S FILING THAT YOU WILL BE DISCUSSING?

A. The first section of my testimony deals with the projected rate base. The rate base adjustments which I have made are summarized on Exhibit 320 (HL-2), and result in a recommended jurisdictional rate base of $842,452,000.

Plant in Service

Q. PLEASE DISCUSS THOSE ADJUSTMENTS YOU HAVE MADE TO PLANT IN SERVICE.

A. The Company's approach to determining the plant in service, which is the major component of the rate base, was to project the budgeted additions to plant in service from August 1989 through December 31, 1990. The Company's projections are overstated. Gulf projected additions to plant in service which have not taken place. Actual data is available for the first three months used in determining the thirteen month average plant in service. A comparison of the Company's projected plant in service with actual balances indicates that there have been overstatements of plant in service. In the month of December 1989 the plant in service was overprojected by $4,659,000. In January 1990 the plant in service balance was overprojected by $7,172,000. In February 1990 the plant in service balance was overprojected by $9,083,000. Although the data for the month of March 1990 was not available for use in our analysis, it indicated that the Company's projected March 1990 plant in service balance was overstated by $11,753,000.

Mr. Scarbrough stated in his deposition in Case 881167-EI which was withdrawn last year that while it was correct that the actual balances are less than the Company's projected balances, it was the Company's intention to catch-up at some point in the year. That never occurred. The Company's projected plant in service balance was overstated for every month of 1989 and is overstated for the first three months of 1990. In fact, the 13-month average balance for 1989 was overstated by $26,968,000. The Commission cannot accept the Company's projections since they have been consistently overstated.

Q. HOW HAVE YOU DETERMINED THE PLANT IN SERVICE BALANCES AS SHOWN ON EXHIBIT J21 (HL-3)?

A. I used the actual balances for the first three months of the test year ending December 31, 1990. I projected the remaining months of the test year, i.e., March 1990 through December 1990, using a linear regression analysis. This analysis used the actual plant balances for all of 1988, 1989 and the actual balances for January and February of 1990. Since there are no major plant additions projected for the year 1990, this method will result in a more accurate projection of the Company's plant in service than that used by the Company in its presentation. Since this docket will be open for a substantial part of the year, the Commission can substitute actual balances of plant in service into my analysis in order to determine a more accurate plant balance as 1990 progresses. However, I do not believe it would be appropriate to use the Company's inaccurate projections in order to establish rates in this case. There is a definite overstatement in the Company's projection which will result in the overstatement of rates. I have reduced the Company's plant in service by $11,458,000 as shown on line 17 of Exhibit 321(HL-3). This amount is reflected on Exhibit 326(HL-8), line 13 under the adjustments proposed by Public Counsel.

Provision for Depreciation

Q. HOW HAVE YOU DETERMINED THE PROVISION FOR DEPRECIATION AND AMORTIZATION FOR USE IN THIS CASE?

A. For the first three months of the thirteen month average (December 1989 to February 1990), I used the actual reserve balance as it appears on the books and records of the Company. These balances are shown on Exhibit 322(HL-4). I also used the current depreciation expense as it appears on the Company's books and records for the months of January and February, and the actual retirements, cost of removal, and salvage for those particular months. I projected the provision for depreciation for the remainder of the test year by applying the effective depreciation rate for the year 1989 to the depreciable balance of plant in service as projected by me for the months of March through December 1990. The depreciable plant balances were calculated by subtracting the monthly land balances from my projected plant in service balances as shown on Exhibit 321(HL-3) for March through December 1990. The calculation of the effective depreciation rate (page 2 of 2) and the projection of the depreciation provision (page 1 of 2) appear on Exhibit 323 (HL-5). The provision for depreciation as calculated on that exhibit has been carried forward to Exhibit 322 (HL-4) and used in projecting the depreciation reserve balance for each month of the test year. I projected retirements, cost of removal and salvage by using the actual balances for the first two months of the test year January and February. I projected the remaining months by subtracting the actual January and February balance from the retirements and cost of removal/salvage used by the Company and spread the amounts ratably over the remaining months. Those projections appear in columns (c) and (d) of Exhibit 322 (HL-4). The month-end balances are shown in column (e). To these month-end balances, I have added the monthly job development investment tax credit (JDITC) balances to arrive at the month-end balances used to calculate the thirteen month average depreciation reserve balance.

Q. WHAT IS THE THIRTEEN MONTH AVERAGE DEPRECIATION RESERVE BALANCE WHICH YOU HAVE CALCULATED?

A. The thirteen month average depreciation reserve balance as shown on Exhibit 322 (HL-4) is $490,975,000. From that balance, I have deducted the Company 13-month average balance of $487,260,000. I have increased the depreciation reserve by $3,715,000 which is shown on Exhibit 322 (HL-

4), line 17. This amount is reflected on Exhibit 326(HL-8), line 14 under the adjustments proposed by Public Counsel.

JDITC Balance

Q. I NOTE THAT THE JDITC-FPSC 1984 RATE CASE BALANCE WHICH YOU HAVE ADDED TO RESERVE IS SUBSTANTIALLY HIGHER THAN THE COMPANY'S. CAN YOU EXPLAIN THE DIFFERENCE?

A. At this point, I cannot. The balances that I have added to the depreciation reserve agrees with what the Company projected in the case which was withdrawn last year. I merely projected the balance to the end of 1990. I have utilized this amount since it appears to be the correct balance. I know of no reason why the balance would decrease from the prior case. If the Company can explain why the balance decreased, and I agree with that explanation, I would decrease my projection for this item; however, until a satisfactory explanation is received, I feel it is appropriate to use my projection.

Q. WHAT IS YOUR UNDERSTANDING OF HOW THIS BALANCE AROSE?

A. The Office of the Public Counsel has always contended that a tax deduction for ratemaking purposes should be imputed to the debt component of the overall rate of return earned on the JDITC. While the

Commission in theory agreed with that analysis, there was some concern that the imputation of this tax deduction might violate the normalization provision of the Internal Revenue Code. The Commission therefore did not authorize this deduction for ratemaking purposes. However, the rates associated with this particular component of overall rates were authorized under bond so that any future determination by the Internal Revenue Service that the imputation of a tax deduction would not be a violation of the Internal Revenue Code would result in recovery of this component of rates by ratepayers. In 1986, a regulation was promulgated which authorized the imputation of a tax deduction to the debt component of the overall rate of return earned on the JDITC. The Commission then authorized utilities to establish in the depreciation reserve, a balance which represented their overearnings on the JDITC until such time as rates were reestablished which would take into account the overstatement resulting from not imputing an interest deduction to the debt component of the overall rate of return earned on JDITC. The balances shown in column (f) of Exhibit 322(HL-4) represent the accumulation of the original balance and annual increases of the overstatement of rates associated with that JDITC tax deduction. The increase in this balance should stop after rates are established in this case.

Non-Electric Utility

Q. PLEASE DISCUSS THE ADJUSTMENTS SHOWN IN COLUMN (2) OF EXHIBIT __(HL-2) AS THEY RELATE TO PLANT IN SERVICE AND ACCUMULATED PROVISION FOR DEPRECIATION.

A. These adjustments are outlined on Exhibit 326(HL-8) under the heading "Non-Electric Adjustments". These adjustments are the same as those proposed by the Company which remove the investment in appliance sales and services from the plant in service and depreciation reserve. The corresponding rate base-capital structure synchronization adjustment should be made entirely to the equity component for this item.

Commission Adjustments Made in Last Case

Q. PLEASE EXPLAIN THE ADJUSTMENTS SHOWN UNDER COLUMN (4) OF EXHIBIT 320(HL-2) ENTITLED "COMMISSION ADJUSTMENTS MADE IN THE LAST CASE"?

A. These adjustments are also outlined on Exhibit 326(HL-8) under the heading "Commission Adjustments". The adjustments to plant in service are comprised of three components.

I have excluded from the plant in service balance, prior Commission adjustments related to the Bonifay and Graceville offices and the Leisure

Lake investment. These investments were excluded by the Commission in the prior rate case as costs not being justified.

Q. HAS THE GULF POWER COMPANY OFFERED TESTIMONY IN THIS CASE ATTEMPTING TO JUSTIFY THE BONIFAY AND GRACEVILLE OFFICES DISALLOWANCE BY THE COMMISSION IN THE LAST CASE?

A. Yes, they have. Gulf Power has offered the testimony of Ernest C. Conner, Jr., justifying the expenditures on the Bonifay and Graceville offices.

Mr. Conner's testimony does not offer any additional information which the Commission did not have available to it when it originally made this disallowance. Mr. Conner was not involved with the construction of these offices and can not offer any personal insight into this construction.

Gulf was asked the following questions regarding Mr. Conner's participation in the construction of the Bonifay and Graceville office.

> 139. Was Mr. Conner an employee of Gulf Power Company when the Bonifay and Graceville offices were constructed?
>
> a. Was Mr. Conner specifically involved in the evaluation and letting of the contracts associated with the construction of the Bonifay and Graceville offices?

b. Did Mr. Conner evaluate the need for these buildings prior to the construction of the Bonifay and Graceville offices?

c. Was Mr. Conner a contracting officer who let the contracts for the construction of the Bonifay and Graceville offices?

ANSWER:

139. No, Mr. Conner became a Gulf Power Company employee in April of 1982. The new buildings for the Graceville and Bonifay offices were constructed prior to this date.

139a. No.

139b. No.

139c. No.

I recommend that the Commission disallow the same amount as in the prior case since there has been no change in circumstances since that case.

As far as the Leisure Lake property is concerned, the Commission concluded:

> ...that Gulf had imprudently constructed a substation and 2.2 miles of distribution line to serve the Leisure Lake subdivision, which we determined was properly served by another utility.

Again, this property should be excluded from rate base and not allowed to earn a rate of return. I have excluded the amount shown in the MFRs. Mr. McMillan is going to provide the actual amount included in plant in service as a late filed exhibit.

Q. WOULD YOU PLEASE DISCUSS THOSE ADJUSTMENTS ENTITLED "COMPANY ADJUSTMENTS" SHOWN IN COLUMN (6) OF EXHIBIT 320 (HL-2).

A. The Company is proposing two adjustments, one to the depreciation reserve as a result of an investigation into improper costs being capitalized. I have accepted the theory of the adjustment but have no knowledge as to the accuracy of the amount. The second adjustment is to working capital which removes some items which should not be charged to ratepayers. I am proposing other adjustments to working capital which I will discuss later.

Public Counsel Adjustments

Q. WOULD YOU PLEASE DISCUSS THOSE ADJUSTMENTS LABELED "PUBLIC COUNSEL ADJUSTMENTS", SHOWN IN COLUMN (8) OF EXHIBIT 320(HL-2), WHICH RELATE TO PLANT IN SERVICE AND THE ACCUMULATED PROVISION FOR DEPRECIATION AND AMORTIZATION?

A. The adjustments which are reflected in this column are shown individually on Exhibit 32(HL-8), page 1 of 2 and 2 of 2, lines 13 through 25. The first two adjustments which are reflected on that schedule, I have previously discussed, i.e., the adjustments to plant in service and the understatement of the depreciation reserve. Those two adjustments are plant in service of $11,458,000 and depreciation reserve understatement of $3,715,000.

Additionally, I am proposing that the Commission remove the Company's investment in the Tallahassee office from the plant account balances. This investment is associated with the lobbying activities of the Company and should not be borne by ratepayers. The actual balance in the plant account amounted to over $43,000. It appears that these expenditures were made in the year 1987 and thus, would reflect approximately three years of amortization, assuming a five year life for these assets. Therefore, I have adjusted the depreciation reserve for three years of depreciation associated with this asset. This amounts to approximately $26,000.

Line 15 deleted.
Line 16 deleted.
Line 17 deleted.
Line 18 deleted.
Line 19 deleted.
Line 20 deleted.

Line 1 deleted.

Line 2 deleted.

Line 3 deleted.

Line 4 deleted.

Line 5 deleted.

Line 6 deleted.

Line 7 deleted.

Line 8 deleted.

Line 9 deleted.

Line 10 deleted.

Q. **PLEASE EXPLAIN THE AMOUNTS SHOWN ON EXHIBIT 326 (HL-8), PAGE 2 OF 2, LINES 17 AND 18.**

A. Mr. Schultz has recommended that certain rebuilds and renovations which were expensed by the Company should be capitalized. The adjustments on lines 17 and 18 reflect the capitalization of these costs and the depreciation reserve which would be reflected in the Company's accounts assuming a 10-year life for these assets. Mr. Schultz's testimony provides more details on why these items should be capitalized.

Q. PLEASE EXPLAIN THE AMOUNTS ON EXHIBIT 26 (HL-8), PAGE 2 OF 2, LINES 19 AND 20.

A. Mr. Schultz has recommended underground net protectors which were expensed by the Company should be capitalized. The adjustments on line 191 and 20 reflect the capitalization of these costs and the depreciation reserve which would be reflected in the Company's accounts assuming a 10-year life for these assets. Mr. Schultz's testimony provides more details on why these items should be capitalized.

<u>Plant Held for Future Use</u>

Q. PLEASE DISCUSS THE "PLANT HELD FOR FUTURE USE" ITEMS WHICH SHOULD BE EXCLUDED FROM RATE BASE.

A. Three items in the Plant Held for Future Use account should be excluded from rate base. These items are detailed on OPC Exhibit 24 (HL-6).

The first exclusion involves the Company's Caryville land site. In 1976, the Caryville land was certified for two 500 megawatt units under Florida's Power Plant Siting Act. Plans for building those units were cancelled. The site, however, remains certified for a 3,000 megawatt capacity generating plant. The Company claims the land has value because it has been certified as a future plant site. The Company claims such land should be included in rate base because it may be used in the Company's long-range plans for additional capacity.

The Company's budgeted amount for the Caryville land includes $50,000 for the acquisition of additional land. The Company claims that, if a large plant needs to be built on the site, more land will be needed. The Company claims further that it is less costly to acquire additional land now than it would be later. The Company states further that its Caryville land was allowed in rate base by the Commission in Dockets 800001-EI, 810136-EU, 820150-EU and 840086-EI.

I am recommending that the Caryville land site be removed from rate base for the following reasons. The Company is presently in a situation where it has excess generating capacity. It appears the need for adding new capacity will not exist for several years. Since the Company has no definite plans to build a plant on this site in the reasonable future, the land and any additional acquisitions at the site should be removed from rate base. Ratepayers have already been paying the Company a rate of return on such land since the 1980 rate case. During this period of approximately ten years, ratepayers have received no benefit or useful electric service from the plant site. This land should not be allowed in rate base until and unless it becomes apparent that it is going to be used in providing electric service to customers within a reasonable time frame.

Ratepayers should not be required to pay the Company a rate of return on this idle land indefinitely. I am recommending that the $1,398,000 average test year investment in the Caryville land site be excluded from rate base.

