BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

In re: Petition of Gulf Power Company for an increase in its rates and charges.	DOCKET NO. 891345-EI ORDER NO. 23573 ISSUED: 10/3/90

The following Commissioners participated in the disposition of this matter:

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

Pursuant to duly given notice, the Florida Public Service Commission held public hearings in this docket on April 5, 1990, in Panama City, Florida; April 4, 1990, in Pensacola, Florida; and June 11 through June 21, 1990, in Tallahassee, Florida. Having considered the record herein, the Commission now enters its final order.

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ORDER GRANTING CERTAIN INCREASES

BY THE COMMISSION:

On December 15, 1989, Gulf Power Company (Gulf or Company) filed its petition for permanent and interim increases to its rates and charges. In its petition, Gulf requested a permanent increase in its rates and charges designed to generate an additional $26,295,000 of gross annual revenues. This request was based upon a projected 1990 test year and a 13-month average jurisdictional rate base of $923,562,000. Gulf requested an overall rate of return of 8.34%, which assumed an allowed rate of return on common equity of 13.00%. The most significant basis for the requested increase, according to Gulf, was the commitment of over 500 MW of additional capacity from its Plants Daniel and Scherer to territorial service and the O&M expenses associated with this capacity. Additionally, the utility claimed an increase in net operating income resulting from substantial capital additions in the transmission, distribution, and general plant areas as well as increased O&M expenses.

Pursuant to Section 366.06(3), Florida Statutes, Order No. 22681, issued on March 13, 1990, suspended Gulf's permanent rate schedules and granted Gulf an interim rate increase of $5,751,000 in annual revenues.

The Federal Executive Agencies (FEA), and Industrial Intervenors (II) were granted intervention status in this docket by Orders Nos. 22363 and 22878, respectively. Order No. 22953, issued on May 18, 1990, granted intervention status to the Florida Retail Federation (FRF). The Office of the Public Counsel (OPC) is a party to this docket pursuant to Section 350.0611, Florida Statutes.

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I. SUMMARY OF DECISION

We authorize Gulf an increase in gross annual revenues of $11,838,000 for two years beginning September 13, 1990. Thereafter, we authorize Gulf an increase in gross annual revenues of $14,131,000.

We have set the rate of return on common equity capital at 12.55%. The reduced increase in gross annual revenues for the two years beginning September 13, 1990, reflects a 50 basis point penalty on return on equity imposed for mismanagement.

II. REVENUE REQUIREMENTS DETERMINATION

The revenue requirements of a utility are derived by establishing its rate base, net operating income (NOI) and fair rate of return. A test year of operations, traditionally based upon one year of operations, is used to derive these factors. Multiplying the rate base by the fair rate of return provides the net operating income the utility is permitted to earn. Comparing the permitted net operating income with the test year net operating income determines the net operating income deficiency or excess. The total test year revenue deficiency or excess is determined by adjusting the deficiency or excess by the revenue expansion factor.

III. THE TEST YEAR

The test year in a rate case provides a set period of utility operations that may be analyzed so the Commission can set reasonable rates for the period the rates will be in effect. A test period may be based upon an historic test year, adjusted to reflect typical conditions in the immediate future, which should make it reasonably representative of expected future operations. Alternatively, a test period may be based upon a projected test period which, if appropriately developed and adjusted, may reasonably represent expected future operations. We approved Gulf's choice of calendar year 1990 as a projected test year.

IV. TEST YEAR RATE BASE

To establish the Company's overall revenue requirements, we must determine its rate base. The rate base represents that investment on which the Company is entitled to earn a reasonable return. A utility's rate base is comprised of various components. These include: 1) net utility plant-in-service, which is comprised of plant-in-service less accumulated depreciation and amortization; 2) total net utility plant, which is comprised of net utility plant-in-service, Construction Work in Progress (CWIP) (where appropriate) and plant held for future use; and 3) working capital.

Gulf has submitted a proposed jurisdictional rate base of $923,562,000. Evidence developed during the course of the proceedings has led us to reduce that amount to $861,159,000. Our adjustments are set forth as follows:

1990 Rate Base
Jurisdictional (000's)

		GULF	ADJUSTMENTS	ADJUSTED RATE BASE
A.	Utility Plant-in-Service	$1,275,624	($ 57,337)	$ 1,218,287
B.	Accumulated Depreciation	(454,964)	(6,913)	(448,051)
C.	Net Plant-in-Service	820,660	(50,424)	770,236
D.	Construction Work in Progress	14,949	- 0 -	14,949
E.	Property Held for Future Use	3,925	(135)	3,790
F.	Acquisition Adjustment	2,317	(2,317)	- 0 -
G.	Net Utility Plant	841,851	(52,876)	788,975
H.	Working Capital	81,711	(9,527)	72,184
I.	Total Rate Base	$ 923,562	($ 62,403)	$861,159

A. Plant-In-Service

The amount of plant-in-service proposed by Gulf was $1,275,624,000. We have made certain adjustments, described below, which reduce plant-in-service to $1,218,287,000.

(000s)

Plant-In-Service per Gulf		$ 1,275,624
Adjustments:		
1.	New Corporate Headquarters	(3,892)
2.	Navy House	(23)
3.	Appliance Division	(214)
4.	Tallahassee Office	(24)
5.	Leisure Lakes	(142)

6. Plant Scherer	(52,987)
7. Misc. Plant-In-Service	(55)
Total Adjustments	(57,337)
Adjusted Plant-In-Service	$ 1,218,287

1. New Corporate Headquarters

Gulf's new corporate office building occupies 17.42 acres on Bayfront Parkway overlooking Pensacola Bay. The building is five stories tall and each floor has approximately 50,000 square feet of space. A level below the building is for parking company vehicles. The building was occupied March 31, 1987.

The total building area is 308,634 square feet and consists of 149,945 square feet of office space, 57,057 square feet of parking garage, 41,237 square feet for specialty areas, and 8,832 square feet for the equipment room. The specialty areas are the mailroom and duplicating, cafeteria, system control and ready room, auditorium, MIS computer center, communications, and the like. In addition to the square footage described above, 51,563 square feet on the third floor is presently unfinished and used as a temporary storage and maintenance area.

We believe that the cost of the third floor of $3,840,807 should be removed from plant-in-service. Evidence developed during the course of the proceedings indicates that Gulf has adequate space for storage and maintenance functions at other locations. We find that the ratepayers of Gulf receive no benefit from Gulf's use of the third floor for storage and maintenance and therefore disallow $3,840,807. Gulf is allowed, however, to earn a deferred return on this plant investment and related expenses equal to the allowance for funds used in construction (AFUDC).

The Business Development Center occupies 495 square feet on the first floor of the Corporate Headquarters Building. The room was designed and furnished for presentations to representatives of businesses that are interested in moving to Northwest Florida, and for press conferences relating to weather-related emergencies. The Center is equipped with laser disk players, color monitors, and VCR's that allow prospective business customers to view various areas, industrial parks, and cities in Northwest Florida with an eye toward relocation to this area. The purpose of the laser disk players and VCR's is their use in economic development efforts. The investment capitalized for the Business Development Center in

1987 was $51,548. There has been no capital investment since 1987 and none is projected for 1990. We believe that $51,548 should be removed from rate base for the Business Development Center since the recruitment of business and industry to Florida is not a responsibility of a regulated public utility. The Chamber of Commerce and the Florida Department of Commerce perform that function. The total disallowance for the new corporate headquarters is $3,892,355.

2. Navy House

The Navy House is a former residence which became the property of the company when it purchased land needed to install a transmission line from the company's Bayou Chico Substation to serve the Pensacola Naval Air Station. The initial purchase price of the land and the home on the land was $110,000. We have no reason to believe the price paid was not proper; this amount is not at issue. In addition to the purchase price, however, the company completely renovated the residence to serve as additional training space for its employees. There appears to be ample training space at Gulf's Chase Street facility and at the new corporate headquarters. We therefore find that rate base should be reduced by $23,257 and that 1990 operating expenses for the Navy House be reduced by $7,516.

3. Appliance Division

Gulf has an appliance sales and service operation which is operated out of Gulf buildings which are included in rate base. A portion of this investment has been removed from rate base based on usage studies performed by Gulf. In several instances, the appliance operation has its own buildings which are recorded in non-utility plant.

Gulf made an error in allocating the plant investment to the appliance operation. Therefore, it would be proper to correct the error by reducing plant, accumulated depreciation and depreciation expense $214,000, $7,000 and $12,000, respectively.

4. Tallahassee Office

Gulf maintains an office in Tallahassee for use by its lobbyist, PSC liaison and other Pensacola-based employees while conducting business in Tallahassee. The office space is leased while the office furniture has been capitalized by the company and included in rate base. In addition, Gulf's lobbyist has a company car which is also included in rate base.

Gulf has agreed that 25% of the office investment which is used for lobbying activity should be removed from rate base. In addition Gulf agrees that 100% of the lobbyist's car should be removed. We believe these percentages are reasonable and make the following adjustments:

Reduce Plant-In-Service	$23,860
Accumulated Depreciation	11,193
Depreciation Expense	1,217

5. Leisure Lakes Subdivision (Greenhead Substation)

On October 18, 1984, in Docket No. 830484-EU, Gulf Coast Electric Cooperative, Inc. (Gulf Coast) petitioned the Commission for resolution of a territorial dispute between itself and Gulf Power Company. The dispute involved the Leisure Lakes Subdivision, which consists of approximately 2,300 acres divided into approximately 750 lots. The dispute arose when Gulf Power constructed 2.2 miles of distribution line from its transmission line to the subdivision along a graded county road. After Gulf Coast's petition was filed, and with knowledge of the Commission's jurisdiction over the matter, Gulf Power also constructed the Greenhead substation near the site. In Order No. 13668 we determined that Gulf Coast was entitled to provide electric service to the disputed area. It was also ordered that Gulf Power is prohibited from serving, either temporarily or permanently, the disputed area. In our order we encouraged Gulf Power to sell the facilities they built to serve Leisure Lakes to Gulf Coast, should Gulf Coast desire to purchase them.

Gulf subsequently sold all of its facilities built to serve Leisure Lakes and has no facilities in that area except the Greenhead substation. The book value of the facilities Gulf built to serve Leisure Lakes Subdivision was approximately $131,000 and the sale price to Gulf Coast was $130,353. The Greenhead Substation was not needed to serve load since neither the Sunny Hills or Vernon Substations have reached peak capacity. Therefore, the investment made by Gulf to serve Leisure Lakes subdivision should not be included in rate base. We reduce plant-in-service by $142,000 and depreciation expense by $5,000.

6. Plant Scherer

Gulf acquired 25 percent of Plant Scherer 3 in 1984 and it came on line in January 1987. Since Plant Scherer came on line after Gulf's last rate case, this is the first time Gulf has requested that a portion of Plant Scherer be included in rate base. Of Gulf's 212 MW share of Scherer 3, 63 MW is available to serve Gulf's territorial customers in 1990 and 149 MW is dedicated to unit power sales. The 63 MW of Scherer 3 that Gulf is requesting to be included in rate base includes 44 MW that would have been sold to Gulf States Utilities if they had not defaulted on a unit power sales contract. Gulf is requesting that 63 megawatts of its 212 megawatt share of Plant Scherer 3 be included in its rate base.

Gulf's reserves are reasonable with or without Scherer. Without Scherer, Gulf's reserves are 21.9 percent and with 63 megawatts of Scherer, Gulf's reserves are 25.5 percent. Gulf's parent corporation, Southern Company, maintains reserves which are 19.9 percent without Scherer and 20.1 percent with Scherer. It appears that with or without Plant Scherer, Gulf is well able to achieve its target reserves of 20 to 25 percent.

Gulf will be selling increasing amounts of Scherer's capacity as unit power sales starting in 1992. The following table shows the amount of Scherer dedicated to Gulf's territorial customers from the year 1990 to the year 2010.

Time	Capacity Available to Retail Customers
January 1990 - May 1992	63 megawatts
June 1992 - December 1992	11 megawatts
January 1993 - May 1993	37 megawatts
June 1993 - December 1993	16 megawatts
January 1994 - May 1994	17 megawatts
June 1994 - May 1995	35 megawatts
June 1995 - May 2010	0 megawatts

As shown above, Gulf is scheduled to sell increasing amounts of Scherer 3 under unit power sales agreements starting in 1992. By 1995, none of Scherer 3 will be available to serve Gulf's territorial customers. This capacity will not be available to serve Gulf's territorial customers until the year 2010. Since Gulf is dedicating this unit to unit power sales in years that Gulf's territorial load is expected to be greater than it is in 1990, it would appear that Gulf does not need the unit in 1990 for its territorial customers.

Under Southern's contract with Gulf States Utilities, Gulf had committed to sell 44 MW of Scherer 3 to Gulf States Utilities during the test year 1990 through May, 1992. Gulf States Utilities failed to perform its contractual obligations and on July 1, 1988, FERC ruled that Southern no longer had to perform under the contract. It is clear that Gulf would not have requested 63 MW of Scherer to be in rate base had Gulf States Utilities not defaulted on their contracts. When Gulf made the decision to purchase 25 percent of Scherer 3 it was aware of the potential that their contract with Gulf States Utilities might not be honored. Since the profits from the unit power sales go to Gulf's stockholder, they should bear the risk of default, and not Gulf's ratepayers. Therefore, we remove all of Plant Scherer from rate base. All profits and losses derived from unit power sales of Scherer, and any costs or benefits accruing from any settlement with Gulf States Utilities are to go to the stockholders of Gulf Power Company. Gulf's ratepayers, who will not see the profits from Gulf's unit power sales contracts, should not be required to pay when such a contract falls through.

As a result of our exclusion of Scherer 3 from rate base, we make the following rate base and Net Operating Income adjustments:

Plant-in-Service	$ 52,987,000
Accumulated Depreciation	6,557,000
Acquisition Adjustment	2,317,000
Working Capital	2,187,000
O&M - Expenses	722,000
Depreciation Expense	1,701,000
Amortization of Plant Acquisition Adjustment	73,000
Amortization of ITC	(96,000)
Other Taxes	245,000
IIC Offset	(4,792,000)

7. Miscellaneous Plant-In-Service

We have made miscellaneous plant-in-service adjustments in the amount of $55,000. This resulted from discovery of two work orders that were completed and ready for service but were not immediately transferred to Account 106 (completed construction not classified). As a result, Gulf over-accrued allowance for funds used in construction (AFUDC) by $55,000. We therefore reduce plant-in-service by this amount.

B. Accumulated Depreciation and Amortization

The amount of accumulated depreciation and amortization proposed by Gulf was $454,964,000. Our previously discussed adjustments to plant-in-service require a net reduction to accumulated depreciation and amortization of $6,913,000. Approved accumulated depreciation and amortization is $448,051,000, as follows:

(000s)

Accumulated Depreciation per Gulf	$ 454,964
Adjustments:	
Appliance Division	(7)
Tallahassee Office	(11)
Plant Scherer	(6,557)
New Corporate Headquarters	(338)
Total Adjustments	(6,913)
Adjusted Depreciation	$ 448,051

C. Net Utility Plant-In-Service

Net utility plant-in-service is comprised of utility plant-in-service, less accumulated depreciation and amortization. We find that the appropriate amount of net utility plant-in-service for test year 1990 is $770,236,000.

D. Construction Work in Progress (CWIP)

The company has included $14,949,000 of construction work in progress in rate base. We believe this amount is appropriate.

E. Property Held for Future Use

Gulf has included in its rate base the sum of $3,925,000 in plant held for future use. We believe this is appropriate except for the 10% of Gulf's Caryville site which is allocated to the sod farm. The sod farm, known as "Southern Sod Company", occupies approximately 200 acres of property at Gulf's Caryville site, or 10% of the Caryville acreage. Southern Sod leases this acreage

from Gulf. This is a non-utility operation and we therefore find that 10% of the value of the Caryville Site included in rate base ($135,200) should be removed. We therefore reduce plant held for future use by $135,000 to $3,790,000. We also remove from "other revenues" the $3,450 in lease payments received from Southern Sod.

F. Acquisition Adjustment

As a result of its purchase of a portion of the common facilities at Plant Scherer, Gulf requested an acquisition adjustment of $2,317,000. Since we have not allowed Plant Scherer in rate base, no adjustment for its acquisition will be allowed in rate base. We therefore reduce rate base by $2,317,000.

G. Net Utility Plant

Based upon the adjustments discussed above, total net utility plant for test year 1990 is $788,975,000.

H. Working Capital

The company has included $81,711,000 of working capital in rate base. We have made certain adjustments described below, which reduce working capital to $72,184,000.

	(000's)
Working Capital per Gulf	$ 81,711
Adjustments:	
1. Rate Case Expenses	(765)
2. Temporary Cash Investments	0
3. Heavy Oil Inventory	(576)
4. Light Oil Inventory	(123)
5. Coal Inventory	(6,017)
6. Plant Scherer	(2,187)
7. Caryville Subsurface Study	(28)
8. PIP	169
Total Adjustments	(9,527)
Total Working Capital	$ 72,184

1. Unamortized Rate Case Expense

The company has included $765,385 in working capital for unamortized rate case expense. Commission policy is to exclude unamortized rate case expense from working capital. We therefore reduce working capital by the entire $765,385.

2. Temporary Cash Investments

Gulf, in its rebuttal testimony, has requested $6,045,000 in working capital for temporary cash investments. The appropriate regulatory treatment of either continuing cash balances or temporary cash investments should depend upon their prudency. If the utility can demonstrate, through competent evidence, that their cash balances or temporary cash investments are necessary for the provision of regulated utility service, they should remain in rate base and earn at the utility's overall rate of return. Any earnings generated by these funds should then be used to offset revenue requirements. The burden of proof however is on the Company to demonstrate through competent evidence that their temporary cash investments are necessary for the provision of utility service.

Gulf gave the following reason that temporary cash investments are necessary for its provision of utility service:

> The test year amount for Temporary Cash Investments (13-month average amount) of $6,399,000 is approximately 10 percent of the average monthly disbursements. In addition we are projecting to borrow funds during five months of the test year. The Company again maintains that these funds are required and necessary in providing utility services for our customers. (Ex. 439)

During cross-examination Gulf's witness stated:

> ". . . we don't know of any other way to pay our bills than to have cash available. Either you are going to have temporary cash, cash, or short-term debt, one of the three, because if you -- once you stop paying your bills, you're going into bankruptcy at that stage, and you'll be shut down. You've got to have liquid assets . . ." (TR 793)

While we agree that a company needs to maintain a certain degree of liquidity to operate, we note that Gulf maintains substantial liquidity through short-term debt.

The Company has budgeted to pay $60,000 in 1990, for access to lines of credit totalling $42 million. In addition, the Company continues to keep compensating balances of $436,900 for additional lines of credit totalling approximately $6.2 million. Thus, the Company has access to approximately $48.2 million through lines of credit.

We do not dispute that the Company needs to maintain a certain degree of liquidity to operate. We believe, however, that the burden is on the Company to demonstrate that the additional liquidity provided by holding $6,045,000 in temporary cash investments is necessary. In our opinion the Company has not provided this proof. Statements such as, "its all our available cash" or "temporary cash investments represent less than 10 percent total monthly expenditures" do not constitute competent evidence. We therefore deny Gulf's request that $6,045,000 be included in working capital for temporary cash investment. It is not necessary for us to make an adjustment to working capital since Gulf has already removed temporary cash investments from its filing, consistent with our treatment of this matter in Gulf's last rate case.

3. Heavy Oil Inventory

Gulf has overcalculated the amount of heavy oil inventory necessary for standby fuel at Plant Crist Units 1, 2 and 3. Heavy oil inventory should be reduced to a level equal to seven days burn at 100% capacity factor.

A seven-day supply of heavy oil for Crist Units 1, 2 and 3 operating at 100% of their demonstrated capability would equal 32,774 barrels. Gulf Power has requested a heavy oil inventory of 78,533 barrels with an average price of $13.603 per barrel and valued at $1,042,000 (system). We will allow a heavy oil inventory level of 32,774 barrels at an average price of $13.603 per barrel. We reduce working capital by $596,178 (system), or by $576,462 (jurisdictional).

4. Light Oil Inventory

Gulf has requested that 650,895 gallons of light fuel oil (system) be included in working capital. We are of the opinion that Gulf has failed to justify its request for light oil inventory. We will allow a level equal to 30 days burn at the highest average monthly rate which calculates to 383,210 gallons. This would require a reduction in working capital of $125,339.

5. Coal Inventory

Gulf has requested a coal inventory level equal to 105 days projected burn. We are of the opinion that Gulf has failed to justify this request and will allow a level equal to 90 days projected burn or the amount actually maintained in the test year at each plant site, whichever is less. In Gulf's system this would amount to a total of 784,887 tons valued at $37,000,502 (system). This reduces working capital by $6,222,498 (system) or $6,016,717 (jurisdictional).

6. Plant Scherer

As previously discussed, our exclusion of Plant Scherer from rate base will result in an adjustment of $2,187,000 to working capital.

7. Caryville Subsurface Study

The subsurface study was a geological study of the Caryville site to determine if the land could support the weight of a power plant and supporting facilities. As pointed out in the company's brief, the results of the study are obviously still valid. Such a study would be necessary before any major construction of this type could be done on any site. Therefore, costs associated with the study should be considered together with the Caryville site itself. Since Caryville remains in Rate Base, the cost of the study or $568,000 should be allowed, however we will require that this amount be amortized to expense over a 10 year period. This necessitates a $28,000 reduction in working capital.

8. Productivity Improvement Plan (PIP)

The Productivity Improvement Plan (PIP) is a part of the total compensation plan for the top 11 employees of the company. Due to a change in the design of the PIP program after the budgeting process was completed, the company feels a reduction in the program is in order. The original amount for this program was $438,473. The company's new amount is $99,066. Since it appears that Gulf's overall salary and benefits program is not excessive, and this plan was allowed in the last rate case, the expenses in the amount of $99,066 for this program will be allowed. Therefore, expenses should be reduced $339,000.

Since this adjustment reduces Accounts Payable, a current liability in working capital, the 13-month average of working capital will be increased by $169,187.

I. Total Rate Base

Gulf has submitted a proposed jurisdictional rate base of $923,562,000. Based upon the above described adjustments we have reduced rate base by $62,403,000 to $861,159,000. See Attachment 1 for a complete breakdown of rate base.