The second item of plant held for future use to be excluded is the Bay Front Office. The Company's present Bay Front Office is not yet being fully utilized. Given this fact, it is unlikely for the Company to have a real need for additional office space in the near future. The Company projects that this Bay Front Office site will be in use some time during the period 1994 through 2010. I believe the Company's plans for using this property are too indefinite to qualify this land as a legitimate item of plant held for future use deserving rate base treatment. It would be highly unreasonable to require ratepayers to pay the Company a return on idle land from now until 2010. This property cannot be considered used and useful in providing utility service. Therefore, the $1,844,000 must be removed from rate base.

The third item of plant held for future use which should be disallowed from rate base is the Company's land at Pace Boulevard. The Company began acquiring this land in 1988 and has plans to continue acquisition of such land through 1994. The Company has designated this land as the site for construction of a building maintenance facility, construction of a control testing laboratory, and for additional parking. These items have various projected in-service dates ranging from 1990 through 2008. See Mark Bell 1990 Financial Forecast Review workpapers.

This item should be removed from rate base for the following reasons. Company witness Conner testified that the Company's new Bay Front office building has a third floor which was purposefully left unfinished to accommodate building maintenance service functions and to postpone the need for a new facility for same. Building maintenance is currently conducted from the location of the third floor of the Company's Bay Front office building. Apparently it will be situated there for some time. Thus, I fail to see the need for the Pace Boulevard site to house the Company's building maintenance group. Moreover, if the building maintenance function would be facilitated by locating it at the Pace Boulevard site in the near future by moving this function from its present location in the third floor of the Company's Bay Front office, this would raise the question of whether the Company's third floor of the Bay Front office building would qualify as used-and-useful public utility property.

The Company has indicated that it plans to acquire $1,104,000 more Pace Boulevard land during the period 1990 through 1994. In lieu of including this item in rate base as plant held for future use, I recommend that the Company be allowed to record on its books an AFUDC-like accrual for carrying costs. At such time when the Company is able to present to the Commission that definite plans have been developed and actual construction has commenced at the site, the cost of the property plus the recorded carrying charge could be compared to what the land would have cost had it been purchased at a later date. To the extent that the land plus recorded carrying charge represents a reasonable price, at that point it would be appropriate to include this item in rate base. Until then, I am recommending the removal of the 13-month average rate base amount of $612,000.

Construction Work in Progress

Q. ARE YOU RECOMMENDING ANY ADJUSTMENTS TO THE COMPANY'S PROJECTED CONSTRUCTION WORK IN PROGRESS BALANCE?

A. No, I am not. I have reviewed the balance and it appears that this level of construction work in progress will be incurred during the future test year. I am not absolutely convinced that the small amount of CWIP removed because it earns an AFUDC return, is an appropriate level. Therefore, at this point in time, I have not proposed an adjustment to that balance.

Plant Acquisition Adjustment

Q. I NOTE THAT IN THE PUBLIC COUNSEL ADJUSTMENTS YOU ARE NOT REMOVING THE PLANT ACQUISITION ADJUSTMENT SHOWN BY THE COMPANY IN THE AMOUNT OF $8,043,000. PLEASE EXPLAIN.

A. I have not recommended the disallowance of this balance because it is being removed under Dr. Richard Rosen's recommendation that an additional 63 megawatts of Scherer capacity be allocated to unit power sales. If the Commission does not accept Dr. Rosen's recommendation to reflect the additional 63 megawatts of capacity as unit power sales, I would recommend that the entire plant acquisition adjustment should be excluded from rate base.

In addition, in the case which was withdrawn last year, the Staff located an additional plant acquisition adjustment which, according to the Staff report, was in the amount of $7,980,114 (I understand part of this amount has been refunded by Georgia Power Company). Again, this amount would be excluded if Dr. Rosen's recommendation was accepted to allocate all of Plant Scherer capacity to unit power sales. However, if that is not accepted, I would recommend that any balance associated with the acquisition adjustment be removed from rate base such that no acquisition amount remains in the rate base upon which ratepayers would pay a rate of return.

Q. WHY IS IT APPROPRIATE TO EXCLUDE THESE ACQUISITION ADJUSTMENTS FROM THE RETAIL RATE BASE?

A. It is appropriate because the ratepayers should only be required to pay a return on the original cost of property dedicated to public service. Acquisition adjustments represent additions to cost in excess of the original book value. They artificially inflate the cost to be borne by ratepayers. In this instance, the benefit flows to the Southern Company through Georgia Power's inflation of the purchase price which Gulf paid for the Scherer unit. The two acquisition adjustments which are incorporated into the purchase price paid by Gulf do not represent the true cost of the unit and would allow Georgia Power and its parent, the Southern Company, to profit from the sale of this unit to Gulf Power, an affiliated company.

Q. WASN'T PART OF THE ACQUISITION PRICE PAID TO OGLETHORPE POWER CORPORATION AND THE CITY OF DALTON?

A. Yes, it was. However, these resale agreements were all part of a Southern Company obligation and were not transactions negotiated by Gulf Power in the best interests of the Gulf Power ratepayers. To pass along these acquisition costs which discharged the obligation of the Southern Company related to the Oglethorpe Power Corporation and the City of Dalton would be unfair and unequitable to the Gulf Power ratepayers and would unjustly enrich the Southern Company. The Commission must exclude both of these acquisition adjustments when establishing retail rates in this case if it does not accept the adjustment to unit power sales recommended by Dr. Rosen.

Q. WOULD YOU PLEASE DISCUSS THOSE ADJUSTMENTS WHICH YOU HAVE MADE TO THE COMPANY'S WORKING CAPITAL CALCULATIONS?

A. The adjustments which I have made to the Company's working capital calculations is reflected on Exhibit 325 (HL-7). The first adjustment is shown on line 2 and reflects additional working capital allocation to the UPS sales. This adjustment reflects Dr. Rosen's recommendation that an additional 63 megawatts of capacity be allocated to UPS sales. I will discuss the additional working capital allocated to UPS sales later in my testimony.

Q. PLEASE DISCUSS THE REMAINING ADJUSTMENTS SHOWN ON EXHIBIT 325 (HL-7).

A. The first adjustment I am recommending after the adjustment for additional working capital allocated to UPS sales, is to remove the remaining balances in "Other Investments". This balance amounts to $113,000. The largest single amount in this balance is associated with "energy insurance reserve". There are two other minor balances associated with reserve premium - ACE and reserve premium - XL. There is no showing on the part of the Company that these deposits really benefit the ratepayers and reduce the insurance premium paid by ratepayers. Until such time that the Company can clearly show that there is a benefit to ratepayers of including these insurance reserves in the rate base, ratepayers should not be required to pay a rate of return on them.

The next item that I have excluded from rate base is "other accounts receivable". The net balance which the Company has included in working capital is $1,230,000. This balance is comprised of miscellaneous accounts receivable and property damage. The majority of the balance is related to miscellaneous accounts receivable. There is no showing on the part of the Company what is in this account nor that the receivable is even related to utility services. I have excluded the balance because I am not certain that these receivables actually pertain to utility service nor that the ratepayers receive any benefits from their inclusion in working capital

The next item excluded from working capital is based on the Staff's recommendation in the interim filing that $6,355,000 of working capital associated with fuel inventories be excluded from the rate base. It is my understanding that this recommendation was based on the Staff's analysis of a reasonable level of fuel inventory to be maintained by Gulf. It is my recommendation that the Staff level of inventory for fuel be accepted by the Commission.

The next adjustment to the working capital that I am recommending is associated with the Company's materials and supplies inventory. The Company has projected an increase in that inventory over actual balances experienced historically. There is no basis on which to conclude that the plant inventory balances will increase. I have used the actual 13-month average balance for the period ended February 28, 1990. Based on that actual 13-month average period, an adjustment to the materials and supplies inventory of $2,307,000 is warranted.

The next item that I have excluded from working capital is prepaid pension costs. The Company has included in working capital requirements $1,485,000 of prepaid pension costs. In the rates established in 1984, the Company was allowed a full pension expense in rates. Ratepayers have fully paid that pension expense through rates each and every year. The Company's pension fund is now fully funded and the Company has made an additional payment to that pension trust fund. It is inappropriate for those prepayments to become an additional revenue requirement to the ratepayers. Any future pension liability would not accrue for several years. Ratepayers should not be burdened with prepayments when the past payments have fully funded the Company's liability to its employees. Therefore, it is appropriate to exclude any prepaid pension cost from the working capital requirement.

I have excluded from prepayments under the current asset category, an additional amount of $136,000. These are designated in the Company's analysis as "other". There is no other explanation of what these prepaids are nor is there any account designation where one could review the account classification under which this category would fall. Unless, and until, the Company can fully explain what type of prepaid would be under the category of "other", and how it benefits ratepayers by making this type of prepayment, no generic amount under the heading of "other" should be included for ratemaking purposes.

The next item I am excluding from working capital is under the category of deferred debits. Again, the Company has a miscellaneous category in the amount of $30,000. It is designated as "other miscellaneous". The Company's analysis shows that there is no balance in that account for the actual months January through August 1989. The Company, however, projects an amount in that category from September 1989 through December 1990 in the amount of $30,000. The explanation on the workpaper is "This account contains several amounts such as cashier's and agent's overage, suspense accounts, etc., all relatively small in nature. Amount based on historical balance." However, the Company's historical balance shows there is no balance in this account and to estimate an amount that does not exist, would not be appropriate for inclusion in working capital. Additionally, there are balances in the "Deferred Debit" category Preliminary Survey ($1,276,000) and Clearing Accounts ($452,000) which represent suspense amounts which have not been cleared.

The next balance which is excluded from working capital relates to the Caryville subsurface study. I have excluded the Caryville project entirely from rate base and it would not be appropriate to include any balance in working capital associated with the Caryville site. Therefore, this amount is excluded form working capital.

The next item I am excluding from working capital is the projected investment in unamortized rate case expense. A rate reduction is required in this case and the ratepayer should not be required to pay a return on the Company's expenses in requesting an unjustified rate increase. This investment is therefore excluded from rate base.

If the Commission eventually decides that Gulf is entitled to a rate increase, then a rate case working capital requirement might be included which reflects the ratio of an authorized rate increase to the requested rate increase times the deferred debit balance which the Company has requested. In that manner, the level of rate case expense will be reflected by the amount of the rate increase which the Company actually receives.

The next series of adjustments actually increase working capital and they relate to the fact that these expenses have been excluded from operating income and therefore it would not be appropriate to include the deferred credit balance as a reduction of working capital.

The first item excluded from working capital is the supplemental pension and benefit reserve. Mr. Schultz has excluded expenses associated with supplemental pensions and benefits and therefore, the reserve associated with those expenses should also be excluded from working capital.

Post retirement, life and medical insurance reserves should be excluded from working capital. Mr. Schultz has made an adjustment to the expense for post retirement, life and medical benefits to include only those actual payments made on this expense. The additional reserve expense in the amount of $2,935,000 which has been accumulated on the balance sheet, should be excluded from working capital. Since both Mr. Schultz and I agree that these expenses should be reflected on an actual payment basis, any reserve accumulated reflecting additional expenses expensed, but not paid, should not be a reduction of working capital.

Deferred school plan appliance has also been excluded from working capital. These appliances relate to donations by Gulf Power to schools where electrical appliances are used to teach home economics. The provision of these appliances to the schools is not a necessary part of providing electric service and any credit associated with this program should be excluded from working capital.

I have also excluded the reserve associated with productivity improvement plan. This is a deferred compensation plan where employees who earned productivity improvements are allowed to defer their compensation under that plan. Since the productivity improvement plan has been excluded by Mr. Schultz from the expenses in this case, any reserve associated with that plan should also be excluded from working capital.

Q. THE ONLY ADJUSTMENTS YOU HAVE NOT DISCUSSED ON EXHIBIT 325 (HL-7) ARE THOSE WORKING CAPITAL ADJUSTMENTS RELATED TO THE ADDITIONAL ALLOCATION OF 63 MEGAWATTS OF SCHERER CAPACITY TO UPS SALES. WOULD YOU PLEASE DISCUSS

THOSE ADJUSTMENTS.

A. Line 2 on Exhibit 325 (HL-7) reflects the additional working capital allocated to UPS sales based on Dr. Rosen's recommendation that 63 additional megawatts of Scherer capacity be allocated to UPS sales. The amounts were calculated based on the workpapers provided by the Company. The additional fuel stocks, other materials and supplies and prepayments reflect the balances for Scherer 3 shown in the Company's workpapers. The other balances have been calculated based on the original allocation of these amounts in the UPS allocation workpapers.

Q. ON LINE 16 OF EXHIBIT 325 (HL-7) YOU MAKE ADDITIONAL ADJUSTMENTS WHICH ARE LABELED "EFFECT OF UPS EXCLUSION". WOULD YOU PLEASE EXPLAIN THOSE ADJUSTMENTS?

A. I have excluded several items from working capital which have been allocated in part in the UPS working capital adjustment. In order to not duplicate their exclusion, I have calculated estimates of items already excluded in part in the UPS adjustment. These items include fuel inventories, materials and supplies and prepayments. The amount shown under the current asset column in the amount of $819,000 is to add back to working capital that portion which has been excluded in the UPS adjustment thus eliminating any duplication.

Under the heading of deferred debits, I have excluded the Caryville subsurface study. A portion of this balance has been allocated in the UPS sales adjustment. I have therefore added back that portion related to the Caryville Subsurface Study. Under the last column, entitled Deferred Credits, I have deducted out credits which I have eliminated from the working capital calculation which, in part, have already been allocated out of working capital under the UPS Scherer allocation.

Q. PLEASE EXPLAIN THE AMOUNT SHOWN ON LINE 18 AS UPS WORKING CAPITAL ADJUSTMENT.

A. I have recalculated the working capital requirement to include all of the fuel inventory, other materials and supplies and prepayments associated with Scherer Unit 3. In addition to that recalculation of the Company's working capital allocation, I have increased the total working capital allocated to Scherer Unit 3 by $2,342,000. This increase in the allocation of working capital is to reflect the fact that the actual working capital allocated by the Company to its unit power sales is based on a 1/8 cost of O&M approach. (See response 141 to Public Counsel's Second Set of Interrogatories). This calculation of working capital results in a higher allocation of working capital to unit power sales than the balance sheet approach. I have calculated the $2,342,000 by taking the UPS working capital shown in response 141 in the amount of $6,505,000 and deducted the amount allocated by the Company in the amount of $4,163,000 to arrive at the additional working capital reduction.

Q. WHY IS IT APPROPRIATE TO USE THE 1/8 O&M APPROACH TO THE CALCULATION OF WORKING CAPITAL FOR UNIT POWER SALES?

A. The ratemaking approach used by the Commission is to allocate to retail rates, all costs associated with the Company's units and working capital which are not directly assigned to unit power sales. Therefore, retail ratepayers are always responsible for the total revenue requirement. In other words, if there were no unit power sales, all of the costs of Plant Scherer would be allocated to retail jurisdictional ratepayers. Thus, when the Company recovers from unit power sales, a higher level of working capital, then the ratepayer should receive full credit for that actual investment allocated to unit power sales. Thus, the utility will not recover twice for the same working capital, that is, it will not be allocated to the jurisdictional retail ratepayers and also recovered in unit power sales. This is the only fair approach which the Commission can take in order to ensure that ratepayers receive the appropriate credit against the working capital requirement for unit power sales.

Unit Power Sales

Q. PLEASE DESCRIBE THE ADJUSTMENT FOR UNIT POWER SALES, SHOWN IN COLUMN 10 OF EXHIBIT 320(HL-2).

A. Dr. Richard Rosen has submitted testimony recommending that the Commission allocate an additional 63 megawatts of Scherer capacity to unit power sales. Dr. Rosen will discuss the appropriateness of that adjustment. I have calculated the impact on the rate base associated with the exclusion of the entire Scherer Plant from the Company's rate base. The gross plant, accumulated depreciation and acquisition adjustment for Scherer Unit 3 come directly from the Company's workpapers.

The allocation of transmission facilities was made in the same manner as the Company's calculation but is based on a higher allocation factor as a result of more UPS capacity being sold. The working capital calculation has previously been discussed in my testimony and allocates additional working capital to the UPS sales in addition to the additional recovery of working capital based on the 1/8 formula used in UPS sales agreements.

Q. HOW DOES YOUR ADJUSTMENT FOR UNIT POWER SALES AND OPERATING EXPENSES DIFFER FROM THAT OF THE COMPANY?

A. Again, in accordance with Dr. Rosen's recommendation, I have removed all of the operating expenses associated with Scherer Unit 3. The operating expenses are reflected in the Company's workpapers with the exception of the income tax calculation which I calculated by maintaining the same ratio as the Company. In addition, Dr. Rosen has recommended that capacity equalization payments received from other companies in the System also be adjusted to reflect the fact that Scherer Unit 3 will be totally used for capacity sales and therefore would not be available for jurisdictional sales.

Retail Sales

Q. ARE YOU PROPOSING AN ADJUSTMENT TO THE COMPANY'S RETAIL SALES?

A Yes, I am. Dr. Richard Rosen has examined the Company's sales forecast and he has indicated that he believes that the Company's sales forecast is understated by one percent. I have calculated the increase in base retail revenue based on a 1% increase over the Company's current retail Kwh sales forecast. My calculations are shown on Exhibit 327 (HL-9). This exhibit shows that retail sales should be increased by $2,492,819. The adjustment to sales is reflected on line 1, Column (G) of Mr. Schultz's Exhibit 319 (HWS-1).

Q. IS IT YOUR UNDERSTANDING THAT DR. ROSEN HAS REMOVED THE COMPANY'S ADJUSTMENT TO ITS PROJECTED SALES FOR SUPPRESSION?

A. It is my understanding Dr. Rosen's adjustment removes the Company's suppression adjustment to its sales forecast. This would be consistent with the Commission's policy of not recognizing accretion or suppression as a result of a change in rates.

Q. WOULD YOU PLEASE EXPLAIN WHAT YOU MEAN BY ACCRETION OR SUPPRESSION AS IT AFFECTS RATES?

A. In a recent Bell Telephone case, the Company proposed an accretion adjustment to reflect the fact that when rates are reduced, consumption of services tend to increase. The Commission did not accept that adjustment and removed the accretion revenues in determining the rate increase. In the current Gulf case, in projecting kilowatt hour sales, the Company included a suppression factor to reflect the fact that when rates are increased, the consumption of energy tends to decrease. Since the Commission has rejected the philosophy of increasing revenue as a result of rate decreases, then the opposite position should also be rejected, i.e., the consumption will decrease as a result of rate increases. It is my understanding that Dr. Rosen has accounted for this in his 1% increase in sales over the Company's projection.

Depreciation and Amortization

Q. HAVE YOU ADJUSTED DEPRECIATION AND AMORTIZATION TO REFLECT THE LOWER PLANT BALANCES THAT YOU HAVE CALCULATED?

A. Yes, I have. That adjustment appears on Exhibit 328 (HL-10). I have calculated the total depreciation and amortization as it appears on Exhibit 323 (HL-5), page 1 of 2. The first two amounts for January and February are actually depreciation expense for those months. The remaining balances are based on the projected plant in service balance and the monthly rate I have calculated. The total depreciation and amortization is shown on line 13 of Exhibit 328 (HL-10) and is $53,908,670. From that balance, I have deducted those items which either flow through a clearing account or should not be charged to ratepayers. I have estimated the automobile depreciation, merchandising and appliance sales depreciation based on the actual amounts through February 1990. I then annualize these amounts to deduct from the depreciation expense I have calculated. The Tallahassee Office amortization (portion of sentence deleted) has been estimated. I have added depreciation for the rebuilds and renovations based on a ten year life for the amount I have added to plant in service.

The adjusted net utility depreciation and amortization as shown on line 21 of Exhibit 328(HL-10) is $52,648,703. The Company's total depreciation and amortization as it appears on Schedule C-2, Column (7) is $53,590,000. This amount includes the amortization of the acquisition adjustment. By comparing this amount to the calculation that I have made, I have calculated a reduction in depreciation expense of $686,297. This adjustment takes into consideration my previous adjustment for amortization of the acquisition adjustment from the expenses charged to ratepayers, since it is my position that these acquisition adjustments should not be included in rate base nor charged to ratepayers.

Interest Synchronization

Q. PLEASE DESCRIBE YOUR ADJUSTMENT FOR INTEREST SYNCHRONIZATION.

A. Exhibit 327(HL-11) shows my adjustment for interest synchronization. Line 1 reflects the adjusted jurisdictional rate base as shown in Exhibit 317(HL-1). Line 2 is the weighted cost of debt calculated from the capital structure and cost rates used by Public counsel witness Rothschild. Line 3 is the interest deduction which should be used for ratemaking purposes utilizing the rate base I am recommending.

Line 4 is the interest deduction reflected in the company's calculation according to MFR Schedule C-44. Since the Company's interest deduction is higher than the synchronized interest deduction utilizing my rate base, then income tax expense will increase. The loss of interest deduction is $2,728,000. This results in an increase in income taxes of $1,026,000.

Income Tax Expense

Q. DESCRIBE THE INCOME TAX CALCULATION WHICH YOU SHOW ON EXHIBIT 230(HL-12).

A. This adjustment is composed of essentially two components. The first component is the additional revenue which I am recommending be added to the jurisdictional revenue based on Dr. Rosen's analysis. The second line is the additional adjustments to the Company's operating expenses and the reduction in depreciation and amortization that I am recommending. The addition of these two numbers is the additional taxable income for ratemaking purposes and is $22,089,000. Multiplying these numbers by the effective tax rates for State and Federal income taxes, results in an additional income tax expense of $1,215,000 for state income taxes and $7,097,000 for Federal income taxes.

Summary

Q. WOULD YOU PLEASE SUMMARIZE YOUR CONCLUSIONS.

A. The Company's revenues ought to be reduced by $8,625,000. This recommendation is based on the overstatement of the rate base and operating expenses which have been discussed in my testimony and that of Mr. Schultz. Additionally, Dr. Rosen's recommendations and that of Mr. Rothschild, are incorporated within the revenue requirement that we are recommending.

Q. DOES THAT CONCLUDE YOUR TESTIMONY?

A. Yes, it does.

APPENDIX I

QUALIFICATIONS OF HUGH LARKIN, JR.

Q. WHAT IS YOUR OCCUPATION?

A. I am a certified public accountant and a partner in the firm of Larkin & Associates, Certified Public Accountants, with offices at 15728 Farmington Road, Livonia, Michigan.

Q. PLEASE DESCRIBE YOUR EDUCATION AND EXPERIENCE.

A. I graduated from Michigan State University in 1960. During 1961 and 1962, I fulfilled my military obligations as an officer in the United States Army.

In 1963 I was employed by the certified public accounting firm of Peat, Marwick, Mitchell & Co., as a junior accountant. I became a certified public accountant in 1966.

In 1968 I was promoted to the supervisory level at Peat, Marwick, Mitchell & Co. As such, my duties included the direction and review of audits of various types of business organizations, including manufacturing, service, sales and regulated companies.

Through my education and auditing experience of manufacturing operations, I obtained an extensive background of theoretical and practical cost accounting.

I have audited companies having job cost systems and those having process cost systems, utilizing both historical and standard costs.

I have a working knowledge of cost control, budgets and reports, the accumulation of overheads and the application of same to products on the various recognized methods.

Additionally, I designed and installed a job cost system for an automotive parts manufacturer.

I gained experience in the audit of regulated companies as the supervisor in charge of all railroad audits for the Detroit office of Peat, Marwick, including audits of the Detroit, Toledo and Ironton Railroad, the Ann Arbor Railroad, and portions of the Penn Central Railroad Company. In 1967, I was the supervisory senior accountant in charge of the audit of the Michigan State Highway Department, for which Peat, Marwick was employed by the State Auditor General and the Attorney General.

In October of 1969, I left Peat, Marwick to become a partner in the public accounting firm of Tischler & Lipson of Detroit. In April of 1970, I left the latter firm to form the certified public accounting firm of Larkin, Chapski & Company. In September 1982 I re-organized the firm into Larkin & Associates, a certified public accounting firm. The firm of Larkin & Associates performs a wide variety of auditing and accounting services, but concentrates in the area of utility regulation and ratemaking. I am a member of the Michigan Association of Certified Public Accountants and the American Institute of Certified Public Accountants. I testified before the Michigan Public Service Commission and in other states in the following cases:

U-3749	Consumers Power Company - Electric Michigan Public Service Commission
U-3910	Detroit Edison Company Michigan Public Service Commission
U-4331	Consumers Power Company - Gas Michigan Public Service Commission
U-4332	Consumers Power Company - Electric Michigan Public Service Commission
U-4293	Michigan Bell Telephone Company Michigan Public Service Commission
U-4498	Michigan Consolidated Gas sale to Consumers Power Company Michigan Public Service Commission
U-4576	Consumers Power Company - Electric Michigan Public Service Commission
U-4575	Michigan Bell Telephone Company Michigan Public Service Commission

U-4331R	Consumers Power Company - Gas - Rehearing Michigan Public Service Commission
6813	Chesapeake and Potomac Telephone Company of Maryland, Public Service Commission, State of Maryland
Formal Case No. 2090	New England Telephone and Telegraph Co. State of Maine Public Utilities Commission
Dockets 574, 575, 576	Sierra Pacific Power Company, Public Service Commission, State of Nevada
U-5131	Michigan Power Company Michigan Public Service Commission
U-5125	Michigan Bell Telephone Company Michigan Public Service Commission
R-4840 & U-4621	Consumers Power Company Michigan Public Service Commission
U-4835	Hickory Telephone Company Michigan Public Service Commission
36626	Sierra Pacific Power Company v. Public Service Commission, et al, First Judicial District Court of the State of Nevada
American Arbitration Assoc.	City of Wyoming v. General Electric Cable TV
760842-TP	Southern Bell Telephone and Telegraph Company, Florida Public Service Commission
U-5331	Consumers Power Company Michigan Public Service Commission
U-5125R	Michigan Bell Telephone Company Michigan Public Service Commission
770491-TP	Winter Park Telephone Company, Florida Public Service Commission
77-554-EL-AIR	Ohio Edison Co., Public Utility Commission of Ohio

78-284-EL-AEM	Dayton Power and Light Co., Public Utility Commission of Ohio
0R78-1	Trans Alaska Pipeline, Federal Energy Regulatory Commission (FERC)
78-622-EL-FAC	Ohio Edison Co., Public Utility Commission of Ohio
U-5732	Consumers Power Company - Gas, Michigan Public Service Commission
77-1249-EL-AIR, et al	Ohio Edison Co., Public Utility Commission of Ohio
78-677-EL-AIR	Cleveland Electric Illuminating Co., Public Utility Commission of Ohio
U-5979	Consumers Power Company, Michigan Public Service Commission
790084-TP	General Telephone Company of Florida, Florida Public Service Commission
79-11-EL-AIR	Cincinnati Gas and Electric Co., Public Utilities Commission of Ohio
790316-WS	Jacksonville Suburban Utilities Corp., Florida Public Service Commission
790317-WS	Southern Utility Company, Florida Public Service Commission
U-1345	Arizona Public Service Company, Arizona Corporation Commission
79-537-EL-AIR	Cleveland Electric Illuminating Co., Public Utilities Commission of Ohio
800011-EU	Tampa Electric Company, Florida Public Service Commission
800001-EU	Gulf Power Company, Florida Public Service Commission

U-5979-R	Consumers Power Company, Michigan Public Service Commission
800119-EU	Florida Power Corporation, Florida Public Service Commission
810035-TP	Southern Bell Telephone and Telegraph Company, Florida Public Service Commission
800367-WS	General Development Utilities, Inc., Port Malabar, Florida Public Service Commission
TR-81-208**	Southwestern Bell Telephone Company, Missouri Public Service Commission **Issues Stipulated
810095-TP	General Telephone Company of Florida, Florida Public Service Commission
U-6794	Michigan Consolidated Gas Company, 16 refunds Michigan Public Service Commission
U-6798	Cogeneration and Small Power Production - PURPA, Michigan Public Service Commission
810136-EU	Gulf Power Company, Florida Public Service Commission
E-002/GR-81-342	Northern State Power Company Minnesota Public Utilities Commission
820001-EU	General Investigation of Fuel Cost Recovery Clauses, Florida Public Service Commission
810210-TP	Florida Telephone Corporation, Florida Public Service Commission
810211-TP	United Telephone Co. of Florida, Florida Public Service Commission
810251-TP	Quincy Telephone Company, Florida Public Service Commission
810252-TP	Orange City Telephone Company, Florida Public Service Commission

8400	East Kentucky Power Cooperative, Inc., Kentucky Public Service Commission
U-6949	Detroit Edison Company - Partial and Immediate Rate Increase Michigan Public Service Commission
18328	Alabama Gas Corporation, Alabama Public Service Commission
U-6949	Detroit Edison Company - Final Rate Recommendation Michigan Public Service Commission
820007-EU	Tampa Electric Company, Florida Public Service Commission
820097-EU	Florida Power & Light Company, Florida Public Service Commission
820150-EU	Gulf Power Company, Florida Public Service Commission
18416	Alabama Power Company, Public Service Commission of Alabama
820100-EU	Florida Power Corporation, Florida Public Service Commission
U-7236	Detroit Edison-Burlington Northern Refund - Michigan Public Service Commission
U-6633-R	Detroit Edison - MRCS Program, Michigan Public Service Commission
U-6797-R	Consumers Power Company - MRCS Program, Michigan Public Service Commission
82-267-EFC	Dayton Power & Light Company, Public Utility Commission of Ohio
U-5510-R	Consumers Power Company - Energy Conservation Finance Program, Michigan Public Service Commission
82-240-E	South Carolina Electric & Gas Company, South Carolina Public Service Commission