V. FAIR RATE OF RETURN

The Commission must establish the rate of return which the Company should be given an opportunity to earn on its investment in rate base. The fair rate of return should be established so as to maintain the Company's financial integrity and to enable it to acquire needed capital at a reasonable cost.

A. Capital Structure

The ultimate goal of providing a fair rate of return is to allow the utility an appropriate return on its investment in rate base. Because all sources of capital cannot be clearly associated with specific utility property, the Commission has traditionally considered all sources of capital (with appropriate adjustments) in establishing a fair rate of return.

The establishment of a utility's capital structure serves to identify the sources of the capital employed by a utility, as well as the amounts and cost rates associated with each. After establishing the sources of capital, all capital costs, including the cost of equity capital, are weighted according to their relative proportion to total capital. The weighted components are then added to provide a composite or overall cost of capital. The weighted cost of capital multiplied by the net utility rate base produces an appropriate return on rate base, including a return on equity capital invested in rate base.

B. Cost of Common Equity Capital

To arrive at a fair overall rate of return, it is necessary that we utilize our judgement to establish an allowable rate of return on common equity capital.

This issue was the subject of prefiled testimony by several witnesses. By stipulation of all the parties, their testimony was

inserted into the record as though read and the witnesses presence and cross-examination were waived.

The following three witnesses presented testimony on the appropriate cost of equity capital:

Dr. Roger A. Morin, Professor of Finance at the College of Business Administration, Georgia State University and Professor of Finance for Regulated Industry at the Center for the Study of Regulated Industry at Georgia State University. (On behalf of Gulf Power) Dr. Morin recommends the adoption of a return on common equity of 13.5%.

Mr. James A. Rothschild, President, Rothschild Financial Consulting. (On behalf of the Citizens of the State of Florida) Mr. Rothschild recommends that the proper calculated return on equity for Gulf Power is 11.75%.

Mr. Scott A. Seery, Regulatory Analyst, Bureau of Finance, Division of Auditing and Financial Analysis, Florida Public Service Commission (On behalf of the Florida Public Service Commission Staff) Mr. Seery recommends the adoption of a return on common equity of 12.25%.

The witnesses used three different equity costing methodologies to arrive at their estimates of Gulf's cost of equity. Witness Morin used the risk premium, discounted cash flow (DCF) and capital asset pricing model (CAPM) methodologies. Witness Rothschild relied primarily on the DCF method. Witness Seery used the DCF and risk premium methods.

When analyzing the cost of equity one should realize that it is a subjective process. Based on the evidence in the record and a review of the equity costing methodologies presented, we find that a reasonable allowed rate of return on common equity capital for Gulf is 12.55%. This rate of return on common equity will allow Gulf the opportunity to raise capital on fair and reasonable terms and to maintain its financial integrity.

We believe a 12.55% cost of common equity is well supported by the evidence presented and represents the best estimate of the Company's cost of equity. To put this finding in perspective, at the time revised testimony was filed by these witnesses, the average yield on long-term treasuries was 8.74% and the yield on A-rated utility bonds was 9.92% for April 1990. The average yield for June 1990 was 8.60% for long-term treasuries and 9.80% for A-

rated utility bonds as reported by Moody's Bond Survey, July 16, 1990.

C. Capital Structure Reconciliation

We require that there be a reconciliation of the rate base and the capital components which support the rate base. In order to determine the appropriate overall cost of capital for which the utility will be allowed to earn a return, several adjustments must be made to the capital structure as presented by the utility in its minimum filing requirements. First, as all parties agree, the preferred stock balance is to be presented net of discounts, premiums, and issuance expenses. The effect on capital structure is to reduce the preferred stock balance by $948,000 and to increase the common equity balance by $948,000.

Next, we believe all non-utility investment should be removed directly from equity when reconciling the capital structure to rate base unless the utility can show, through competent evidence, that to do otherwise would result in a more equitable determination of the cost of capital for regulatory purposes. In the case of Gulf, we believe that the non-utility investments should be removed from equity. This will recognize that non-utility investments will almost certainly increase a utility's cost of capital since there are very few investments that a utility can make that are of equal or lower risk. Removing non-utility investments directly from equity recognizes their higher risks, prevents cost of capital cross-subsidies, and sends a clear signal to utilities that ratepayers will not subsidize non-utility related costs.

We believe that specific adjustments should be made to the tax components of the capital structure. We have specifically identified the effects of the rate base adjustments for the navy house, the Tallahassee office, Leisure Lakes, unamortized rate case expense, and Plant Scherer, including the plant acquisition adjustment, and have decreased the average balance of accumulated deferred income taxes by $5,877,000 and of investment tax credits by $2,402,000. The remaining amount of these rate base adjustments are then reconciled over all investor sources and customer deposits.

All other adjustments to rate base are on a pro rata basis over all sources of capital. We believe the remaining adjustments should be removed at the company's overall cost of capital.

Based upon the rate base/capital structure reconciliation that we discussed above and our review of the record of the cost rates

and capital components, the appropriate capital structure for Gulf Power is as follows:

COMPONENT	AMOUNT	PERCENT OF TOTAL CAPITAL	COST RATE	WEIGHTED COST
Long Term Debt	311,950	36.22%	8.72%	3.16%
Short Term Debt	3,971	0.46%	8.00%	0.04%
Preferred Stock	51,358	5.96%	7.75%	0.46%
Customer deposits	14,134	1.64%	7.65%	0.13%
Common Equity	264,857	30.76%	12.55%	3.86%
Accumulated Deferred Income Taxes	175,796	20.41%	0.00%	0.00%
Deferred ITC - Zero Cost	823	0.10%	0.00%	0.00%
Deferred ITC - Weighted Cost	38,270	4.44%	10.26%	0.46%
	861,159	100.00%		8.10%

For a complete breakdown of Gulf's 13-month average capital structure see Attachment 2.

VI. MISMANAGEMENT

The record is clear: Gulf Power Company admitted that corrupt practices took place at Gulf Power Company from the early 1980s through 1988, including but not limited to theft of company property, use of company employees on company time to perform services for management personnel, utility executives accepting appliances without payment, and political contributions made by third parties and charged back to Gulf Power Company. The majority of the unethical/illegal activities involved Jacob Horton, the Senior Vice President of Gulf Power Company. Mr. Horton was killed in a plane crash on April 10, 1989.

The question then becomes whether the management of the power company knew or should have known of the illegal and/or unethical conduct that was taking place. At this point it is incumbent upon the Commission to note that there is no record evidence to indicate that Mr. Douglas McCrary, President of Gulf Power Company from May of 1983 through the present, knew that illegal or unethical conduct was taking place as it happened. Mr. McCrary testified under oath as to his lack of contemporaneous knowledge of the activities.

We do believe that Gulf Power's senior management should have known of some of these activities and should have acted sooner and with sterner measures with regard to Mr. Horton's activities. This inaction constitutes mismanagement. As a totally independent ground, the activities of Mr. Horton and his subordinates as Senior Vice President alone constitute mismanagement. This recommendation is premised upon the structure of Gulf Power management with four vice presidents reporting to the president. As one of those vice presidents, Mr. Horton's actions are those of Gulf Power management.

We believe that there were many early warning signals which indicated that illegal or unethical conduct was present. In December of 1983 Mr. McCrary received anonymous letters concerning employee misappropriation of goods. Mr. McCrary commissioned an independent investigation by security personnel from a sister company to avoid one peer investigating another. The result of this investigation was the "Baker-Childers report", which was Exhibit 391 at the hearing. This report focused on warehouse thefts directed by Kyle Croft. Also contained in this report were allegations of company personnel performing personal services for Gulf Power executives, including Mr. Horton, on company time with company materials. When Mr. Horton was asked about these allegations, Mr. Horton denied them, and no further action was taken. (R169) This incident did, however, raise suspicions about Mr. Horton. (R168)

With regard to the principal allegations contained within the Baker-Childers report, Mr. Croft was fired on a Sunday morning in late January 1984. However, Mr. Horton intervened and persuaded the president to rescind the firing decision and allow Mr. Croft to resign. Unknown to others in senior management at the time, Mr. Horton arranged for Mr. Croft's attorneys fees and health insurance to be paid and billed back to Gulf Power. Gulf's senior management learned of this payment in 1988. (R197) As part of Mr. Croft resigning from Gulf Power, Mr. Croft executed a promissory note for $15,986.62 to Gulf Power Company. This represented an estimate of the property Mr. Croft had stolen from Gulf Power. Concurrent with the execution of this note, Mr. Horton stated that Gulf Power would not enforce the note, and Mr. Horton executed a note payable to Mr. Croft for the same amount. (Ex. 396 at p. 55) This was done to protect Mr. Croft if Gulf Power decided to enforce the note. When the senior management learned of Mr. Horton's note in 1986 it also heightened suspicion of Mr. Horton. (R199)

In June of 1984 it was learned that Gulf Power had delivered approximately $10,000 worth of appliances to Mr. Ed Addison, former

president of Gulf Power Company and now head of the Southern Company, the parent company of Gulf Power. Mr. Addison was not billed for these goods, and it was the intent of Gulf Power employees to give the appliances to Mr. Addison. (R183) The president learned of this arrangement and discussed the matter with Mr. Addison. Mr. Addison was billed and then promptly paid for the appliances. (R184) The employees involved reported to Mr. Horton which again raised suspicion concerning Mr. Horton. (R186) No further investigation of the appliance division was made. (R187)

In July of 1984 Mr. Horton instructed a Gulf Power employee to solicit a $1,000 political contribution from a local architect that worked with Gulf Power Company. The president learned of this several days later. (R223) He spoke to Mr. Horton and "reemphasized" that pressure would not be placed on vendors to make political contributions. (R223) Mr. McCrary conceded that he was very much suspicious about Mr. Horton by July of 1984. (R225) Unknown to the president at the time was the fact that Gulf Power in fact reimbursed the architect for the political contribution. (Ex. 396 at p. 21) In the fall of 1986, the president learned that Gulf Power had reimbursed Mr. Graves (the architect), and had Mr. Graves reimburse Gulf Power Company, and then had Mr. Horton reimburse Mr. Graves. Any suspicion created in 1984 by this situation should have been greatly increased by the 1986 transactions.

On October 31, 1989 Gulf Power Company entered quilty pleas to two felony counts in the United States District Court for the Northern District of Georgia, Atlanta Division. Gulf Power paid a $500,000 fine for these crimes. (Ex. 413) This negotiated plea agreement grew out of Gulf Power activities from 1981-1988. Over 120 counts were detailed in Exhibit 413. Basically Gulf Power management, through Mr. Horton and his subordinates, "systematically, repeatedly and willfully instructed its outside vendors, such as its advertising agencies, to submit false or inflated invoices to Gulf Power Company for payment by Gulf Power Company in order to reimburse those vendors for payments they had made to political candidates and others at the direction of Gulf Power Company." (Ex. 413 at p. 13) These illegal acts were not isolated cases and are factually indistinguishable from the Graves contribution which the senior management knew of 1984 and learned more about in 1986.

We believe that the explicit warnings the senior management received concerning Mr. Horton, coupled with the Baker Childers Report in early 1984, the Addison appliances in June of 1984, the Graves contribution in July of 1984, the 1986 Kyle Croft lawsuit

revealing more information concerning Mr. Croft's resignation and the subsequent information in 1986 regarding the 1984 Graves contribution all indicate that Gulf's senior management should have been aware of Mr. Horton's activities. This is especially true in light of the close business relationship between the two senior executives (CR 219; 231; 236; 245, 246). An investigation of Mr. Horton's activities was clearly indicated by 1986.

In the fall of 1988 senior management became aware of the Appleyard ledgers. It was known at that time that violations of the law were involved. (R244) These accounts were handled by the organization reporting to Mr. Horton. Mr. Horton was informed that he was to be separated from the company on April 10, 1989. (R4192) As of May 1, 1989, the company had not undertaken an investigation of Mr. Horton, despite the events described above. See Exhibit 382 at p. 16A. We believe that the lack of action regarding Mr. Horton constitutes mismanagement because management should have been aware of Mr. Horton's activities or started an investigation into Mr. Horton's activities based on the events discussed above.

Not only did management fail to initiate an investigation of Mr. Horton, but Mr. Horton has never received a written reprimand. (R4186-87) This lack of written reprimands is troubling considering management's subsequent knowledge of Mr. Horton's promissory note, the Graves Contribution, and paying Mr. Croft's legal and insurance costs. In one case (the Graves situation) Mr. Horton lied to the president in 1984 and the president knew he lied in 1986. In another case (paying the legal and insurance costs for Mr. Croft) Mr. Horton directly disobeyed the president's explicit instructions. (R197) Mr. Horton also received Productivity Improvement Program payments for his job performance in 1983, 1984, 1985, 1986, and 1988 and his base salary rise each year from 1983-1988. (Ex. 547)

Although we believe Gulf's lack of action regarding Mr. Horton constitutes mismanagement, we believe that given Mr. Horton's position, his actions alone constitute mismanagement regardless of senior management's inaction. Gulf Power has over 1600 employees. Mr. McCrary is the leader of these employees, and four executives reported directly to him, as well as the director of Public Relations. (See R192; Ex. 414) Thus all policy decisions and supervision of all Gulf Power personnel are vested in this management team. We do not use the term "management team" loosely. The president expressed it this way:

> I did that [consulted the vice-presidents on the decision to fire Mr. Croft] because we operate that

> company on a-- in a manner such that all very important decisions that we make, we try to do as a group, so that all vice presidents are satisfied that they have had their input and they agree with the decision.

(R193; See R217; 3050)

Given this management philosophy and practice, we believe it totally appropriate to find Mr. Horton's actions as those of Gulf Power management. Mr. Horton was one of the five people who management Gulf Power. In carrying out his duties as Senior Vice President, he committed illegal and unethical acts on behalf of the utility. Therefore, Gulf Power Company was guilty of mismanagement.

In terms of the scope of the corruption taking place at Gulf Power Company, several company programs were initiated to deal with the problem. Among these programs were adoption of a company Code of Ethics in August of 1984 and the implementation of an amnesty program around the same time. The Code of Ethics was adopted in response to the "myriad of things that had been going on in the early 1980s." (R204) The president agreed that every large well run utility should have a Code of Ethics and he couldn't say why Gulf Power lacked a Code of Ethics prior to that time. (Id.) All existing and new employees were required to sign a compliance statement. To implement the Code, Gulf Power had a series of meetings to explain the Code and the reason for it. The president was unable to point to anything Gulf Power did to further implement the Code from August of 1984 through January 5, 1989. On January 5, 1989, the Audit Committee of the Gulf Power Board of Directors adopted a resolution to reiterate the Code of Ethics and ordered management to take certain actions to implement the Code. (R206) The president explained the action as follows:

> We thought it was in -- that what we should do is to reemphasize the Code of Ethics; to have an educational program; to have a program of ethics awareness, and to generally have employees focus on the Code of Ethics being a real and living document. (R206)

The Code of Ethics was adopted in 1984 to combat the embezzlement of Gulf Power property and by 1989 different sorts of ethical violations were apparent, indicating that some employees ignored the Code or failed to take it seriously. (R214-15) We believe the 1989 measures should have been in effect in 1984 and there was haphazard enforcement of the Code from 1984 to 1988.

Gulf Power's amnesty program was initiated in the summer of 1984. This program was implemented in response to numerous allegations against Gulf Power personnel in the Baker-Childers Report. (R128) An outside law firm administered the program in order to shield the identity of the participants from the company. (Ex. 396 at p. 40-41) The program was designed to allow company employees that had improperly obtained goods or services from the company to make restitution to the company and then be subject to no further action. (R128) Gulf Power had no way of knowing whether the amounts collected under the amnesty program were correct. (R136; 140) A total of $13,124.23 was collected pursuant to this program. Of this amount, $10,500 (80%) came from two individuals in leadership positions at Gulf Power Company. (R138; 201; See Ex. 414)

On January 1, 1988, one of the persons who reported directly to the president was involved in three automobile accidents while driving a company vehicle. He was charged with D.U.I. and a number of traffic violations at the scene of the third accident. The president believed it would be very damaging to Gulf Power if the incident were reported in the media and he made a conscious decision not to have the accident reported as required by company procedures. (Ex. 396 at p. 66) Although this activity constituted a violation of the Code of Ethics, the individual involved received no written reprimand. (R180) He was orally reprimanded, although it is not clear by whom. (R181) Two points concerning this incident appear relevant to our analysis. First, it would appear that this incident supports the lack of commitment to enforcement of the Code of Ethics from 1984 to 1988. Second, it also raises the issue of Gulf Power treating executives differently concerning ethical violations than other employees. This is buttressed by the lack of investigation of allegations concerning personal use of company materials involving an ex-president of the Southern Company. (R134) Discriminatory enforcement is further indicated by considering that a lower-level employee was fired for stealing a gallon of gas and certain other unspecified violations. (R107; 128; 182)

Gulf Power also did business in 1983 with Scott Addison, the son of Ed Addison, the Chief Executive Officer of the Southern Company. Although this specific transaction does appear prudent in and of itself, we do question the propriety of doing business with relatives of the parent company personnel. This is especially true when the transaction was not handled in the normal manner and Gulf Power conceded that absent the family connection, the person would probably not have received the same treatment. (See R3841-3844)

To summarize, we believe the events described above support a finding of mismanagement on the part of Gulf Power Company. The finding of mismanagement is premised on the activities of Mr. Horton, the president's lack of knowledge of those activities despite the incidents discussed above, the lack of investigation of Mr. Horton, the lack of written reprimands to Mr. Horton, the circumstances relating to the readoption of the Code of Ethics, the uneven enforcement of same, the various executives accepting goods or services without payment and the other factors discussed above. These factual circumstances as well as the fact that the illegal activity continued for at least eight years, lead us to agree with Ms. Bass, "that the corporate culture was such that employees believed these types of illegal activities were, at the least, condoned by top management." (R2994; See Ex. 391 at p. 10; 28; 33) This is particularly true when one considers that illegal activity continued for at least eight years.

Given the foregoing discussion, the issue becomes what action the Commission should take. Gulf Power argues that the Commission lacks authority to lower the return on equity in absence of a demonstrable impact on rates or service from the mismanagement. (Gulf Power Brief at 110; See Id. at 107-138) In United Telephone Co. of Florida v. Mann, 403 So.2d 962, 966 (Fla. 1981), the court stated that after the rate of return is calculated, "the commission can make further adjustments to account for such things as accretion, attrition, inflation and management efficiency." (Emphasis supplied) We believe this case, in conjunction with the fact that public utility regulation is an exercise of the police power (See Section 366.01, Florida Statutes) and other statutory provisions (See Sections 350.117, 366.041, 366.07, and 366.075, Florida Statutes) grant this Commission ample authority to take management efficiency into account in setting rates.

The statutory provisions cited above give the Commission authority to consider management efficiency in setting rates. In consideration of relative efficiency, the Commission should reward the more efficient and give less relief to those operating in a less efficient manner. As the court stated in Deltona Corp. v. Florida Public Service Commission, 220 So.2d 905, 907 (Fla. 1969):

> A statutory grant of power or right carries with it by implication everything necessary to carry out the power or right and make it effectual and complete.

We believe the proper method of dealing with mismanagement is through the return on equity. The New Hampshire Public Utilities Commission has acted in conformity with this principle:

> The method of addressing managerial inefficiency which is most soundly rooted in proper regulatory principles and is most appropriate to the instant situation is a reduction in the allowed return on common equity. Re: Public Service Commission of New Hampshire, 57 PUR4th 563, 594

In the instant case there were various ongoing criminal conspiracies reaching to the highest levels of management. These events, widely reported in the media, have hurt the company's relationship with its customers, as was made clear from the testimony customers gave at the service hearings. It is axiomatic that the involvement of managerial personnel in criminal activities lessened the efficiency of management in providing electric service.

As previously discussed, expert testimony of record established that a fair rate of return on equity (ROE) for this utility lies between 11.75% and 13.50%. Analysis of the cost of equity is a subjective process and an exact figure is impossible to measure precisely. The Commission must evaluate the testimony presented and then utilize its expertise to arrive at a fair rate of return for the particular utility at issue. As previously discussed, we believe the appropriate ROE for Gulf Power Company to be 12.55%. Were the previous pages recounting Gulf Power mismanagement not in the record of this proceeding, we could stop there. This record reflects a disregard for the ratepayers and public service, however. Accordingly, we will reduce Gulf Power Company's ROE by fifty (50) basis points for a two year period. This results in a final ROE of 12.05%.

This final ROE is well within the parameters established as fair and reasonable by expert testimony of record. This reduction in the authorized ROE for a two year period is meant as a message to management that the kind of conduct discussed above, which was endemic for at least eight years at this company, will not be tolerated for public utilities which operate in Florida. We have limited the reduction to a two year period to reflect our belief that Gulf Power has turned the corner on dealing with the extensive and long-standing illegal/unethical behavior within the company.

VII. NET OPERATING INCOME (NOI)

Having established the Company's rate base, and fair rate of return, the next step in the revenue requirements determination is to ascertain the net operating income (NOI) applicable to the test period. The formula for determining NOI is Operating Revenues less Operating Expenses equals NOI.

The Company has proposed a net operating income of $60,910,000. Evidence developed during these proceedings has led us to increase this amount to $61,085,000. Our adjustments are set forth as follows:

JURISDICTIONAL NET OPERATING INCOME
(000's)

	Gulf	Adjustments	As Adjusted
* VIII. Operating Revenues	$ 255,580	108	$ 255,688
* IX. Operating Expenses			
A. O&M	113,382	762	114,144
B. Deprec. & Amort.	47,701	(1,893)	45,808
C. Taxes - Other	20,822	(274)	20,548
D. Current Income Taxes	13,185	529	13,714
E. Def.Income Taxes (net)	1,621	712	2,333
F. ITC (net)	(2,041)	96	(1,945)
G. Total Oper. Exp.	194,670	(67)	194,603
H. Net Operating Income	$ 60,910	175	61,085

*Operating Revenues and Expenses are net of fuel and conservation.