8624	Kentucky Utilities, Kentucky Public Service Commission
8648	East Kentucky Power Cooperative, Inc., Kentucky Public Service Commission
U-7065	The Detroit Edison Company (Fermi II), Michigan Public Service Commission
U-7350	Generic Working Capital Requirements, Michigan Public Service Commission
820294-TP	Southern Bell Telephone Company, Florida Public Service Commission
Order RH-1-83	Westcoast Gas Transmission Company, Ltd., Canadian National Energy Board
8738	Columbia Gas of Kentucky, Inc., Kentucky Public Service Commission
82-168-EL-EFC	Cleveland Electric Illuminating Company, Public Utility Commission of Ohio
6714	Michigan Consolidated Gas Company Phase II, Michigan Public Service Commission
82-165-EL-EFC	Toledo Edison Company, Public Utility Commission of Ohio
830012-EU	Tampa Electric Company, Florida Public Service Commission
ER-83-206**	Arkansas Power & Light Company, Missouri Public Service Commission **Issues Stipulated
U-4758	The Detroit Edison Company - (Refunds), Michigan Public Service Commission
8836	Kentucky American Water Company, Kentucky Public Service Commission

8839	Western Kentucky Gas Company, Kentucky Public Service Commission
83-07-15	Connecticut Light & Power Company, Department of Utility Control State of Connecticut
81-0485-WS	Palm Coast Utility Corporation, Florida Public Service Commission
U-7650	Consumers Power Company - (Partial and Immediate), Michigan Public Service Commission
83-662**	Continental Telephone Company, Nevada Public Service Commission **Issues Stipulated
U-7650	Consumers Power Company - Final Michigan Public Service Commission
U-6488-R	Detroit Edison Co. (FAC & PIPAC Reconciliation), Michigan Public Service Commission
Docket No. 15684	Louisiana Power & Light Company, Public Service Commission of the State of Louisiana
U-7650 Reopened	Consumers Power Company (Reopened Hearings) Michigan Public Service Commission
38-1039**	CP National Telephone Corporation Nevada Public Service Commission **Issues Stipulated
83-1226	Sierra Pacific Power Company (Re application to form holding company), Nevada Public Service Commission
U-7395 & U-7397	Campaign Ballot Proposals Michigan Public Service Commission
820013-WS	Seacoast Utilities Florida Public Service Commission
U-7660	Detroit Edison Company Michigan Public Service Commission
U-7802	Michigan Gas Utilities Company Michigan Public Service Commission

830465-EI	Florida Power & Light Company Florida Public Service Commission
U-7777	Michigan Consolidated Gas Company Michigan Public Service Commission
U-7779	Consumers Power Company Michigan Public Service Commission
U-7480-R	Michigan Consolidated Gas Company Michigan Public Service Commission
U-7488-R	Consumers Power Company - Gas Michigan Public Service Commission
U-7484-R	Michigan Gas Utilities Company Michigan Public Service Commission
U-7550-R	Detroit Edison Company Michigan Public Service Commission
U-7477-R	Indiana & Michigan Electric Company Michigan Public Service Commission
U-7512-R	Consumers Power Company - Electric Michigan Public Service Commission
18978	Continental Telephone Company of the South - Alabama, Alabama Public Service Commission
9003	Columbia Gas of Kentucky, Inc. Kentucky Public Service Commission
R-842583	Duquesne Light Company Pennsylvania Public Utility Commission
9006*	Big Rivers Electric Corporation Kentucky Public Service Commission *Company withdrew filing
U-7830	Consumers Power Company - Electric (Partial and Immediate) Michigan Public Service Commission
7675	Consumers Power Company - Customer Refunds Michigan Public Service Commission

5779	Houston Lighting & Power Company Texas Public Utility Commission
U-7830	Consumers Power Company - Electric - "Financial Stabilization" Michigan Public Service Commission
U-4620	Mississippi Power & Light Company (Interim) Mississippi Public Service Commission
U-16091	Louisiana Power & Light Company Louisiana Public Service Commission
9163	Big Rivers Electric Corporation Kentucky Public Service Commission
U-7830	Consumers Power Company - Electric - (Final) Michigan Public Service Commission
U-4620	Mississippi Power & Light Company - (Final) Mississippi Public Service Commission
76-18788AA & 76-18793AA	Detroit Edison (Refund - Appeal of U-4807) Ingham County Circuit Court Michigan Public Service Commission
U-6633-R	Detroit Edison (MRCS Program Reconciliation) Michigan Public Service Commission
19297	Continental Telephone Company of the South - Alabama, Alabama Public Service Commission
9283	Kentucky American Water Company Kentucky Public Service Commission
850050-EI	Tampa Electric Company Florida Public Service Commission
R-850021	Duquesne Light Company Pennsylvania Public Service Commission
TR-85-179**	United Telephone Company of Missouri Missouri Public Service Commission
6350	El Paso Electric Company The Public Utility Board of the City of El Paso

6350	El Paso Electric Company Public Utility Commission of Texas
85-53476AA & 85-534855AA	Detroit Edison-refund-Appeal of U-4758 Ingham County Circuit Court Michigan Public Service Commission
U-8091/ U-8239	Consumers Power Company-Gas Michigan Public Service Commission
9230	Leslie County Telephone Company, Inc. Kentucky Public Service Commission
85-212	Central Maine Power Company Maine Public Service Commission
850782-EI & 850783-EI	Florida Power & Light Company Florida Public Service Commission
ER-85646001 & ER-85647001	New England Power Company Federal Energy Regulatory Commission
Civil Action * No. 2:85-0652	Allegheny & Western Energy Corporation, Plaintiff, - against - The Columbia Gas System, Inc., Defendant
Docket No. 850031-WS	Orange Osceola Utilities, Inc. Before the Florida Public Service Commission
Docket No. 840419-SU	Florida Cities Water Company South Ft. Myers Sewer Operations Before the Florida Public Service Commission
R-860378	Duquesne Light Company Pennsylvania Public Service Commission
R-850267	Pennsylvania Power Company Pennsylvania Public Service Commission
R-860378	Duquesne Light Company - Surrebuttal Testimony - OCA Statement No. 2D Pennsylvania Public Service Commission
Docket No. 850151	Marco Island Utility Company Before the Florida Public Service Commission

Docket No. 7195 (Interim)	Gulf States Utilities Company Public Utility Commission of Texas
R-850267 Reopened	Pennsylvania Power Company Pennsylvania Public Service Commission
Docket No. 87-01-03	Connecticut Natural Gas Corporation Connecticut Department of Public Utility Control
Docket No. 5740	Hawaiian Electric Company Hawaii Public Utilities Commission
1345-85-367	Arizona Public Service Company Arizona Corporation Commission
Docket 011 No. 86-11-019	Tax Reform Act of 1986 - California Generic California Public Utilities Commission
Case No. 29484	Long Island Lighting Company New York Department of Public Service
Docket No. 7460	El Paso Electric Company Public Utility Commission of Texas
Docket No. 870092-WS*	Citrus Springs Utilities Before the Florida Public Service Commission
Case No. 9892	Dickerson Lumber EP Company - Complainant vs. Farmers Rural Electric Cooperative and East Kentucky Power Cooperative - Defendants Before the Kentucky Public Service Commission
Docket No. 3673-U	Georgia Power Company Before the Georgia Public Service Commission
Docket No. U-8747	Anchorage Water and Wastewater Utility Report on Management Audit
Docket No. 861564-WS	Century Utilities Before the Florida Public Service Commission
Docket No. FA86-19-001	Systems Energy Resources, Inc. Federal Energy Regulatory Commission

Docket No. 870347-TI	AT&T Communications of the Southern States, Inc. Florida Public Service Commission
Docket No. 870980-WS	St. Augustine Shores Utilities Inc. Florida Public Service Commission
Docket No. 870654-WS*	North Naples Utilities, Inc. Florida Public Service Commission
Docket No. 870853	Pennsylvania Gas & Water Company Pennsylvania Public Utility Commission
Civil Action* No. 87-0446-R	Reynolds Metals Company, Plaintiff, v. The Columbia Gas System, Inc., Commonwealth Gas Services, Inc., Commonwealth Gas Pipeline Corporation, Columbia Gas Transmission Corporation, Columbia Gulf Transmission Company, Defendants - In the United States District Court for the Eastern District of Virginia Richmond Division
Docket No. E-2, Sub 537	Carolina Power & Light Company North Carolina Utilities Commission
Case No. U-7830	Consumers Power Company - Step 2 Reopened Michigan Public Service Commission
Docket No. 880069-TL	Southern Bell Telephone & Telegraph Florida Public Service Commission
Case No. U-7830	Consumers Power Company - Step 3B Michigan Public Service Commission
Docket No. 880355-EI	Florida Power & Light Company Florida Public Service Commission
Docket No. 880360-EI	Gulf Power Company Florida Public Service Commission
Docket No. FA86-19-002	System Energy Resources, Inc. Federal Energy Regulatory Commission
Docket Nos. 83-0537-Remand & 84-0555-Remand	Commonwealth Edison Company Illinois Commerce Commission

Docket Nos. 83-0537-Remand & 84-0555-Remand	Commonwealth Edison Company - Surrebuttal Illinois Commerce Commission
Docket No. 880537-SU	Key Haven Utility Corporation Florida Public Service Commission
Docket No. 881167-EI***	Gulf Power Company Florida Public Service Commission
Docket No. 881503-WS	Poinciana Utilities, Inc. Florida Public Service Commission
Cause No. U-89-2688-T	Puget Sound Power & Light Company Washington Utilities & Transportation Committee
Docket No. 89-68	Central Maine Power Company Maine Public Utilities Commission
Docket No. 861190-PU	Proposal to Amend Rule 25-14.003, F.A.C. Florida Public Service Commission
Docket No. 89-08-11	The United Illuminating Company State of Connecticut, Department of Public Utility Control
Docket No. R-891364	The Philadelphia Electric Company Pennsylvania Public Utility Commission
Formal Case No. 889	Potomac Electric Power Company Public Service Company of the District of Columbia
Case No. 88/546	Niagara Mohawk Power Corporation, et al Plaintiffs, v. Gulf+Western, Inc. et al, defendants (In the Supreme Court County of Onondaga, State of New York)
Case No. 87-11628	Duquesne Light Company, et al, plaintiffs, against Gulf + Western, Inc. et al, defendants (In the Court of the Common Pleas of Allegheny County, Pennsylvania Civil Division)
Case No. 89-640-G-42T*	Mountaineer Gas Company West Virginia Public Service Commission

Docket No. 890319-EI	Florida Power & Light Company Florida Public Service Commission
Docket No. EM89110888	Jersey Central Power & Light Company Board of Public Utilities Commissioners

*Case Settled
**Issues Stipulated
***Company withdrew case

Additionally, I performed an investigation and analysis of Michigan Consolidated Gas Company and participated in the discussion which led to the settlement of Michigan Consolidated rate case which was culminated in Rate Order U-4166.

From April 28, 1975, to March 15, 1976, I was under contract to the Michigan House of Representatives as Technical Staff Director of a Special House Committee to study and evaluate the effectiveness of the Michigan Public Service Commission and the rates and service of public utilities. As Technical Staff Director, I supervised personnel loaned to the Committee from the State Auditor General's Office. The reports to that Committee prepared by myself and Allen Briggs, an attorney, to revise utility regulation, were adopted in virtually all material respects in its final report and recommendations and served as a basis of numerous bills introduced in the 1976 and 1977 sessions of the legislature. The Staff of the Committee, under my direction, investigated and reported to the Committee on numerous regulatory issues, including ratepayer participation in utility regulation, fuel cost adjustment clauses, purchased gas adjustment clauses, comparative electric, gas and telephone rates, treatment of subsidiaries of utilities in ratemaking, research and planning capabilities of the Michigan Public Service Commission, utility advertising, regulatory oversight of utility management, deferred taxes in ratemaking and the organizational structure and functions of the Michigan Public Service Commission.

In the course of my work as a certified public accountant, I advise clients concerning the obtaining of capital funds, and have worked with banking institutions in obtaining loans. I have participated in negotiating the sale and purchase of businesses for clients, in connection with which I have valued the physical assets of various business firms, and also determined the value of present and future earnings measured by market rates of return. I have participated in acquisition audits on behalf of large national companies interested in acquiring smaller companies.

My testimony in utility rate cases has been sponsored by state Attorney Generals, groups of municipalities, a district attorney, Peoples' Counsel, Public Counsel, a ratepayers' committee, and I have also worked as a Staff Consultant to the Arizona Corporation Commission.

In November, 1985, with two members of the firm, I presented a seminar on utility accounting for the Legal Services Regional Utilities Task Force in Atlanta, Georgia.

In September, 1988, with two members of the firm, I presented a seminar on utility accounting for the Office of Consumer Advocate, Attorney General's Office, State of Pennsylvania. Individuals from that division as well as Commission Staff members attended.

MR. BURGESS: I do have something to bring out, however, with regard to Exhibit 575. This was an exhibit that was offered by Gulf Power Company through witness, Richard McMillan. We objected to it and you had reserved ruling.

CHAIRMAN WILSON: Okay.

MR. BURGESS: I explained basically that it appeared to be more appropriate for rebuttal. Gulf also agreed that probably it was and they were simply trying to bring it out, as soon as possible, for the parties' attention, and I appreciate that.

We have gone over informally -- you had suggested that the witness may be available for deposition, et cetera. We went over informally with Mr. McMillan and Don Hale and Hugh Larkin from our office discussed it. And I still contend that it's a somewhat complex issue or a somewhat complex exhibit that contains a number of issues.

What I would like the opportunity to do, if it meets with the Commission's approval, is I would withdraw the objection that I have. If I could have Mr. Larkin testify as to his reaction to the exhibit. And what I would suggest is, of course -- I realize you could simply overrule the objection, so I may not be giving anything away; but, nevertheless, I think this provides what I would consider a somewhat more level playing field if my witness could address what his concerns are with the same exhibit that Mr. McMillan would later also then testify to.

MR. HOLLAND: I have no objection to that.

MR. BURGESS: Thank you, Mr. Holland.

CHAIRMAN WILSON: Are you going to have him do that now?

MR. BURGESS: Yes, I would. Either before or after the --

CHAIRMAN WILSON: Well, somewhere in here is that exhibit, and I need to see if I can find it. What's the number?

MR. BURGESS: 575.