VIII. OPERATING REVENUES

The Company proposed an operating revenue for test year 1990 of $255,580,000. We have made adjustments increasing operating revenues for 1990 by a total of $108,000 to $255,688,000. Our adjustments to revenues are as follows:

(000's)

Company Test Year Revenues	$ 255,580
Adjustments:	

A.	PXT misbilling:	16
B.	Non-utility electric billing:	35
C.	Sod Farm revenues	(3)
D.	Appliance division-use of logo	-0-
E.	Revision of OS-I and OS-II Revenue	66
F.	Revision of OS-III and OS-IV Revenue	(6)
Total Adjustments		$ 108
Adjusted Operating Revenue		$ 255,688

A. PXT Misbilling

A PXT customer experienced a forced outage during September 2 and 3 of 1989, and took standby power of 7959 KW during that outage. The PXT customer had taken a generator off line for maintenance to repair the boiler during the period in question. Nonetheless, the customer was not billed for standby power as it should have been (see Commission Order No. 17159).

Additional revenues of $16,325 should therefore be imputed for 1990 as the customer should properly have been billed for standby power of 7959 KW.

B. Non Utility Electric Billing

The company has several non-utility operations including the sod farm, vision design, and the appliance sales and service. In the past and currently, Gulf has allocated the cost of the metered electric consumption to these operations at the actual cost of generation.

We believe that these non-utility operations are being subsidized in part by paying less for electricity than they would have if their consumption had been billed-out at the appropriate tariff rate. It is therefore appropriate to increase revenues by $34,913.

C. Sod Farm Revenues

We have previously ruled that the percentage of the Caryville site devoted to the sod farm (10%) be excluded from rate base. Therefore, it is appropriate to remove from other operating revenues $3,450 in rental revenues received from the sod farm operations.

D. Appliance Division - Use of Logo

After considering the briefs of the parties on this issue we have decided that the value of the Gulf logo to the non-utility appliance sales division should be recognized. It follows that an appropriate allowance for the use of the logo should be credited to the company as revenue above the line.

In the record before us however, we find no evidence concerning the dollar value of Gulf's corporate logo to the appliance division. In the absence of a recorc basis, we therefore make zero ($0) adjustment.

E. Adjustment to OS-I and OS-II

The company failed to use the revenues shown on their most recently revised MFR Schedule E-16 for these classes. It is, therefore, appropriate to increase revenues by $66,000.

F. Adjustment to OS-III and OS-IV

The company failed to correctly transfer revenues from MFR Schedule E-16d to E-16a. This resulted in the utility overstating its current revenues. We therefore decrease revenues by $6,000.

IX. OPERATING EXPENSES

Gulf has requested total operating expenses of $194,670,000. We have made additional adjustments reducing total operating expenses by $67,000 to $194,603,000.

A. Operating and Maintenance Expense (O&M)

Gulf has proposed total O&M expense of $113,382,000. We have determined that this amount should be increased by $762,000 to $114,144,000 as follows:

	(000's)
Operating and Maintenance Expenses Per Company	$ 113,382
Adjustments:	
1. Navy House	(8)

2.	Plant Scherer-Net of IIC Offset	4,070
3.	Out-of-Period, Non-Recurring, etc.	(190)
4.	Industry Association Dues	(20)
5.	Current Rate Case Expenses	(250)
6.	Cogeneration & Industrial Programs	(426)
7.	Good Cents Incentive Program	(50)
8.	Presentation/Seminars Program	(55)
9.	Shine Against Crime	(92)
10.	Economic Development	(687)
11.	Lobbying Expenses	(264)
12.	IRS, Grand Jury, etc.	(5)
13.	Research & Development Projects	(32)
14.	Transmission Rents	(423)
15.	Labor Complement Vacancies	(403)
16.	Productivity Improvement Plan	(339)
17.	Employee Relocation & Development Programs	(56)
18.	Management Perks	(65)
19.	Caryville Subsurface Study	57
20.	Pension Expense	0
21.	Retirement Medical and Life Insurance	0
	Total Adjustments	$ 762
	Adjusted O&M Expenses	$ 114,144

1. Navy House

As discussed earlier, we find that 1990 operating expenses for the Navy House should be reduced by $7,516.

2. Plant Scherer - Net of IIC Offset

The Intercompany Interexchange Contract (IIC) is a methodology for equalizing the capacity reserves among the various operating companies of the Southern Company. Since Plant Scherer is being excluded from the rate base, it is also appropriate to exclude the $4,792,000 capacity payment that Gulf would receive for the Plant Scherer capacity. This would have the effect of increasing operating and maintenance expenses by $4,792,000.

On the other hand, the exclusion of Plant Scherer from rate base would also have the opposite effect of reducing operating and maintenance expenses by $722,000 (the cost of operating and maintaining the plant). The net of these two adjustments results in an increase in operating and maintenance expenses of $4,070,000.

3. Out of Period, Non Recurring or Non Utility

For 1990, Gulf budgeted $1,663,247 for other non-recurring expenses compared to a 5-year averge of actual expenses of $1,473,407 or a difference of $189,840. Gulf did not offer any explanation as to what activities were projected for 1990 in support of the $1,663,247 non-recurring expenses. Since these expenses affect all functional categories of expenses, the adjustment has been included in the O&M benchmark schedule as a single adjustment to total O&M expenses. We have therefore reduced O&M expenses by $189,840.

4. Industry Association Dues

We have adjusted the company's budgeted industry association dues from $167,193 to $147,172. This includes a disallowance of $19,378 for that portion of the Edison Electric Institute Dues which is used for lobbying (1/3 of $58,133 total dues), and $643 associated with miscellaneous organizations that were not identified by the company except as "Organization to be joined in 1990."

5. Current Rate Case Expenses

The company projected rate case expense at $1,000,000. This amount is not contested and consists of:

Outside Consultants	$ 248,000
Legal Services	164,000
Meals and Travel	37,000
Paid Overtime	7,000
Other Expenses*	544,000
Total	$1,000,000

*Includes SCS expenses, postal charges, printing costs and transcripts.

At issue is the amortization period over which the expense will be spread. Commission policy is to amortize rate case expense over a period of time because a rate case benefits not only the current period, but future periods as well. In Gulf's last rate case, in Order No. 14030, we allowed a two year amortization period. In Gulf's 1982 rate case, in Order No. 10557, we allowed a three year period. In the FPUC-Fernandina Beach Division rate case, we approved a 5 year amortization period since it had been

approximately 15 years since the company's last rate case. (Order No. 22224, Docket No. 881056-EI).

Gulf's witness testified that a two year amortization period was appropriate because over the past ten years Gulf has had five rate cases for an average of one rate case every two years.

It has been six years since Gulf's last rate case. Pursuant to Chapter 366, Florida Statutes, Gulf must file Modified Minimum Filing Requirements (MMFRs) in 1994. We believe that the amortization period should be greater than the two years ordered in Gulf's last rate case but less than the six years between cases, since the company must file MMFRs in four years. Therefore, rate case expense will be amortized over four years. Expenses should be reduced by $250,000.

6. Cogeneration and Industrial Programs

We do not believe that expenses related to Gulf's Industrial Customer Activities Cogeneration Program should be allowed. From the record in this docket, this program appears to be little more than a load retention program for large industrial customers.

As justification for this expense, Gulf states that this program provides benefits to the general body of ratepayers by preserving revenues. This presents us with the age old question of the benefits of high load factor customers to the general body of ratepayers.

Gulf contends that the retention of high load factor customers benefits all customers. On the other hand, in this rate proceeding the company has requested that additional plant be placed in base rates. From this record it cannot be concluded that high load factor customers have necessarily benefitted Gulf's general body of ratepayers.

In addition, Gulf has proposed an Energy Audit and Technical Assistance Program as part of its overall conservation plan. This program not only addresses conservation measures, but cogeneration applications, and appears to duplicate the Industrial Customer Activities Cogeneration Program in several respects. We therefore find that the amount budgeted for the Industrial Customer Activities Cogeneration Program ($426,464) should be disallowed.

7. Good Cents Incentive Program

The Good Cents Incentive program offers merchandise and travel packages to contractors for the installation of energy efficient appliances. It also offers these incentives for the retrofit of gas furnaces to electric heat pumps. The provision of these appliances does not require the use of an incentive. The general public, as well as the real estate community, is well aware of the benefits of having an energy efficient home. In fact, energy efficiency has become a major selling point as customers have come to demand energy efficient homes.

Since the provision of incentives to contractors is not necessary, we believe that the $50,000 budgeted by Gulf for the Good Cents Incentive Program should be disallowed.

8. Presentation/Seminar Program

Gulf had budgeted $55,429 for its Presentation/Seminar Program. Gulf contends that this program provides presentations to local contractors about the energy efficiency of electric appliances. This appears to be a duplication of the company's Education and Good Cents programs. Today's contractors are well aware of the importance of an energy efficient home. While these presentations and seminars do foster a better relationship between Gulf and the local contractors, we do not see any additional benefits accruing to the general body of ratepayers. We therefore disallow the $55,429 budgeted for this program.

9. Shine Against Crime

The Shine Against Crime program is simply an outdoor lighting program. These types of programs have been in existence for some time mainly to replace inefficient lighting with more efficient high pressure sodium lighting. This practice reduces kwh consumption and conserves resources. In addition to this purpose however, Gulf's program promotes the installation of new outdoor fixtures.

Section 366.80-.85 of the Florida Statutes, also known as the Florida Energy Efficiency and Conservation Act (FEECA), mandates that utilities control energy growth. While the replacement of inefficient outdoor fixtures helps to reduce energy requirements, the promotion of "new" outdoor installations increases energy requirements. It is this facet of the Shine Against Crime program that we take exception with. The promotion of off-peak load does not contribute to reducing energy requirements and may be contrary

to FEECA. The company's witness stated that approximately 35 to 37% of the expenses for this program are attributable to changeouts of existing fixtures. This means that 63% of the expenses, or $91,761, is attributable to new installations and the promotion of off-peak sales. We therefore disallow $91,761 of the $145,652 Gulf has budgeted for this program.

10. Economic Development

Gulf contends that its well-being is directly related to that of the community, and that it has a direct stake in the community's overall development. As a result, Gulf has developed a marketing and promotional campaign designed to attract new businesses to the area.

It appears that Gulf has assumed some of the responsibilities of local chambers of commerce or development boards. Traditionally, those organizations have been in the forefront of attracting businesses to expand and relocate in their area. Gulf is duplicating these efforts. The company admits that it has "assumed a leadership role in furthering the capability of communities in its service territory to attract and/or expand the industrial base." In seeking to expand industry or business activity in general, Gulf is actively attempting to increase sales of electricity.

This type of marketing expense might be expected of a company operating in a non-regulated environment. A desire to increase sales or market share against the competition is normal and healthy when there is competition. Gulf however, has no competitors supplying electrical power in the same geographic area it serves.

We do not believe that this expense should be passed on to Gulf's ratepayers. We therefore disallow the entire $687,000 Gulf has budgeted for economic development.

11. Lobbying Expenses

We have removed $263,534 used for lobbying and lobbying-related activities from operating expenses. This adjustment removes $96,643 for SCS expenses for Outside Consultants and $119,923 for expenses incurred by Gulf's registered lobbyist and 25% of the office rent on the Tallahassee office. In addition, 10% of the expenses of Gulf's Regulatory Matters Coordinator or $5,375 should also be removed. This is consistent with Gulf's book treatment of these expenses in 1989.