COMMISSIONER EASLEY: Steve, what does it look like?

MR. BURGESS: It's a two-paged exhibit (indicating).

COMMISSIONER EASLEY: When did we get it? That would help. Direct me toward what file --

COMMISSIONER BEARD: Last year some time.

MR. BURGESS: The third day.

COMMISSIONER EASLEY: Thursday.

MR. BURGESS: No, the third day.

COMMISSIONER BEARD: It was prior to your coming on the Commission, seems like.

MR. BURGESS: I have two copies if that would help.

CHAIRMAN WILSON: Sure would.

MR. HOLLAND: We can get some copies made.

MR. VANDIVER: Why don't we do that. (Pause)

MR. BURGESS: You want to proceed with the other cross and come back --

CHAIRMAN WILSON: Did you give me the extra copy you have?

MR. BURGESS: I didn't, Rob said he was going to go make them.

CHAIRMAN WILSON: Okay, we'll just wait until he gets back. (Pause)

MR. HOLLAND: Ready? You want me to go ahead?

CHAIRMAN WILSON: Why don't you go ahead and start cross examination and when you finish, we'll go to that exhibit.

CROSS EXAMINATION

BY MR. HOLLAND:

Q Mr. Larkin, would you please turn to your Exhibit HL-3?

A Yes.

Q I tell you what, before we do that, let me just ask you one question. It really relates to the exhibit. At Page 3, Line 6 of your testimony, and at Page 24, Lines 14 and 15, and then again at Line -- Page 31, Lines 3 and 4, you state that Dr. Rosen recommends that 63 additional megawatts of Scherer capacity be allocated to unit power sales.

A Yes.

Q Can you show me where in his testimony he makes that statement?

A That he specifically says it should go to unit power sales?

Q Yes.

A I don't know whether he does specifically. It states --

Q He didn't say that, did he?

A He states that the 63 megawatts should not be allocated to jurisdictional ratepayers.

Q And did you, taking the statement that it should not be allocated to retail, make the jump or the conclusion that if it's not retail, it's unit power sales?

A Well, it has to come out, and I took it out in the same proportion it would have come out, working capital and other components, as the unit power sales would have been taken out. So it really doesn't matter whether you label it as unit power sales or you label it as excess capacity. Those costs would have to be removed from jurisdictional rates.

Q It's not being sold in unit power sales though, is it, the 63 megawatts?

A Not at this point in time, but that's a possibility.

Q Not for purposes of the test year it's not being sold?

A That's correct.

Q In your computations, we had a very difficult time in understanding what you in fact did in your allocation, and let me just ask you this way, did you in fact take the allocated rate base expense, et cetera, associated with the 149 megawatts that has not -- that has been sold in unit power sales and come up with a charge for that and then on a per-kW basis or per-megawatt basis and then multiply that by 63?

A No.

Q How did you do it?

A We went back through the work papers and took the actual costs, where there were actual costs that were assigned to Scherer, like the production plant, that is -- that's the data that's in the Company's work papers, the general plant, that's data that is in the work papers. There is an allocation associated with transmission. We recalculated that allocation based on the 63 additional megawatts being sold at the unit power sales. And then the working capital portion, the fuel inventories are shown in the work papers, the pre-paids for the total is shown in the work papers. We simply took that and used that. There are an allocation of work -- of credits from working capital, and we allocated those based on the additional portion of plant that was allocated. That reduced working capital.

Q Okay, let me just make sure I understand. You did in fact allocate, based on the allocation that was done for the 149 megawatts, and using the UPS work papers, you did allocate some general plant and you did allocate some transmission expense and payments that are made by the UPS customers to the 63 megawatts, is that correct?

A Where there was an allocation of transmission or general plant, we reallocated those to reflect the additional 63 megawatts. Yes.

Q Have you done any cost-to-serve analysis or anything to show whether there is, in fact, a cost to benefit the type -- or a cost associated with that 63 megawatts that matches the allocation that you made with respect to plant or any other expense?

A We followed the same allocation procedures the Company did. To the extent that that reflects an allocation of costs lower or higher than should be allocated, it's in the same proportion.

Q Now to your HL-3.

A Yes.

Q Do you have that?

A Yes.

Q Let me make sure I understand what you've done here. If I read your testimony correctly, what you have done is started in January, January 1st of 1988, taking Gulf's actual plant in-service, bringing that forward, picking up with a trending-type mechanism, a regression-type analysis that trends out through year-end 1990, is that accurate?

A No -- yes and no.

Q Okay.

A What I did was to use the data, starting with January '88, if that's the right -- I think that's correct, and used all of the actual data as a part of a regression analysis and looked at the coefficient to see if the curve fit, and it had a high coefficient, that there is a relationship between time and the plant balances. Then I used the actual balances for those months that were available, January -- or December, January0 and February, and then using the data in the linear regression, I projected the rest of the test year, March through December, based on the linear regression analysis.

Q And correct me if I'm wrong, but if you look at your December 1989 actual and your December 1990 projected, you are projecting that Gulf Power will add $38 million of capital additions in 1990, is that correct?

A I'd have to subtract it, but that looks accurate. $38,311,000 is the difference between the two numbers.

Q All right, do you know what Gulf's capital budget is for 1990?

A Not off --

Q Anticipated additions?

A Just -- not off the top of my head.

Q Would you agree --

MR. BURGESS: Excuse me. I'm sorry, I thought he was going to add something to that.

WITNESS LARKIN: But the capital budget would not be a document that is as reliable as in fact you could look at it in any particular period of time and you could not state with any surety that the projects that are reflected in there will be built ever, or will be built in any particular year. So it is not a reliable basis on which to calculate or project plant balances, and that's why it wasn't used.

Q Okay, I want to talk about that in just a minute, but you didn't make any adjustment either up or down to the budgeted amount of CWIP?

A That's correct.

Q The assumption given that fact then would be that there would be no -- that the $38 million would be all that would be added in 1990, is that correct, based on your trending mechanism?

A That the net plant would be --

Q $38 million greater?

A Greater. That reflects additions and retirements and anything else that might go on in that plant account.

Q I know you said it didn't matter to you, but do you know what Gulf's actual-to-budghet through May is for plant additions?

A Actual to budget?

Q Yeah.

A Well --

Q Whether Gulf is over budget or under budget in plant additions?

A They've got to be under budget because they used the budget to look at this test year. And every month of this test year they've constructed or added less plant than they've shown in the test year.

Q You were not here, but it would surprise you then that the prior testimony was that year to date through May, Gulf is in fact on budget for its plant additions?

A That wouldn't surprise me that you'd say that, but it doesn't agree with the rate case.

Q Well, I am curious about that. (Pause) Why would it not surprise you for us to say that if it's not in fact the case?

A Well, because you -- you changed the construction budget and you changed the various things as you go along. This projection for this rate case was made at a point in time that there might have been changes to the construction budget after that.

Q You have not done any analysis to indicate what might have happened, if anything?

A No. What I've done is an analysis that shows that the actual is far less than what you projected for this rate case.

Q What you've, in effect, done with your trending and your projections is to cut construction budget without any specific projects being questioned, is that accurate?

A No. What I've done is to attempt to project what I feel plant in-service will be for this test year, and if you look at the two months of the actual after my projections, in the first month, March, I projected $1,427,365. The actual was $1,425,000.

I exceeded the plant in service by 1.8 billion or 1.8 million. In the next month I projected 1.431 billion. The actual was 1.433 billion. I was under the actual by a 1.812 million. So on net, I'm within what the actual is for the year-to-date by 72,000.

Q Mr. Larkin, you have testified on a number of occasions, as well as some of the other witnesses who work with you, for you, that nonrecurring items, if you know a certain item has been removed or will not occur, that that ought to be removed from the analysis. Is that an accurate statement?

A It could be, but when you get the projections and you look at those projections compared to the actual and you're right on the money, then, you have to conclude that what you did was accurate.

Q That would depend on what point in time you're looking at, would it not?

A That's correct.

Q Okay.

A What I've also said in my testimony, though, is that the Commission ought to look at what the actuals are and substitute those. And then make their own projections if they think mine are inaccurate.

Q Well, let's talk about about that then, because we've done some. And we want to suggest either that you accept this subject to check or that you performed the analysis on your own.

CHAIRMAN WILSON: Let me ask a real quick question. Did you intend to say that whenever we're dealing with projected information, that if we get into a test year and we have actual data, that the actual data should always be substituted for the projected?

WITNESS LARKIN: If the projected looks like it's out of whack for some reason, and there is not any nonrecurring type items in there. Actual, to me, is always better than projected.

CHAIRMAN WILSON: So is the answer, "yes"?

WITNESS LARKIN: Yes.

CHAIRMAN WILSON: All right.

WITNESS LARKIN: With those caveats.

Q (By Mr. Holland) But you would agree, and you have agreed with the Commissioner, that actual is always better than projections?

A With the caveats that you have to look back at it and see what it is, and what the differences are and analyze it, and if it looks like it's appropriate to use that.

Q Mr. Larkin, you would agree, would you not, that there have been at least two major plant items that have been removed within the period that you're trending; one being the Plant Daniel coal cars and the other one being the Scherer plant acquisition not Plant acquisition but Plant adjustment, that Gulf Power Company has stipulated to in Issue 3 of the Prehearing Order?

A Yes.

Q Have you attempted to perform your trending analysis, removing those items as nonrecurring and adjusting?

A No. Because there are retirements that take place, there are shifts in plants that some months -- if the coefficient had been out of whack; when I looked at the actual data, if the coefficient of the relationship of time and plant had been inaccurate, then I probably would have went back to see what was wrong. But the coefficient is quite high for the actual data, and that's why I used it.

Q Performing a -- and if you need to do an analysis in a late-filed, or if you would agree, subject to check -- performing the analysis that you performed in making those nonrecurring adjustments from 1/-1- of '88 forward, would you agree, subject to check, that the December amount, in lieu of your 1,462,577 would be 1,476,832? A difference of about $14 million?

A That could be.

Q And trending over a more realistic period, from January 1 of '89 forward, that the like figure would be 1.483 million -- 1,483,522,000, as of December, 1990.

MR. BURGESS: Excuse me. Are you asking him to accept the premise in your question that that would be a more realistic period?

MR. HOLLAND: No. No.

A Well, that's what I'm saying, I don't believe that is --

Q I know; I know you don't. But subject to check would you agree that those are --

A Those are numbers that you could arrive at. What's the coefficient of each analysis? Do you have the coefficient number?

Q Okay. I think the one that you used to standard error of coefficient was 193. Ours was 106.

A 193.

Q Which, if I understand this, means that ours is considerably better.

A No, not my understanding. 196.

COMMISSIONER EASLEY: 193.

MR. HOLLAND: 193.

Q (By Mr. Holland) The point, and I think you would agree, is that, depending on the time that you start to trend, depending on the adjustments that should or should not be made, depending on your opinion, the outcome can differ drastically, can it not?

A You can get different numbers, correct.

Q And looking at the actual plant for Gulf Power Company through May, the actual net utility plant, have you made any assessment of where we are, in terms of budget-to-actual?

A Well, I looked at the reserve and the plant through the actual data I had, and I told you what I thought the projection, my projections compared to the actual plant in service was. And as far as I'm concerned, the net of the two months shows that I'm within $72,000 of the balance.

For the reserve balance, for March I

projected the reserve to be 474,058,000. The actual was 474,068,000, excluding the JDITC issue.

Q Okay.

A And for April, I projected 477,581,000 and the actual was 476,654,000. So I'm within relatively small dollar amounts of what the actual is for mt projections compared to the actual.

Q Well, let me ask you about that. In April, on the plant in service, would you agree that you were a 1.8 million under?

A Yes. In the prior months I was 1.8 million over. And the net of the two is 72,000.

Q Ok-y, and then a million -- in April, actual year 3,573,000 under? And the more plant you add --

A Say that again. April what?

Q April, actual is a 1,438,763. And I believe your number is a 1,436,841.

A What are you looking at?

Q I'm looking at actual, April figures.

A Actual April plant in service?

CHAIRMAN WILSON: Do we have that?

MR. HOLLAND: It's in the record.

WITNESS LARKIN: Actual.

CHAIRMAN WILSON: Actual, where? I'm sorry, I didn't get a copy of that.

MR. HOLLAND: It's not in -- I mean, Mr. McMillan, I think, testified to the plant additions and to the --

CHAIRMAN WILSON: Okay. We don't have a exhibit, though, on this?

MR. HOLLAND: No, sir, there is not a --

WITNESS LARKIN: I don't have the same numbers you do.

Q (By Mr. Holland) Well, let me just get you to do this: Accept subject to check, that the May number, actual, is 1,438,763 and calculate the difference between that actual number and your projected number.

A Well, the May numbers shouldn't be out yet. Whenever we asked for the May's information --

Q I said April.

A Oh, April, I got 1,433,089,000. plant in service.

Q You're right, I'm sorry. The May actual number is a 1,438,763.

A Well, we don't know that because you've always told us that you couldn't get us the actual data until the 24th of the month, so you can't to have it to give it to me.

Q We performed a miracle, and we have --

A Well, I guess I wouldn't -- you know, if it's a miracle that can happen all the time I'd accept it, but --

Q The reason we have it is there was a late-filed exhibit that was requested and in our effort to timely comply --

A What's the number?

Q 1,438,763.

COMMISSIONER EASLEY: Maybe I'm just dumb, but I wrote down a 1,443,000. --

MR. HOLLAND: 433. That was the April number that I gave.

COMMISSIONER EASLEY: 1,433,000 is April?

MR. HOLLAND: 1,433,089. was the April figure.

COMMISSIONER EASLEY: All right, do May again.

MR. HOLLAND: May is a 1,438,763.

COMMISSIONER EASLEY: Okay, thank you.

A All right. The difference is 3,573,000.

Q (By Mr. HollandL) Okay. What's the CWIP balance for May?

Q You'll have to get Mr. Burgess to ask Mr. McMillan that question.

A Well, see that's the whole thing, is the relationship between these numbers, and though you said the CWIP balance would be going up, the average of the CWIP balance for the first months where the actuals are available is less than what it was.

Q But you don't make any adjustment in your calculations to the CWIP balance?

A No. Because I thought it was accurate the way it was, and as it looks now it looks like it's overstated.

Q Mr. Larkin, turn, if you would, to HL-4, and I'm going to try to keep up with your revised to make sure that --

A Yes.

Q Is it your opinion that the JDITC balance shown in Column F is the appropriate column, is the appropriate number to use?

CHAIRMAN WILSON: What exhibit are you on?

MR. HOLLAND: I'm sorry it's HL-4. It's not in the new.

A It is, in my mind, the appropriate number to use.

Mr. Burgess has informed me there may be a stipulation or an agreement that Public Counsel has entered into, to allow the offset of that balance by a reserve deficiency, and I have not read that document.

And at the time I was not asked my opinion of it, but if they've agreed to that then they'll have to stick with that agreement, but I think it's inappropriate.

CHAIRMAN WILSON: So there, Mr. Burgess.

(Laughter)

COMMISSIONER EASLEY: Are you going to move to strike?

MR. BURGESS: No, no.

COMMISSIONER GUNTER: Take one of those with the glove across the face.

CHAIRMAN WILSON: That will teach you to hold out on your witness.

COMMISSIONER GUNTER: That will teach the witness when the billing time comes to speed the payment.

CHAIRMAN WILSON: Mr. Larkin, you need to keep a much closer eye on your client. (Laughter).

Q (By Mr. Holland) Mr. Larkin, have you -- and I think I know the answer to this, but I guess you have not had the occasion to review order 19901 in Docket 880053-EI?

A No.

Q Would you agree, subject to check, that in that order -- and I can provide you with a copy of it if you would like -- that the Commission did, in fact, order that the deficit in the reserve balance be adjusted by the amount of the JDITC? And that once the offset had been accomplished then that the revenue differential, you would move forward with that?

A I don't know. Mr. Burgess, it's a legal question. I guess, if they've agreed to it, then they have to abide by whatever they have agreed to.

MR. BURGESS: Could I ask, is the stipulation attached to the order?

MR. HOLLAND: I don't remember the stipulation, all I remember is the order.

MR. BURGESS: Okay.

Q (By Mr. Holland) Just for the record, Mr. Larkin, and I'll read it again if you or your counsel would like to see it. I'm trying to do this for the sake of time. "As shown in the schedule below, the accumulated interest synchronization amount as of January 1, 1988 --"

COMMISSIONER EASLEY: Slow down.

MR. HOLLAND: I'm sorry.

Q (By Mr. Holland) "As shown in the schedule below --"

We're supposed to talk slower in the South; and if I'd given you this, you're the one who's supposed to slow down.

"As shown in the schedule below, accumulated interest synchronization amount as of January 1, 1988, is to be applied to the remainder of the reserve deficit calculated in the 1984 represcription. For the year 1988, the ongoing interest synchronization adjustment, in addition to the currently approved amortization expenses, shall be applied to the write-off of the deficit."

COMMISSIONER BEARD: Mr. Holland, I think he's admitted that. He just doesn't have to like it.

MR. HOLLAND: I understand.

Q (By Mr. Holland) But you do acknowledge, do you not, that it will impact your depreciation reserve balance if, for example, the December 31, 1989, figure is, rather than 5,848,000, is $290,000?

A Yes.

Q Would you agree, subject to check, that making the calculation using those revised numbers that your $3,715,000 overstatement would, in fact, be a $1,513,000 understatement or a delta difference of $5 million?

A It could be, yes.

Q And that would, the impact of that would be to affect your calculation of net plant, would it not?

A Yes. That would raise the rate base.

Q I believe, Mr. Larkin, with respect to HL-11 -- let me find the revisions. (Pause)

Let me just make sure for the record that I understand the corrections that you've made here. In your original HL-11, you had indicated that income taxes would be reduced by $587,000?

A Yes.

Q Is that correct? And your revision in your adjustment to income taxes for interest synchronization results in an increase in taxes of 1,000,026. Is that correct?

A Well, the exhibit indicates that there would be an increase in income taxes. The original one, we just picked it up the wrong way.

Q Mr. Schultz picked it up off your exhibit incorrectly, is that --

A No. I put it on his exhibit incorrectly.

Q Okay.

A No, he didn't make the mistake.

Q Mr. Larkin, if you would, turn to Page 22 of your testimony.

A Yes.

Q Specifically, on Page 23, Lines 8 through 10?

A Yes.

Q Can you show me -- and this is specifically with reference to Issue 4 -- how Georgia Power and/or The Southern Company inflated the purchase price which Gulf paid for the Scherer unit and that a profit was made?

A Whenever you add an acquisition adjustment, you're recovering from the entity you're selling that unit something more than its actual cost of construction. That has to impact your net operating income because you're offsetting some interest expense or some carrying charge with that cost, and that the profit will go up.

In addition, there was an agreement between The Southern Company or Georgia Power --

Q Excuse me, let me, before we go to that one, let's get to -- there are two different ones --

A Correct.

Q -- and I think for the record we need to, the first one you're referring to, and I believe the one you're referring to on Page 23, is that you're stating that there was an acquisition adjustment associated with Gulf Power Company's purchase of a 25% interest in Scherer Unit 3, is that correct?

A That's correct.

Q Can you show me where there was an

acquisition adjustment for that transaction?

A It's on the Company's books. I guess I don't understand what you mean, "Show me."

Q Well, we bought the plant before it went in service.

CHAIRMAN WILSON: Is that a question?

Q (By Mr. Burgess) Didn't we? That is a question.

A I assume that's correct.

COMMISSIONER BEARD: Could I ask Mr. Holland real quick what it is on Page 2 of 2 of the McMillan Exhibit 575 under plant acquisition adjustment? 5647, is that --

MR. HOLLAND: That's what I'm getting to. There are two different transactions here, and the acquisition adjustment on the common facilities is totally different than the transaction with respect to the unit itself.

COMMISSIONER BEARD: I see.

Q (By Mr. Holland) I'm speaking specifically of the purchase from Georgia Power Company by Gulf Power Company of a 25% interest in Scherer Unit 3. Can you show me where there's an acquisition adjustment?

A There's an acquisition adjustment on the Company's books of 8 million --

Q We can't find it, Mr. --

A Well, you have got it labeled as an acquisition adjustment.

Q That's your testimony, but you can't point me to where it was?

Do you understand I'm not talking about the common facilities?

A Yes. I understand you're not talking about the common facilities.

COMMISSIONER BEARD: Are we going to get to wait until McMillan comes back up to understand these documents?

MR. HOLLAND: Is that 575?

COMMISSIONER BEARD: That is 575.

MR. HOLLAND: Yes.

CHAIRMAN WILSON: I think the first time we hear about it is going to be from Mr. Larkin after we've finished with --

COMMISSIONER BEARD: If he can explain --

CHAIRMAN WILSON: -- the cross examination.

WITNESS LARKIN: On Schedule B-3, Line 6, there is an amount of 8,043,000, which is labeled an acquisition adjustment. And that's what I have reference to.

Q (By Mr. Holland) And it's your testimony that that is with reference to the plant and not the common facility?

A That's my understanding.

Q Isn't it ironic that the numbers are identical for the plant and the common facility?

A Well, yeah, that could be. I thought that the common facility was somewhere else. But I've only taken out one amount.

Q If there -- let me just ask you to assume for purposes of the question that there is no acquisition adjustment associated with Gulf's purchase from Georgia Power Company of the plant.

A All r'ght.

Q Georgia Power -- has Georgia Power made a profit or has The Southern Company profited from that transaction?

A There was no acquisition adjustment. Not -- if there is none associated with the plant, then there is no profit.

Q So your statement on Page 23 would be inaccurate?

A It would be inaccurate as it applies to an acquisition adjustment for the plant itself.

Q Okay.

A It would not be inaccurate as it applies to the common facilities.

Q All right. With respect to the common facilities, and that is specifically Issue 4, on Page 23, you state, the bottom of 23 and the top of 24, you state that, "To pass along these acquisition costs which discharge the obligation of the Soutnern Company related to the Oglethorpe Power Corporation and the City of Dalton would be unfair and unequitable to the Gulf Power ratepayers and would unjustly enrich The Southern Company." Can you tell me how The Southern Company is unjustly enriched?

A Sure. It had an obligation to repurchase those common facilities from Oglethorpe and Dalton. It passed that obligation on to Gulf Power through this acquisition adjustment. It paid Oglethorpe and the City of Dalton more than the net book value of that property, based on its obligation to those two entities.

If it had paid its obligation under the contract, that cost would have been theirs and would not have been flowed through to Gulf Power. And, therefore, that is how The Southern Company was unjustly enriched.

Q Even given what you've just stated, assuming that it's true, the Southern Company would not have been enriched; Georgia Power would have been enriched, would they not?

A Whoever --

Q Georgia -- I'm sorry, go ahead.

A Whoever entered into the agreement. But it was my recollection that it was the Southern Company that entered into the agreement with Oglethorpe and --

Q To my knowledge, the Southern Company is not a signatory to any of the purchase and sale agrements with respect to the Scherer units.

A Well, they're --

Q Let me ask you this.

A They're the wholly-owned -- the wholly-owned Georgia Power, to the extent that Georgia Power is enriched,the Company, Southern Company, is enriched.

Q Southern Company wholly owns Gulf Power Company, too, does it not?

A That's correct.

Q To the extent that the signatories on the contract were Georgia Power and Oglethorpe and Dalton, and Gulf Power Company assumed Georgia's obligation under that contract up front, with full knowledge of what the terms and conditions of the contract were, there is no -- or is there a profit made, or was there a profit made by Georgia, or by the Southern Company for that matter, in this transaction?

A I would say so. I would say that it wasn't an obligation that Gulf Power should have accepted, and that to the extent that they did accept it and attempt to pass it on to the ratepayers, then they would have been enriched, to the extent they're able to pass it on to the ratepayer, and the system would have been enriched; thus Southern Company would have been enriched by being able to recover a cost that is over and above the net plant value.

Q So the problem that you have with the transaction is that Gulf should have not -- should not have, in its decision to purchase an interest in Scherer Unit No. 3 and the associated common facilities, entered into a contract which obligated Gulf Power Company to pay the net book plus accumulated AFUDC, CWIP, or whatever, which constitutes the major portion of the adjustment?

A That's correct.

Q As I recall in the tax docket, the major reason that I believe your colleague, Mr. Smith -- is that his name?

A That's correct.

Q -- felt that the acquisition adjustment should not be approved for purposes of that docket was that there were Commission rules and regulations which dictated that acquisition adjustments not be allowed, but he could not give me any cites to any orders or rules and regulations. Have you had occasion to research that, and have you found any?

A This Commission's rules and regulations?

Q Yes.

A I don't know if there are any, but it's my recollection that as a general policy they do not allow acquisition adjustments either way, Ones where you pay more than the plant costs or those that you pay less than the plant costs, but I don't think that there is any rule. I think it's more of a general policy.

Q But you can't recite me -- cite me to any orders that would reflect that policy?

A Not at this point.

Q Let me ask you this question: If Gulf Power Company had the opportunity to purchase a plant for $1 million, and the book value on that plant was $500,000, and the -- an alternative, the next cheapest alternative, was $2 million; would it be your testimony that the Commission's policy should be to allow only $500,000 in rate base?

A I guess as a general rule, yes, but those kinds of economic decisions ought to be considered in the context, whether there is a benefit to the ratepayer, but generally there isn't anything like that involved.

Q But there is a value --

A That no one can prove or come forward with that cost/benefit analysis that shows that. You can always state a hypothetical that says, "Oh, yeah, here, this is what really happened," but nobody comes forward with a cost/benefit analysis that shows here were the alternatives.

Q Okay. But assuming that the hypothetical were proven up, you would agree, would you not, that some consideration should be given to the value of the asset?

A Some consideration could be given to the value of the asset.

Q Mr. Larkin, would you turn to Page 36 of your testimony?

A Yes.

Q Pages 36 and 37 of that testimony, you state -- and this is relative to the forecast adjustment that you were making on the recommendation of Mr. Rosen, I believe?

A Yes.

Q In that testimony, I believe you state that in a recent Bell Telephone case, the Commission did not accept an accretion adjustment to reflect an increase in consumption of services due to a reduction of rates. Is that a correct summary of your testimony?

A Yes.

Q And you further conclude that since the Commission has rejected the philosophy of increasing revenue as a result of rate decreases, that reductions in consumption due to rate increases should also be rejected, is that correct?

A That's correct.

Q Have you got that order in front of you?

A No, I do not.

Q You do not?

A No. (Pause) Yes.

Q I believe what you've been handed is Order No. 19677 in Docket No. 860984-TP. I think that's the order to which you cited, is that correct?

A I don't particularly cite an order.

Q Is this the one to which you were referring?

A I believe so, but I'm not completely certain.

MR. BURGESS: I'm a little bit hesitant to step in here, but it's my recollection that the actual issue that Mr. Larkin refers to here was dealt with by the Commission on reconsideration of this order and not in this order.

CHAIRMAN WILSON: What case is it you're referring to?

MR. HOLLAND: Bell Telephone.

MR. BURGESS: Oh, no, I'm sorry, it's not even of this -- it's not even this docket.

CHAIRMAN WILSON: What docket is it, Mr. Larkin?

WITNESS LARKIN: I don't know offhand.

CHAIRMAN WILSON: Is this -- this says "accretion adjustment." Is this a stimulation issue?

MR. BURGESS: This is a stimulation issue, yes, sir, which I would assume is being characterized as one of the variables that goes into the accretion/attrition question.

MR. VANDIVER: The docket number was 880069.

MR. BURGESS: It's a different docket.

MR. HOLLAND: Well, for purposes of cross examination, let me ask you about this order, Mr. Larkin. I think it deals with the same subject.

CHAIRMAN WILSON: I think for purposes of cross examination you need to ask him what he's talking about. What order -- what proceeding and what order are you talking about?

WITNESS LARKIN: It was the last Bell

Telephone order where stimulation and accretion was -- stimulation was dealt with. And I don't have the docket with me, and I don't know the docket number, but now that I look at this docket number, this is way too old to be the one that it was dealt with.

COMMISSIONER GUNTER: That was the case that was litigated and just decided here, recent times.

WITNESS LARKIN: That's correct.

CHAIRMAN WILSON: Did you get your information from the order?

WITNESS LARKIN: Yes.

CHAIRMAN WILSON: An order of the Commission?

WITNESS LARKIN: Yes.

CHAIRMAN WILSON: But you don't which order it was?

WITNESS LARKIN: Well, I just read parts of it, and I didn't make a note of the docket number or the date.

COMMISSIONER BEARD: 880069.

Q (By Mr. Holland) Do you recall whether in that order the Commission rejected outright any type of adjustment in the order to which you are referring in your testimony?

A I believe so, that they had rejected this specific adjustment in that case.

Q For purposes of that case, did they reject any kind of suppression or accretion adjustment for all cases?

A Well, no, it didn't say that in that order, for all cases, no.

Q And I haven't read that order, Mr. Larkin, but at least in the order which I have looked at, the difficulty that the Commission had there in determining the level of stimulation associated with the particular access reductions that were occurring was the problem and not the theory or the fact that such might be appropriate under certain circumstances.

MR. BURGESS: You're asking him about the order that was not a subject of his testimony?

MR. HOLLAND: No. I'm asking him about the order that is a subject of his testimony and asking him if that was true in that order as it is true in this order.

MR. BURGESS: I'm afraid I'm going to have to object.