Further adjustments are necessary to remove 25% of the expenses allocated to Gulf for the Governmental Affairs office in Atlanta and Washington or $41,593. Because of the similarities between these Governmental Affairs offices and the Tallahassee office it is appropriate to make this adjustment (TR 3855-3856).

12. IRS, Grand Jury Expenses

At the time of its filing, Gulf identified $615,000 in expenses related to grand jury and IRS investigations which it agreed to remove from its 1990 test year budget. Since its filing Gulf discovered an additional $5,000 used for a presentation made by Gulf's outside auditors to its Board of Directors. Gulf has stipulated to the removal of this amount and we therefore disallow $5,000.

13. Research and Development Projects

Gulf has budgeted $210,000 in O&M expenses for research and development. Of this amount, the $31,813 Gulf has budgeted for the Acid Rain Monitoring Program is an extension of a previous acid rain program and not a new research and development program. In removing this amount from Gulf's proposed 1990 budget, we are not disallowing funds for acid rain research. Rather, we find that Gulf has failed to sustain its burden of proof in justifying this variance from the 1990 benchmark.

14. Transmission Rents

Transmission rents, or facilities charges, are a cost effective alternative to Gulf building its own transmission lines to receive power from Plants Daniel and Scherer, which are physically located outside the State of Florida.

Since we have removed Plant Scherer from Gulf's rate base it is also appropriate that we remove the associated transmission expenses. We therefore remove $423,000 in transmission rents from Gulf's O&M budget.

15. Labor Complement Vacancies

An adjustment in O&M expenses is necessary to remove the effect of vacancies on the labor complement. On the average there were fifty (50) vacant positions in Gulf's labor complement over the twelve month period ending May, 1990. Four positions were eliminated however in Gulf's 1990 budget, leaving a net average vacancy rate of 46 positions. We therefore reduce O&M expenses by

$403,222 and payroll taxes of $29,982 to remove the effect of vacancies on the labor complement. This adjustment is in addition to adjustments made by Gulf recognizing vacant positions.

16. Productivity Improvement Plan

As previously discussed, the Productivity Improvement Plan (PIP) is part of the total compensation plan for Gulf's top 11 employees. Due to a change in the design of the PIP program after the budgeting process was completed, a reduction in O&M expenses is in order.

The original amount budgeted for this program was $438,473, whereas the amount now budgeted is $99,066. We therefore reduce O&M expenses by $339,407.

17. Employee Relocation

Gulf's employee relocation plan covers a variety of costs involved in moving an employee and his family. These costs include appraisals, inspections, insurance, closing costs, broker expenses, moving expenses, and living expenses until a new home is purchased.

Relocation expenses cannot be neatly extrapolated from year to year. Unlike salaries or plant maintenance relocation expenses vary, as shown below:

Year	Actual Amount
1984	$ 263,066
1985	121,536
1986	113,552
1987	285,361
1988	205,287
1989	468,246

Relocation expense increased in 1989 primarily due to company reorganization. Gulf budgeted $324,100 for test year 1990. We believe that $324,100 is too high because of the extensive changes which occurred in 1989 are unlikely to recur soon. We believe a more reasonable approach is to allow $268,112, the amount of the 1986-1989 average yearly expense for relocation. Therefore, Gulf's 1990 budget for relocation expense should be reduced by $55,988 from $324,100 to $268,112.

18. Management Perks

Gulf's ratepayers should not pay for tax services and fitness programs for executives. These expenses should be borne by the stockholders. Expenses are reduced by $65,100.

19. Caryville Subsurface Study

As we have previously discussed, the subsurface study was a geological study of the Caryville site to determine if the land could support the weight of a power plant and supporting facilities. Since Caryville remains in Rate Base, this study ($568,000) should be allowed, however we will require that this amount be amortized to expense over a 10 year period. Amortization of the subsurface study over ten years results in a $57,000 increase in O&M expense. In addition, we have previously made a $28,000 adjustment in working capital for 1/2 year in 1990.

20. Pension Expense

Gulf presented three projections for pension expense in 1990. First, the company budgeted $0 for pension expense and included this in its petition for a rate increase.

The second amount presented by Gulf was on MFR Schedule C-66, Pension Cost. This MFR reports projected net periodic pension cost to be ($11,020). This is an early projection of pension cost under SFAS 87.

The third amount presented by Gulf to project pension expense for 1990 is a letter dated June 1, 1990, from the actuary retained by Southern Company. The letter indicates that the revised estimate of pension cost under SFAS 87 for 1990 is $199,000.

Historically, Gulf's pension expense has been on the decline for the past three years. For 1987, 1988, and 1989; Gulf's pension expense was $1,538,000, $1,385,000, and $47,000, respectively. These are the amounts recorded under SFAS 87.

Consistent with the utility's treatment of pension expense for 1987-1989, we believe that pension expense should be recorded under SFAS 87; however, the estimates of pension cost vary from ($11,020) to $199,000. Although the $199,000 is the most current estimate available, it is not supported by a full actuarial valuation. Because of the new estimate provided, we believe that the pension cost will probably be greater than ($11,020). Since the 1990 pension costs are still estimates and the 1987-1989 trend of

pension expense is downward, we approve a pension expense of $0 as originally filed by Gulf. We are not approving $0 because we are certain that Gulf won't contribute to the pension fund. Rather, $0 is our estimate of what pension expense will be under SFAS 87, based upon the three different projections submitted by Gulf.

21. Post Retirement Medical and Life Insurance

We made no adjustments to Gulf's budgeted post retirement medical and life insurance benefits. However, we will require that Gulf's retirement medical and life insurance benefits be recognized using the accrual basis of accounting. Accrual accounting more accurately charges the cost of providing service to the customer who is receiving service. At this time, we do not believe that Gulf should be required to follow the exposure draft for accounting for post retirement benefits that has been released by the Financial Accounting Standards Board. The exposure draft will not be implemented until some future date.

B. Depreciation and Amortization

The Company has proposed test year depreciation expense of $47,701,000. As a result of our adjustments we have reduced depreciation and amortization expense by $1,893,000 to an approved amount of $45,808,000 as follows:

	(000's)
Depreciation and Amortization Expense Per Company	$ 47,701
Adjustments:	
1. Appliance Division	(12)
2. Tallahassee Office	(1)
3. Leisure Lakes	(5)
4. Plant Scherer	(1,774)
5. New Corporate Headquarters	(101)
Total Adjustments	(1,893)
Adjusted Depreciation & Amortization Expense	$ 45,808

C. Taxes Other than Income Taxes

Gulf has projected taxes other than income taxes to be $20,822,000 for test year 1990. We have made adjustments of $274,000 and reduced taxes other than income to $20,548,000.

The exclusion of Plant Scherer from rate base will result in a reduction of $245,000 in taxes other than income. In addition, a reduction in taxes other than income of $30,000 must be made to remove the effect of vacancies in Gulf's labor complement. Finally, an increase in taxes other than income in the amount of $1,000 should be made as a result of the additional revenue imputed for 1990 due to a PXT customer being misbilled by Gulf (as previously discussed in the rate base section of this order). These adjustments total $274,000 and reduce taxes other than income to $20,548,000 as set forth above.

D. Income Taxes Currently Payable

We have decreased current income tax expense by $143,000 for the net tax effect of other adjustments we have made to net operating income. We made a combined interest reconciliation adjustment and investment tax credit interest synchronization adjustment, increasing income tax expense by $672,000. The effect of these adjustments results in an increase of $529,000 in income taxes currently payable.

E. Deferred Federal Income Taxes (Net)

The company has projected $1,621,000 in deferred Federal Income Tax expense for test year 1990. Our elimination of Plant Scherer from rate base increases deferred Federal Income Taxes by $668,000. In addition, our previous adjustment to depreciation for test year 1990 increases deferred Federal Income Taxes by $45,000. These two adjustments totalling $712,000 result in total deferred Federal Income Tax expense of $2,333,000.

F. Investment Tax Credit

Gulf's budgeted investment tax credit amortization for test year 1990 was $2,041,000. As a result of our exclusion of Plant Scherer 3 from rate base we have decreased this by $96,000, resulting in a remaining amortization of $1,945,000.

G. Total Operating Expenses

Total operating expenses, as adjusted are $194,603,000.

H. Total Net Operating Income

The net operating income is determined by subtracting total operating expenses from operating revenues. For 1990 Gulf's net operating income is $61,085,000 ($255,688,000 - $194,603,000). For a complete breakdown of Gulf's net operating income see Attachment 3.

X. REVENUE EXPANSION FACTOR

The purpose of the revenue expansion factor (NOI multiplier) is to gross up or expand the Company's net operating income deficiency to compensate for income taxes and revenue taxes that the Company will incur as the result of any revenue increase. All parties agree that the appropriate revenue expansion factor in this case is 1.631699 developed as follows:

Revenue Requirement	100.000000
Uncollectible Accounts	(0.113300)
Gross Receipts Tax	(1.500000)
Regulatory Assessment Fee	(0.125000)
Net Before Income Taxes	98.261700
State Income Tax Rate	5.5000%
State Income Tax	5.404394
Net Before Federal Income Taxes	92.857307
Federal Tax Rate	34.000%
Federal Income Tax	31.571484
Net Operating Income	61.285822
Net Operating Income Multiplier	1.631699

XI. REVENUE REQUIREMENTS

Having determined the Company's rate base, the net operating income applicable to the test period, and the overall fair rate of return, it is possible to calculate any excess/deficiency of revenues. Multiplying the rate base value for 1990 of $861,159,000 by the fair overall rate of 8.10% yields an NOI requirement for 1990 of $69,746,000. The adjusted net operating income for the test year amounted to $61,085,000 resulting in an NOI deficiency of

$8,660,000. Applying the appropriate NOI multiplier of 1.631699 to this figure yields a deficiency of $14,131,000 in gross annual revenues.

As discussed earlier, we have reduced Gulf's return on equity by fifty (50) basis points for a two year period as a penalty for corporate mismanagement. After applying the fifty basis point penalty, Gulf's authorized annual revenue increase is reduced to $11,838,000 the calculation of which is detailed below:

(000s)

		After 50 Basis Point Reduction
Adjusted Jurisdictional Rate Base	$86 ,159	$861,159
Required Rate of Return	8.10%	7.94%
Required Net Operating Income	69,746	68,341
Adjusted Achieved Test Year Jurisdictional Net Operating Income	61,085	61,085
Jurisdictional NOI Deficiency	8,660	7,255
Revenue Expansion Factor	1.631699	1.631699
Revenue Increase	14,131	11,838

In view of the above, we authorize Gulf an increase in gross annual revenues of $11,838,000 for two years beginning September 13, 1990. Thereafter, we authorize Gulf an increase in gross annual revenues of $14,131,000.

XII. INTERIM INCREASE

Order No. 22681 issued on March 13, 1990, granted Gulf an interim rate increase of $5,751,000 pursuant to Section 366.071, Florida Statutes. The interim increase was calculated based on a test year consisting of the twelve (12) month period ending September 1989 (October 1988 - September 1989). We approved the interim rate increase for collection, subject to refund, pending the outcome of further evaluation of the Company's request for permanent rates. Now that the evaluation is complete, the appropriate level of interim relief must be calculated.