CHAIRMAN WILSON: Mr. Larkin can always answer questions about orders that are not in his testimony that he's not testifying about.

MR. BURGESS: I'm going to have to object to that because the characterization of Mr. Holland's question saying it's a subject of his testimony. He has testified that his testimony references an order that, as Commissioner Gunter referenced, was out of a very recently litigated Southern Bell case, and has nothing to do with the order that you have handed him.

Q (By Mr. Holland) Let me restate my question then with reference to the specific order to which you have referenced in your testimony.

Was the determination by the Commission in the order to which you refer based upon difficulties which the Commission recognized and addressed in calculating such an adjustment for the purposes contained in the order?

A Not that I understand. The Company came forward with a suppression adjustment. The Company had offered one. The Commission rejected that offer of the specific accretion adjustment.

CHAIRMAN WILSON: Do you know why?

WITNESS LARKIN: Well, I believe you indicated that you didn't think it existed or didn't know how it could be calculated.

CHAIRMAN WILSON: Is that the only reason?

WITNESS LARKIN: That's all I remember off the top of my head.

CHAIRMAN WILSON: Did you read the main order or just the order on reconsideration?

WITNESS LARKIN: I believe just the order on reconsideration.

CHAIRMAN WILSON: Have you read the order out of the court? Has that been decided?

MR. VANDIVER: Yes, sir.

WITNESS LARKIN: Yes, it has. I have not read the court order.

Q (By Mr. Holland) With that response, Mr. Larkin, did you review the information provided by the Company in response to Public Counsel's Fifth Request for Production of Documents, Items 98 and 99, providing details on the Company's forecasting models?

A No. That was Dr. Rosen's responsibility.

Q And I would assume then that you didn't examine the price terms included in the sales forecast models to determine whether or not the variables were significant in predicting sales?

A No.

Q You've made no analysis then?

A That's correct. I just am making a statement that Dr. Rosen has adjusted for that in his analysis.

MR. HOLLAND: Commissioners, that's all I have.

MAJOR ENDERS: I don't have any questions, Mr.

Chairman.

MR. PALECKI: Staff has some brief questions.

CROSS EXAMINATION

BY MR. PALECKI:

Q These first questions concern the disallowance of the Tallahassee office. Staff has recommended disallowing 25% of the Tallahassee office, and I see that you're recommending that 100% of the investment of the Tallahassee office be removed from rate base because it's associated with lobbying activities by Gulf, is that correct?

A That's correct.

Q If Gulf employees from Pensacola use the office while conducting business at the Public Service Commission, DER, et cetera, would these activities be considered lobbying?

A Probably not, but there is no reasonable method of doing an allocation. There has been nothing offered, so I don't think it should be the burden of the ratepayer to disprove what should be excluded. But we wouldn't object if there was a basis of reasonably allocating what is legitimate and what is illegitimate, and again, all we've taken out is the improvements. We haven't taken out any rent, any utilities, lots of other costs that are still in there.

Q Issue No. 28 concerns removing the 1984 cancelled Southern Services building from rate base. It's Staff's position that this building has already been removed from rate base, and therefore no adjustment is necessary. Do you contest that?

A We have adjusted our testimony and have removed that adjustment based on the Staff's audit that that has been taken out.

Q My final questions concern the 63 megawatts of Plant Scherer that have been an item of contention in this case.

It appears that Gulf plans to sell this 63 megawatts on sort of a step-basis between now and 1995 to the point where in 1995 they'll have sold all of the 63 megawatts as unit power sales.

What would you think of a phase-out of Scherer from rate base over the years until 1995 when all of the unit power sales is sold?

A I guess if you really felt that they couldn't sell it, but I think that this plant probably, if not sold over the long term, will be sold over short periods of time enough so that the cost would be more than offset by the revenues that they get. And to put any in the rate base would just burden the ratepayer with trying to prove that they were compensated in another way for this plant. It just is cleaner to do it this way; take it all out.

Q In your testimony you state that you believe it all should be taken out because the 63 megawatts is not needed by the territorial customers. Gulf's position has been that this 63 megawatts has been used by its territorial customers, and that is since the default of Gulf States; and that since it has been used, it is used and useful and, therefore, should be included in rate base. What is your opinion on that?

A I would disagree with that. The fact that you turn something on because it happens to be available does not make it used and useful. I think one could make a good case that Gulf Power has excess capacity and that excess capacity adjustment is needed over and above the 63 megawatts. We haven't done that. So we don't think the 63 is used and useful, and there probably is additional power over and above that that is excess.

Q Thank you.

CHAIRMAN WILSON: You recommended that the Caryville site be removed from plant held for future use?

WITNESS LARKIN: Yes.

CHAIRMAN WILSON: Is that's right? How would that be treated? It would be removed from plant held for future use. How would it be treated in accounting?

WITNESS LARKIN: All you'd have to do is just take it out of rate base. You don't care where they account for it. They can leave it in plant held for future use. All we're recommending is that ratepayers not be required to pay the carrying costs on that.

CHAIRMAN WILSON: And you would have the carrying costs accumulate as you would with AFUDC?

WITNESS LARKIN: That could be an alternative. And then if it ever does become used and useful or something is about to be constructed on that site, then it either --

CHAIRMAN WILSON: If nothing is ever constructed on that site, though, and the Company gets rid of the land --

WITNESS LARKIN: Yes.

CHAIRMAN WILSON: -- what should happen to the proceeds if they were to sell it?

WITNESS LARKIN: If there is a gain, over and above the direct cost plus the carrying cost, then that gain should go to the ratepayer for the period of time since '79 that they -- the ratepayer has paid the carrying costs. Really 1980 I think is when it first went into rates. And if there is a --

CHAIRMAN WILSON: What would happen if there is a loss?

WITNESS LARKIN: If there is a loss, then it's obvious it was never justified at that cost. Part of the reason that the Company claims it's justified is that you could not buy that piece of land at that price at some future point in time. If there is a loss, it's obvious that that's not the case -- that you could have not bought the land, and it would have been available at a lower price at the point they sold it. So they should bear the loss.

CHAIRMAN WILSON: All right. If the Company takes that property and if it's -- no current return is received by the Company on that piece of property, beginning in 1990. And in the year 2000 they sold the property for a substantial gain to someone, would you apportion the gain on that sale to recognize the period of time the ratepayers had paid a return on it, from '80 to '90, and then the time that the Company had basically borne the risk on the property from '90 to the year 2000 and aportion the gain that way?

WITNESS LARKIN: Yes, in some manner like that. It's almost --

CHAIRMAN WILSON: So you would have the gain follow the risk.

WITNESS LARKIN: That's correct.

CHAIRMAN WILSON: Currently ratepayers, if it's earning a current return, it's included in rate base.

WITNESS LARKIN: Right.

CHAIRMAN WILSON: Ratepayers are bearing the risk, whether it's a loss or a gain.

WITNESS LARKIN: Right.

CHAIRMAN WILSON: If it goes out of the rate base, then stockholders -- ratepayers are not paying a current return on it; stockholders are now bearing all of that risk.

WITNESS LARKIN: That's correct.

CHAIRMAN WILSON: And if they were to transfer it to a subsidiary or an affiliate, or anybody else at this point, would you have it transferred at book cost plus carrying costs that have been paid on it through the years, or what?

WITNESS LARKIN: It would have to be at book cost because unless --

CHAIRMAN WILSON: You wouldn't transfer it out as market value? I guess that's the alternative, either market value or book value.

WITNESS LARKIN: No. Book value, and you have to record things at cost. It would be transferred out at the cost that's on the books to wherever they put it. And if the ratepayer were to be compensated for the carrying charges from '80 to '90, then I suppose you could record that as part of the cost of the land by increasing the value of the land and then decreasing rates so that the ratepayer got the benefit of that, and then the stockholder would have that land cost free, and any gain or loss would be his going forward.

CHAIRMAN WILSON: On Issue 26, which has to do with Plant Scherer being allowed into rate base, and Public Counsel's position is that it's not currently needed to serve customers, you're listed as a witness on that. Are you the correct witness for me to ask what is the reserve margin position of the Company? Or would that be Mr. Rosen?

WITNESS LARKIN: I think it on would Mr. Rosen.

CHAIRMAN WILSON: Do you have an opinion on that?

WITNESS LARKIN: The reserve, as far as I can tell, the only thing I know about it is we haven't made any calculations, and the only thing I see is what the --

CHAIRMAN WILSON: FEA says.

WITNESS LARKIN: -- FEA says.

CHAIRMAN WILSON: Do you have an opinion about what an appropriate reserve margin would be?

WITNESS LARKIN: Well, we've always felt that 15 to 18% was adequate. 18 was probably high and 15 was probably --

CHAIRMAN WILSON: Has that position remained consistent?

WITNESS LARKIN: Through the years, yes. But I think Dr. Rosen, who testifies to those things, would have a better feeling as to what the appropriate reserve margin would be. It's just that when I look at these things, if it's in that range I don't look any farther.

CHAIRMAN WILSON: I don't have new other questions. Do you have any questions? Questions? Redirect?

MR. BURGESS: Do you want me to redirect.

CHAIRMAN WILSON: Do you want to redirect on that and then we'll go to that exhibit?

REDIRECT EXAMINATION

BY MR. BURGESS:

Q Just one area, Mr. Larkin. You were asked about the interest synchronization adjustments, and you indicated that if Public Counsel had signed a stipulation that agreed to a particular treatment that the Public Counsel should, of course, be bound by that.

Have you seen any stipulation to that effect?

A No, I think you misspoke. You said the "interest synchronization," and we're talking about JDITC.

Q I'm sorry. Yes, the JDITC, right. Have you seen a stipulation to that effect?

A No.

Q Is your testimony that whatever the agreement is, is what should bind the parties?

A That's correct, even though I don't like it.

Q Okay. Have you seen the order that Mr. Holland referred to that dealt with the treatment to a particular specific reserve deficiency?

A No.

Q What is it that you disagree with as to the treatment that's suggested; that is, specifically that it offset a reserve deficiency?

A And I guess I have to go back and historically set this thing in perspective.

The job development investment tax credit issue is something that I raised a number of years ago, I believe in 1984, that it would be appropriate to give the ratepayer an income tax credit or deduction for the interest component of the overall rate of return that the Company was allowed to earn on JDITC, or the job development investment tax credit.

The Commission agreed. Commissioner Cresse thought that that was appropriate, that this was a hypothetical return, that the Company was allowed to earn and a hypothetical tax deduction was all right. There was concern that if that was allowed in rates, that the Internal Revenue Service would disallow job development investment tax credit. So as an alternative, it was stated that, "All right. You can have this in rates under bond, but you have to go ask the IRS if interest synchronization of that component of the overall rate of return is okay." And if so, then the ratepayer gets this money in rates.

Now, that was a litigated issue in a rate case like this where we all had an opportunity to duke it out. And had the decision been made, the ratepayer would have gotten that money right since 1984. Then we come along and we have a depreciation case, which is not a revenue-setting issue. It's not an issue where all the rates are set. And after looking at curves of depreciation, it is decided that the depreciation rates were deficient at some point in the past, years gone by; and, therefore, there is a reserve deficiency. The depreciation reserve is not as high as it should have been.

This, then, to take that dollar amount, which is retroactive, because you're retroactively going back and saying we're resetting rates, and offset that against something that the ratepayers should have gotten right from 1984, is unfair to him. Because, first of all, he had to wait for money he should have gotten right up front. You're taking a retroactive balance and going back and offsetting it against it, so what you're engaging in is retroactive ratemaking.

And another point is if it's okay to do that, then it should be okay from 1984 to run on back and get this JDITC interest synchronization back as far as we can go to get it. And that's what I would object to about what happened.

Now, it's probably water under the bridge, and you didn't ask me so --

MR. BURGESS: Why he thought the JDITC treatment of that is accorded to the reserve deficiency was an improper way to deal with it.

CHAIRMAN WILSON: That's not really an issue here.

MR. STONE: No, it's not.

MR. BURGESS: I think it is.

CHAIRMAN WILSON: The prior order?

MR. BURGESS: I'm sorry?

CHAIRMAN WILSON: The prior order, which is what he was talking about.

MR. BURGESS: Oh, in the previous order?

CHAIRMAN WILSON: Yeah. The depreciation, the treatment as an offset against depreciation.

MR. BURGESS: What you're saying is it's already a final issue?

CHAIRMAN WILSON: Yeah. I mean, I appreciate the fact that he disagrees with it.

MR. BURGESS: It's an issue in the case and so I thought we'd just go ahead and --

CHAIRMAN WILSON: Mr. Larkin, isn't depreciation always retroactive rate base?

WITNESS LARKIN: No.

CHAIRMAN WILSON: Why not?

WITNESS LARKIN: Because you could have dealt with --

CHAIRMAN WILSON: Why not?

WITNESS LARKIN: Because you can deal with the revenue, or the -- you can deal with the reserve deficiency in two ways. You can shorten or collect more expense in the future.

CHAIRMAN WILSON: Uh-huh. Which means the future ratepayers are paying out for a plant that was used by past ratepayers, right? I mean, that's the implication of it, right?

WITNESS LARKIN: Well, that's the implication of it. But there's also another implication is that this is an inaccurate science.

CHAIRMAN WILSON: Uh-huh.

WITNESS LARKIN: Because five years from now you may look at those same curves, the same depreciation curves, and decide that the depreciation expense was too high.

CHAIRMAN WILSON: Uh-huh.

WITNESS LARKIN: So, what you're doing is that every five years or so, you're truing up or looking back and forward and you're just never going to get it right until you get right to the end and the last dollar is depreciated.

CHAIRMAN WILSON: Uh-huh.

WITNESS LARKIN: So in those instances --

CHAIRMAN WILSON: But generally with a depreciable item, the more you know about it, the further you are into its life, the better idea you're going to have about how accurate you're going to be about what that life is actually going to be.

WITNESS LARKIN: Generally.

CHAIRMAN WILSON: And whenever you change the remaining life of an asset to shorten it, to increase expense, you are in fact collecting from later ratepayers what you failed to collect from earlier ratepayers because you now know what the real life of it is and your first shot at it was an inaccurate estimate?

WITNESS LARKIN: Or the --

CHAIRMAN WILSON: Do you have it -- in other words --

WITNESS LARKIN: Or the use has increased.

CHAIRMAN WILSON: -- you have not -- it may have, that's true, that's another option. But in fact, you haven't matched the --

WITNESS LARKIN: Revenue and the expense.

CHAIRMAN WILSON: -- revenue and the expense.

WITNESS LARKIN: That's correct.

CHAIRMAN WILSON: And what you end up having to do when you reset depreciation rates is to catch up if in fact it's a shorter life than you first estimated it to be.

WITNESS LARKIN: Yes, but it can go both ways, we're not always catching up. A lot of times you're going the other way.