Under Section 366.071, Florida Statutes, a refund of interim rates should be ordered if it is necessary to reduce the utility's rate of return during the pendency of the rate case proceedings to the level of the newly authorized rate of return which is found fair and reasonable on a prospective basis.

In this docket, the interim increase was calculated using an 8.26% rate of return, which is higher than the 8.10% rate of return approved herein. Therefore, we will require a refund of $2,052,000 on an annual basis, the calculation of which is detailed below:

(000s)

	Interim at 8.26% Rate of Return	Interim at 8 10% Rate o Return	Amount to be Refunded
Jurisdictional Adjusted Rate Base	$ 785,912	$ 785,912	
Required Rate of Return	8.26%	8.10%*	
Required Net Operating Income	64,916	63,659	
Jurisdictional Adjusted NOI	61,392	61,392	
NOI Deficiency (Excess)	3,524	2,267	
NOI Multiplier	1.631699	1.631699	
Revenue Deficiency (Excess)	5,751	3,699	$ 2,052
Required Return on Equity	13.00%	12.55%	

*Without 50 Basis Point ROE Reduction

XIII. FUEL NEUTRALITY

A. Top Gun Video

The "Top Gun" video was produced in 1987 and shown to a group of contractors and builders at Gulf's annual awards seminar. The video shows fighter aircraft shooting gas appliances out of the air and indicates that the contractors could be top guns in their areas. One has to wonder at the overall intent of not only the video but Gulf's entire seminar presentations.

Our fuel neutrality policy can be summarized by stating that a utility should not promote its product by showing a competitive fuel in a bad light. This policy objective is set forth in Order Nos. 9974 and 12179 which were issued in 1981 and 1983.

Gulf's Top Gun video is clearly in violation of our fuel neutrality policy, and Gulf's management should be held accountable for its production and distribution.

B. Gas Busters "T" Shirt

A total of 559 of the tee-shirts in question were distributed in 1985 to Gulf Power employees. Gulf states that "[t]he shirts were made available to employees during a series of meetings during 1985 and were intended to explain and gain commitment to the Company's strategic marketing plan titled EMPACT (EMPloyee ACTion). The shirts themselves were an inappropriate reaction to the promotional efforts of other energy suppliers that was very much in the public focus during this timeframe."

The production and distribution of these shirts having a "Gas Busters" logo, was contrary to our policy regarding fuel neutrality.

C. Good Cents Incentive

The Good Cents Incentive programs were in existence during 1987 through 1989. These programs were specifically tailored to reward customers for the replacement of gas furnaces with heat pumps. The contractors were paid anywhere from $25 to $100, in cash or merchandise, for each installation. In addition "electropoints" were awarded to contractors which were redeemable for trips, awards, and merchandise.

These programs not only provided incentives for the replacement of gas heat but also increased the Company's winter peak demand and annual energy. The good cents incentive programs clearly promoted electric over gas appliances and were contrary to our policy regarding fuel neutrality.

D. Withholding Good Cents Certification

In 1987, a commercial building received energy awards from both the U.S. Department of Energy and the Governor's Energy Office yet did not receive Good Cents certification because of a small amount of backup gas power. This practice was contrary to the Commission's policy regarding fuel neutrality.

Gulf has contended all along that the Good Cents logo is synonymous with energy efficiency. Why then wouldn't a highly efficient building that received other awards be granted Good Cents certification? Gulf is not practicing what it preaches; the promotion of the most energy efficient building for its ratepayers.

E. Misleading Advertising

Gulf ran a series of advertisements in which it compared the energy efficiency of its all electric "Good Cents" home to other homes which contained gas appliances. According to the ads, the "Good Cents" homes were consistently more energy efficient. The ads did not point out however that the homes had different levels of insulation and sizes of equipment. Both of these attributes will affect the energy usage of the home that is modeled, yet the advertisements did not mention this fact. If the general public were to read these ads, they would believe that the homes were identical. This is misleading to Gulf's general body of ratepayers.

The Company's justification for these ads is that they were responding to advertising by local gas companies that Gulf thought was misleading. We do not find this justification acceptable.

We believe that the preceding five subsections demonstrate that Gulf has consistently and blatantly violated our policy regarding fuel neutrality. Although at this time we will not make an adjustment based on these violations, we warn Gulf and other utilities under our jurisdiction that in the future such violations will not be tolerated.

XIV. COST OF SERVICE AND RATE DESIGN

Having ascertained the Company's revenue requirement and the amount of revenue increase necessary, we now turn our attention to rate design. We must determine the rate of return currently earned by each rate class, the increase in revenue requirement to be allocated to such class, and how each class's revenue responsiblility will be spread between the customer, energy, and demand charges. In this rate proceeding, we have also reviewed the continued appropriateness of several aspects of the company's rate structure. We begin first with the cost of service studies presented in this case.

A. Cost of Service Methodology

Several methodologies were put forth for consideration as follows:

Gulf Power - 12 month Coincident Peak and 1/13 Energy Methodology; Public Counsel - Equivalent Peaker Cost Methodology; and Industrial Intervenors - Near Peak Methodology. The equivalent peaker methodology implies a refined knowledge of costs which is misleading, particularly as to the allocation of plant costs to hours past the break-even point. The near peak method includes too narrow a spread of peak hours in our view. We heard extensive testimony on each of these methodologies and believe that the Gulf Power proposed methodology is appropriate with the following revisions:

1) All of Account 364 will be classified as demand-related and allocated on class NCP.

Commission policy has been that no distribution system costs other than service drops (Account 369) and meters should be classified as customer-related. In addition, for customers served at primary or higher voltage only the meter is classified as customer-related. (O'Sheasy, TR 1863-1864) Therefore, we believe it was inequitable to the secondary voltage customers to classify secondary wire in Account 364 as customer-related when there was no similar classification of wire for higher voltage customers.

2) Uncollectable expense will be allocated to all classes on the basis of revenue and be classified as revenue-related. It will not be classified as customer-related or included in the customer charge.

3) Fuel inventory (stock) should be allocated on energy and classified as energy-related.

4) The coincident and noncoincident demands should be developed using the same methodology used for all other rate classes. The SEP KWH should not be excluded in the development of the CP KW and NCP KW.

5) The revenues, billing determinants and development of the 12 CP and NCP demands for the Standby Service Class will be based on the assumption that the PXT customer that is not migrating from PXT has a Standby Service Capacity of 7959 KW for the test year.

6) Service drops will be allocated to the OS classes for at least recreational lighting and advertisement or billboard customers. Meter costs, which reflect the current level of metering will be allocated to the recreational lights.

All the recreational lights have meters. (Exhibit 508) There are probably service drops for each of these installations. (O'Sheasy 1858-1860) Therefore, the cost will be allocated to the class for these customers.

7) The rate base for additional facilities for OS-I/OS-II and the expenses [associated] with these facilities will be allocated to OS-I/OS-II.

In his prefiled testimony on how a cost of service study is performed, Mr. O'Sheasy stated that "Certain costs are directly associated with one particular group of customers and are, therefore, assigned to that group." (TR 1807) This assignment was not done with respect to the additional facilities for OS-I/OS-II. The class has been credited with revenues of $424,653 but the rate base and expenses associated with the facilities except for those booked in Account 373 were not assigned to the class. (See TR 1861 and Exhibits 500, 231 and 501.) The rate of return in the revised study is 5.96 percent compared to 7.43 percent in the company's study in Exhibit 231. We believe the expenses should be matched with the costs so that the class' rate of return will not be significantly overstated to the detriment of the other rate classes.

8) Expenses for maintenance of cooling towers and coal pulverizers (grinding mills) will be allocated on energy and classified as energy-related.

The company has changed the classification of some O&M expenses from energy to demand in the cost of service study compared to that of Docket No. 840086-EI. In Docket No. 881167-EI, Mr. Haskins stated that maintenance for both coal grinding mills and cooling towers vary with the KWH to be generated. (TR 1763) In response to cross examination Mr. Lee agreed that operation and maintenance expenses for coal pulverizers and the operation expenses for cooling towers vary with KWH generated but that the amount of maintenance varies little with KWH. (TR 1468)

9) The test year expenses for the four conservation (Good Cents New Home, Good Cents Improved Home, and Commercial Presentations/Energy Education Seminars) programs which were denied conservation cost recovery by the Commission on May 2, 1989 will be

classified as energy-related and allocated on energy to the rate classes in the revenue class to which the cost has been assigned by Gulf Power.

The test year expenses for these programs have been classified as customer-related by the company and included in the customer unit costs. Thus, the same amount of program cost is allocated to and recovered from a small RS customer as a large RS customer. (O'Sheasy, TR 1861-1863) Therefore, we believe it is more equitable to continue to recover these costs on a per KWH basis rather than on a per customer basis. Demand-related costs are collected through the energy charge for the residential class. Therefore, if there is less demand-related cost allocated to the class due to demand reductions from class participation, the customers with large usage will benefit more from the conservation program than customers with small bills.

Unfortunately we do not have a 12 CP and 1/13th cost study incorporating this combination of revisions. Because two of these problems significantly impact the rate of return of the rate classes directly involved, the company's 12 CP and 1/13th cost study (no migration study Ex. 231) has been adjusted for the two problems. One problem is the crediting of the revenues for additional facilities without the assignment of the cost for some of these facilities for OS-I and II. The second is the exclusion of the SE KWH in developing the 12 CP demands of the PXT and LPT classes. For example, a comparison of the rates of return in column 1 of Schedule 1 to those in column 3 shows that there is a 1.47 percentage point difference (7.43 percent versus 5.96 percent) for OS-III.

For the PXT and LP/LPT classes, rate base was increased by 6.84 percent ($2,778,000) and .79 percent ($592,000), respectively, of the transmission and demand-related production net plant and the demand-related production materials and supplies. The NOI for these classes was reduced by 6.84 percent ($316,000) and .79 percent ($68,000), respectively, of the total transmission and demand-related production O&M expenses, production plant A&G expenses and transmission and demand-related depreciation expenses. These are the major items allocated on the 12 CP KW. For OS-1/OS-II, the rate base and NOI from the staff-requested 12 CP and 1/13th cost of service study (Exhibit 501), which reflect the assignment of the cost to the class for all its additional facilities, was substituted for the values in Exhibit 231. All classes' rate base and NOI were adjusted proportionately to equal the company's filed levels of rate base and NOI.

1. Distribution System Costs

Our policy since the early 1980s has been to classify only the service drop and meter portion of the distribution system as customer-related. The Industrial Intervenors (II) and the utility advocate classifying a significant portion of the remainder of the distribution system, including poles, conductors, and transformers, as customer-related. This method is often referred to as the Minimum Distribution System concept. There is a fundamental flaw in this proposal in that only part of the distribution system is classified as customer-related. None of the subtransmission and transmission system would be classified as customer-related. Hence, customers served at primary voltage through dedicated substations, and customers served at higher voltages would not pay for any of this network path.

We believe this minimum distribution system approach should be rejected because it is inequitable and inconsistent to apply the concept to only those customers served at secondary voltage or at primary voltage through common substations when the network path must be there to serve each and every customer.

In our opinion distribution facilities that function as service drops or dedicated tap lines should be directly assigned to the classes whose members the facilities serve. No distribution costs other than service drops and meters should be classified as customer-related. Demand-related cost should be allocated on a demand allocator, and customer-related cost on a customer allocator.