CHAIRMAN WILSON: So in that sense, if you look at the example that you gave where with the JDITC, there were some revenues there that ratepayers should have had beginning in 1984. If depreciation rates were wrong in 1984, there's a depreciation expense that might ought to have been paid at that point, too. So you get sort of a retroactive reconciliation when you look at those two items, the effect of it?

WITNESS LARKIN: Yes and no. Except in one instance, if there was no JDITC issue, if it went right in at that point in time and we had the same issue with the reserve deficiency for the Company, they would not have collected that. So it's only the fact that this dollar amount was sitting there that the stockholders would have eaten that amount. And that's what's unfair about it. If it was a litigated thing and it was all in a rate case where we had --

CHAIRMAN WILSON: It's unfair that the stockholders didn't get to eat it?

WITNESS LARKIN: Well, it's unfair that the ratepayer was not in a position where those dollars would have been an issue or not an issue in a rate case.

CHAIRMAN WILSON: Well, if it's a ratepayer whose been on the system the entire time, he may have gotten some benefit back then and then he pays the price now if it pertains to depreciation rates. I mean, when you get -- over the life of a customer's own line for a period of time, it's going to balance out.

WITNESS LARKIN: Well, it doesn't change. I mean, he, there's no effect on him unless there's a rate case that changes the rate.

CHAIRMAN WILSON: Right.

WITNESS LARKIN: So it doesn't even out unless there's a rate case every time you change depreciation rates, and that normally is not the case.

CHAIRMAN WILSON: Any other questions? I just couldn't resist. Do you want to proceed to ask questions about the exhibit?

MR. BURGESS: Yes. Did you?

MR. HOLLAND: I was just going to ask him if Public Counsel had the opportunity to move for reconsideration or appeal the order on depreciation?

MR. BURGESS: Do you want me to answer that?

MR. HOLLAND: No, that's okay.

COMMISSIONER BEARD: You couldn't resist, right?

MR. HOLLAND: That's right.

CHAIRMAN WILSON: We'll move on.

COMMISSIONER BEARD: You have to get even with Steve for that comment yesterday. (Laughter)

MR. HOLLAND: He told me he couldn't resist.

COMMISSIONER EASLEY: That's a "Gotcha."

Q (By Mr. Burgess) Mr. Larkin, have you reviewed Exhibit 575?

A Yes. Not in extreme detail, but I think I understand what it's supposed to say.

Q And under what circumstances did that review take place?

A I discussed it, or I looked at it myself. And checked some of the calculations, and then I discussed it with Mr. McMillan and Mr. Scarbrough.

MR. BURGESS: Commissioner, I would like to simply ask him a broad question as to what his opinion of the exhibit is. Or I guess I could make it more specific, what his impression of the demonstration of this exhibit would be.

A I guess I wouldn't agree with what it is purported to demonstrate. Maybe I should explain my understanding of it.

CHAIRMAN WILSON: I think that would be good. What is your understanding of what it's supposed to demonstrate?

COMMISSIONER BEARD: Because I want to ask you some questions about your understanding of what some certain things mean and then -- because I don't have Mr. McMillan on first to ask him.

CHAIRMAN WILSON: All right.

WITNESS LARKIN: Just concentrating on the first page of the exhibit, the extreme right-hand column is the column from which you are supposed to draw some conclusions, all right?

Now, the first number that you run into is a revenue number, which is 3,598,000. And what that number represents is, as I understand it, that represents the revenue requirements of just the capacity, just the plant itself, the 63 megawatts of Scherer 3. There's no transmission, there's no general plant, it is just the direct cost of the 63 megawatts. Net of, if you look on -- it's not a numbered line, but there's a line that says "ICC Offset Related related to Scherer," double "related" -- net of what the Company would have gotten capacity equalization payments from other companies in the system.

So what that says is that if you look at just the 63 megawatts and just the capacity, nothing else associated with it, it has a net cost to the ratepayer of $3,598,000. That's, as I understand it, the conclusion the Company's coming to.

Then you move down, and I'm shifting a column to the left under that number, and you see two numbers, "Scherer Transmission Rents" and "Scherer Production-Related A&G." As I understand it, these are 100% of all the transmission rents and production-related A&G costs that Gulf pays to Georgia Power for that portion of the transmission facilities that are in Georgia. And that is a cost to the Company.

Now we get to the next number, which is 3,757,000, and I'm going to draw the conclusion before I move to the second page to explain what that represents. But the conclusion that Gulf has reached is that we've given the ratepayer credit for, or taken out of the cost he would have paid anyway, an amount greater than what we actually paid to Georgia; so that the ratepayer is better off by the net of those two, or $1,701,000.

Now I'm going to stop there and I'm going to move to the second page where that number is calculated.

COMMISSIONER BEARD: Can I ask a quick question as you're doing that?

WITNESS LARKIN: Yes.

COMMISSIONER BEARD: Because there are two columns. On Page 1, "1990 Budget Systems Scherer," or left column, and this one, "Total Scherer UPS for Filing," and those numbers --

WITNESS LARKIN: Don't agree.

COMMISSIONER BEARD: -- don't agree, although Column 2 is exact.

WITNESS LARKIN: Yes.

Well, the reason it was calculated that way is in order to segregate just that 63 megawatts. If you take the total, which is the column 1990 budget system on the first page, that's the entire Scherer direct plant cost, just the direct plant cost.

COMMISSIONER BEARD: And what is the first column in Page 2?

WITNESS LARKIN: The first column in Page 2 is the amount that has been allocated to the UPS sales. That's the amount that they've taken out of that total for the 149 megawatts, I believe is the right number.

The first column -- let me go back again. The first column is just total production cost 1990 budget, doesn't include any general plant, doesn't include any transmission. So if you take that column and you subtract out just the production-related costs that you have in the UPS sales, then what you've got to end up with is the net direct cost of the 63 megawatts production only. And that's what they're attempting to segregate there.

So when you get to that column that's labeled "Territorial," what you've got is production costs only, capital and O&M costs, 63 megawatts. No transmission, no general plant. (Pause) Are we ready?

COMMISSIONER BEARD: Yes.

WITNESS LARKIN: Okay. Now, if you shift to the next page and you look at that same column that we were just discussing, the total column, the total UPS sales, this column includes everything that the Company has segregated or allocated for UPS sales for Scherer 3. It includes the direct production costs, it includes the transmission costs, it includes general plant.

So if you want to segregate what the revenue requirement is of the general plant and the operating expenses related to the general plant transmission, if you subtract from that what you subtracted the direct production costs on the other page, then the net has got to be what's left, everything else. And that's the purpose of the third column, starting from the left.

And then you bring that over and you revenue affect it so that you say, "What we've taken out of the revenue and given the ratepayer credit for is costs of $3,757,000."

Now, turning back to the --

COMMISSIONER BEARD: Before you leave that page, COMMISSIONER BEARD: Before you leave that page, the second line, plant acquisition adjustment, okay -- I'm not in the debate of whether it's production plant or common facilities or whatever, -- but if you disallow a plant acquisition adjustment, what does it do the far right-hand column? Does it create a negative number, for example, negative 626, if my math is right?

WITNESS LARKIN: On The first page or second page?

COMMISSIONER BEARD: The Second page.

WITNESS LARKIN: It has no effect if you take to out of there. The effect that it has on the extreme right-hand column is nothing because you took it out in the second column in total.

COMMISSIONER BEARD: Well, I'm trying to understand --

WITNESS LARKIN: You see, you have the first column where you have it in, and they've allocated some of the plant acquisition adjustment to UPS sales.

COMMISSIONER BEARD: Per their filing?

WITNESS LARKIN: Per their filing.

COMMISSIONER BEARD: Now, keep in mind -- let me finish why I'm asking my question. My question is, would you not take it out of the second column and leave it in the first column, or vice versa, because what you're looking at in the third column and the fifth column are reductions, changes to the Company filing, if I understand this.

WITNESS LARKIN: No, no. This whole exhibit is to demonstrate, or attempt to demonstrate to the Commission that the UPS sale does the ratepayer a favor; that the net --

COMMISSIONER BEARD: I understand what its intent is.

WITNESS LARKIN: But you wouldn't make adjustments to the Company's filing from this exhibit. You'd have to go back to the filing to make those adjustments. If you wanted to take out the plant acquisition adjustment in its entirety, it's a bigger number than 5 million.

COMMISSIONER BEARD: Okay. Go ahead.

WITNESS LARKIN: Now, what this does on Page 2 is that when you bring that across, that says that we have taken out in our allocations for general plant, for transmission plant, and the O&M expenses related to that, an amount that is 3,757,000. The Company would say, "We've reduced the ratepayer's revenue requirement by taking out these facilities by that dollar amount."

Now, if you go back over to the first page, from that amount they've subtracted the direct rental payments to Georgia Power and they come to a net of 1.7 million. And they are, in effect, saying, "Well, by having UPS sales we've reduced the 63 megawatt hours, the 63 megawatt hours that we've left in, by 1.7 million, so that now the net amount of that 63 megawatts is 1,897,000."

Okay. Now, I guess we would disagree, number one, that there's an excess allocation and above the Company's actual cost for the transmission of -- and general plant facilities because that's a conclusion you have to reach; that you're taking out more plant costs than you would have had if you had never had that 63 megawatts. And had we had time, we would have provided testimony or deposed someone to reach that conclusion.

Now, there's one more line left on this exhibit, and that's the one that says "Less: Non-fuel energy (variable O&M)." Again, you have to turn back to Page 2, and that's shown at the bottom, an allocation of that amount. And what this credit is, is that the Company has sold 149 million megawatts under UPS sales of Scherer 3.

When the system runs in economic dispatch, the purchaser of that 149 megawatts can choose, or has available to him, the lowest cost fuel unit that comes on. So if he needs power and there's something else available that's cheaper than Scherer 3, he gets that. He gets that fuel cost. But at the same time, he has to pay the differential between the variable O&M of the running unit, which is higher because they are less efficient other ways. The fuel cost may be lower, but the variabe O&M may be higher than what he had to pay had Scherer run it. And they're saying, well, the ratepayer gets a benefit because the ratepayer doesn't have to pay that. And, therefore, that should be credited asgainst the 60 megawatts that are still on the system.

And we would say if he got this break and that unit came on to replace his, if the 63 megawatts weren't there to start out with, then the variable O&M wouldn't have been there either, or that they paid the variable O&M to another company in the system and that expense isn't reflected here.

So I've taken up a lot of time explaining this, but we would dispute the conclusions reached that there is a net benefit to the ratepayer of 1.7 million in the transmission and general amounts, and that there's a benefit to the ratepayer of 1,969,000 in variable O&M amounts. And that's what we would say about this schedule.

COMMISSIONER BEARD: Two questions, if I can.

Column 1, 1990 budget, which you said was strictly plant and had nothing else in it.

WITNESS LARKIN: That's correct, direct production costs.

COMMISSIONER BEARD: That understates that column, relative to how it's stated in Page 2?

WITNESS LARKIN: That --

COMMISSIONER BEARD: Or Is that picked up down in the bottom of the page?

WITNESS LARKIN: Well, if you were to say that Scherer cannot run without some transmission facilities and without some general plant facilities, then that column is understated. If you say -- if Scherer goes, in its entirety, along with it goes this 500 kV line, this substation, these subtransmission lines, all these costs that go with it, the net column is understated. But if what you're trying to do is strictly to segregate the direct production cost of 63 megawatts, you could arrive it that way.

COMMISSIONER BEARD: Down about halfway down the page where it says the "IIC offset related, related" -- double related as you said -- "to Scherer," the last two columns you have a 4,792 and a 4,877. The relationship there is the 8.34% rate of return. I understand why you use that figure in the other lines higher up, but in this case, isn't this the actual retail payment, the 4,792 is the actual retail payment to Gulf from Southern Services?

WITNESS LARKIN: Yes, but if you put that into a rate case, you affect it by the amount you allow for bad debts in the amount -- you may affect it by the other revenue taxes, so that it has to be higher if you're talking about revenue dollars because that's what you're trying to compare, revenue requirements. So when you take an expense and you say normally an expense or revenue item is reflected one-for-one, except when you convert it to revenue for ratemaking, you add some dollars for bad debts and some other things.

COMMISSIONER BEARD: So just use 8.34 as a surrogate?

WITNESS LARKIN: Yeah. Well, they grossed it up to get to that, and that is theoretically correct.

COMMISSIONER EASLEY: Have you been here for the testimony on this earlier?

WITNESS LARKIN: No.

COMMISSIONER EASLEY: Would it make any sense -- I have a recollection of somebody having testified, and I'm back to this 1990 budget system column on the first page, where you said if you believe that plant and transmission should be in, then that column is understated?

WITNESS LARKIN: Yes. Well, what I'm saying is that for the purposes they wanted to use it for, I don't see anything wrong with the way they calculate it.

COMMISSIONER EASLEY: Because what I have a recollection of was that they assumed plant and transmission would be common and they took it out in order to get to a true net effect of 63 megawatts. Does that make any sense?

WITNESS LARKIN: That would be the true net effect of only the production facilities.

COMMISSIONER EASLEY: Okay.

WITNESS LARKIN: But you couldn't do anything with any plant unless you had someplace to send it to.

COMMISSIONER EASLEY: But it would be a common cost to the two, and to make the comparison of the net effect, they removed it to get down to production only?

WITNESS LARKIN: I guess I got lost a little bit there.

COMMISSIONER EASLEY: I did, too.

WITNESS LARKIN: In what you --

COMMISSIONER EASLEY: But you're not disputing the way they compared it here?

WITNESS LARKIN: No, we're not agreeing with the calculations or anything. We understand what they did. We just disagree with the conclusions, or that you could reach that conclusion from this exhibit.

COMMISSIONER EASLEY: Okay.

CHAIRMAN WILSON: Any questions?

MR. HOLLAND: (Indicated negatively.)

CHAIRMAN WILSON: Questions?

MR. PALECKI: (Indicates negatively.)

MR. BURGESS: No cross?

CHAIRMAN WILSON: Apparently not.

MR. BURGESS: No redirect.

CHAIRMAN WILSON: All right, all the exhibits have been stipulated on this witness?

MR. BURGESS: Yes, sir, as far as I know.

CHAIRMAN WILSON: Thank you, Mr. Larkin. You can be excused.

(Witness Larkin excused.)

CHAIRMAN WILSON: Let's take a ten-minute break and then we'll go to the next witness.

(Brief recess)

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M E M O R A N D U M

To: Parties of Record

From: Carol C. Causseau

CCC
Reporting

Date: July 10, 1990

Subject: Volume XV, Gulf Power Company
Docket No. 891345-EI

Please note the following pages were inadvertently omitted from Volume XV and are enclosed herewith:

Pages 2255 through 2319

Our apologies for any inconvenience this might have caused, and if there are any questions, please do not hesitate to contact me.

CC:eb

Enclosure