2. Uncollectible Expense

The company assigned uncollectible accounts expense to the RS, GS and GSD classes on average number of customers and classified the expense as customer-related. The result of this classification and assignment or allocation of uncollectible accounts expense is that the expense is included in the customer charge unit cost. If the customer charges for these classes have been and are set at or near unit cost, all customers in the RS, GS and GSD rate classes pay an equal amount for uncollectible expense each month, regardless of the size of their bills. Commission policy has been to allocate uncollectible expense on revenues and not include it in the customer unit cost.

Our policy of not classifying uncollectible expense as customer-related should be continued. The company's classification of the cost as customer-related is inequitable because it results in a small customer paying as much uncollectible expense as a large customer (within and between the RS, GS and GSD classes), if customer charges are set at unit cost. However, if the account of a customer becomes uncollectible, a customer with a large bill would cause the company to incur much more uncollectible expense than a customer with a small bill.

Uncollectibles should be classified as revenue-related so that cost responsibility for uncollectible expense would be proportional to the size of a customer's bill.

3. Fuel Stock

The company has allocated fuel inventory in rate base on the 12 CP and 1/13th average demand, the same allocator they have used to allocate production plant investment. Thus, 12/13ths or 92.3 percent of the inventory has been classified as demand-related and allocated on each class's estimated demands during the system's 12 monthly peak hours. The other 7.7 percent has been classified as energy-related and allocated on energy.

In the company's last rate case we approved projected daily burn for 107.5 days as the basis for the calculation of the appropriate level of fuel inventory to be included in working capital. Since projected average daily burn is a function of KWH projected to be generated and used in the test year, fuel stock should be classified as energy-related and thus allocated on energy. The energy classification and allocation of fuel more closely track cost causation than the company's 92.3 percent allocation on 12 CP demands.

Since we have based the level of fuel stock allowed in rate base on a specific number of days burn which is a function of the KWH projected to be generated in the test year, fuel stock should be classified as energy-related and allocated on energy.

4. Estimate of CP and NCP Demands

The twelve monthly coincident peak hour demands (12 CP) are used to allocate demand-related production plant and transmission plant costs in all but the near-peak cost of service study. These demands must be estimated for all classes when using a projected test year. The 12 CP and class peak demands were estimated by class by dividing the 1990 KWH by 1987 KWH and multiplying that

ratio times the 1987 12 CP for rate classes RS, GS and GSD. Under this method each class' 12 CP KW for the test year are increased over the historic load research data by the same percentage their KWH are projected to increase in the same time period, i.e., each class's 12 CP load factor is assumed to be the same as it was in the year of the historic load research data. Thus, each class's demand or use in the 12 monthly coincident peak hours relative to total KWH usage is projected to be the same in the test year as the historic load research year.

For those customers taking service on the SE rider, "supplemental energy" KWH were excluded from this calculation. The resulting 12 CP demand of 104,728 KW for the PXT class would have been 6.8 percent higher if the KWH had been included (111,893 KW). The effect on the estimated demands of the LP/LPT class was insignificant (.79 percent) because the LP/LPT customers' response to the SE rider was minimal. The 104,728 KW represents a 12 CP load factor of 107 percent in the test year for PXT. Thus, the PXT class would have been allocated about 6.[illegible]% more demand related production and transmission plant cost if these KWH had not been excluded. The effect of this adjustment or methodology is to reduce the costs allocated to the PXT class and thereby avoid or reduce a rate increase by inflating the class's rate of return.

The company's reason for excluding these KWH apparently is that it expects the SE customers to have a higher 12 CP load factor in the test year, i.e., to use less energy in the 12 monthly peak hours relative to their total usage. However, the data below shows the 12 CP load factor for 1989 for the three groupings of PXT customers decreases instead of increases in 1989. The significant decrease from 101 percent to 91 percent for PX/PXT customers on the SE rider was inconsistent with the company's assumed <u>increased</u> load factor for the class.

<u>12 CP LOAD FACTORS</u>

	Actual 1987	Actual 1989	Projected 1990
PXT Class as a whole	101	95	107
PX/PXT Customers on the SE Rider	101	91	
PX/PXT Customers not on the SE Rider	100	97	
LP/LPT Class as a whole	83	83	84
LP/LPT Customers on the			

SE Rider	80	83
LP/LPT Customers not on the SE Rider	84	84

If the company's projection of a 107 percent 12 CP load factor for PXT due to an assumed changing usage pattern of SE customers is to be realistic or representative of 1990, it is only reasonable to expect the load factor for the PX/PXT SE customers would have been higher in 1989 than 1987.

Other data indicating that it is unreasonable to expect the 12 CP load factor for the PXT class to increase from 95 percent in 1989 to 107 percent in 1990 includes:

(1) The number of supplemental energy KWH projected for 1990 is 20 percent less than 1989. (Exhibit 486)

(2) The number of hours projected to be designated as SE hours in 1990 is less than either 1988 or 1987. (Exhibit 487)

(3) The SE rider has been in effect since 1985 without revision. (Order No. 17568)

Therefore, one would not expect a markedly different response to the rider in 1990 than in 1989.

The company has not presented any data or evidence supporting the use of a load factor higher than the historic value. All of the PX/PXT customers have time-recording meters so that their 12 CP values are actual metered numbers and not estimates. Therefore, the company had the 12 CP load factor data for the first four or five months of 1990 and could have entered it into the record during the hearing as evidence supporting the increased load resulting from their methodology. The company did not enter the data. It is reasonable to assume that the data would have been entered if it corroborated the assumptions behind their methodology.

It was also unreasonable to use 104,728 12 CP KW for 1990 for PXT because the 1989 actual (not estimated) value was 119,448 KW and the PXT KWH were projected to decrease only 1% from 1989 to 1990. (Data on Exhibits 488 and 209)

We are concerned about Gulf's departure from the policy (MFR Schedule E-14) of using the load characteristics determined from the load research collected pursuant to the Commission's Rule 25-6.0437 Cost of Service Load Research in developing various peak

demands by class for the test year. The policy assumes the load characteristics, including load factor, are the same in the test year as the historic load research year. The primary purpose of the rule is "to require that load research that supports cost of service studies used in ratemaking procedures is of sufficient precision to reasonably assure that tariffs are equitable and reflect the true costs of serving each class of customers." The utilities have spent large amounts of money to collect the load research required by this rule. Gulf's departure from the use of historical load characteristics for the PXT class undermines the purpose of the Commission's Cost of Service Load Research Rule. It is inequitable and should not be allowed.

The company's exclusion of "supplemental energy" KWH in the development of the 12 monthly coincident peak hour demands and the class noncoincident peak demand for PX/PXT and LP/LPT underestimated these demands and resulted in an underallocation of production and transmission cost to the two classes. The PXT 12 CP KW should have been 6.8 percent higher and the LP/LPT's .79 percent higher. The exclusion of these KWH was inappropriate. The method employed by the company to develop its estimates by class of the 12 monthly coincident peak hour demands and the class noncoincident peak hour demands is inappropriate and Gulf's use of the methodology is denied.

B. Allocation of Revenue Increase

The revenue increases that we have authorized should be spread among the rate classes in a manner that moves class rate of return indices closer to parity. In so allocating the revenue increases we adhere to the following guidelines:

> No class will receive an increase greater than 1 and 1/2 times the system percentage increase of 2.79 percent with adjustments.
>
> The classes below parity will be given the maximum increase (RS and OS-II).
>
> The GS class will be brought to 1.45 times parity. The approved reduction to the GS class is $1,655,000.
>
> The OS-III class will be brought down to 2.34 times parity.

The balance of the increase will be spread across the remaining classes to retain as closely as possible their existing relationships.

Attachment 4 sets forth the approved spread of revenue increase by class. Attachment 5 provides the approved rates by class.

C. Seasonal Rates

The company currently has seasonal rates for the RS and GS rate classes. These seasonal rates do not track the company's cost of capacity when Gulf buys power from the Southern pool. These costs represent a significant portion of Gulf's cost of service during those hours Gulf buys power. Thus, the price signal sent by the present seasonal differential under the RS and GS rate classes may not represent the true cost to the ultimate consumer on Gulf's system, thereby tempering the reduction in peak-related costs, improvement of system load factor, and conservation of summer consumption sought by the seasonal design. A flat charge per KWH based on average costs for the RS and GS classes may produce a clearer price signal than the seasonal rate design proposed by the company.

We therefore eliminate seasonal rates for the RS and GS classes because the seasonal pricing differential does not appear to be cost-based and may not be sending the appropriate price signal during the hours Gulf buys power from the Southern pool.

D. Customer Charges

Customer charges are designed to recover costs associated with the number of customers served. These costs include primarily the costs of billing and metering and customer service. Given that costs are properly allocated to the customer component, the charge for each class should reflect the cost to provide such services. The customer charges are set as follows:

Rate Class	Unit Cost	Current Charges	Approved Charges
RS	$ 7.94	$ 6.25	$ 8.00
RST		9.25	11.00
GS	17.34	7.00	10.00
GST		10.00	13.00
GSD	41.47	27.00	40.00
GSDT		32.40	45.40

Rate Class	Unit Cost	Current Charges	Approved Charges
LP/LPT	447.83	51.00	225.00
PX/PXT	1,222.21	146.00	570.00

E. Transformation Ownership Discounts

Gulf currently offers a discount to customers who own their transformation equipment and for the losses absorbed by the customer metered at primary or transmission level. Gulf proposed adjusting these credits by any variance of the demand and energy charges from unit costs. FEA proposed substantial increases in the transformation discounts to include the costs of poles, overhead/underground conductors, lines, and transformers.

We agree with staff that such a large discount could encourage uneconomic duplication of facilities to the detriment of the general body of ratepayers. Further, we agree that the adjustment for variance from unit costs proposed by Gulf is an unnecessary complication. Therefore we approve a transformer ownership credit for primary level customers of \$0.35/KW/Month for GSD/GSDT and \$0.42/KW/Month for LP/LPT. The transformer ownership credit for transmission level customers should be set at \$0.41/KW/Month for GSD/GSDT, \$0.52/KW/Month for LP/LPT, and \$0.11/KW/Month for PX/PXT customers.

Such transformation credits should also be applied to the SS and ISS classes and should be based on 100 percent ratcheted billing demand in order to match the calculation of the local facilities demand charge applicable to standby service. Metering voltage discounts should be set equal to the otherwise applicable rate schedule for SS and ISS customers and apply to both the KW and KWH charges.

F. Time of Use Rates

Two methodologies were presented at the hearing for the design of time of use rates. Gulf's testimony supports use of the load factor methodology approved by the Commission in the company's last three rate cases. We believe that the major drawback to the load factor methodology is that it does not track costs as well as the time of use methodology (TOU) proposed by OPC.

OPC supports the use of a methodology which would recover distribution-related plant costs from the maximum demand charge; production and transmission-related demand costs through the on-peak demand charge; and energy-related production plant and

operations and maintenance expenses through the energy charge. This approach also includes a ratchet for recovery of local distribution plant costs. We believe the rate design for the maximum demand charge should be based on actual metered demand and not ratcheted KW as proposed by OPC.

We therefore calculate time of use rates as follows:

1) The on-peak and off-peak non-fuel energy charges would be set equal to the energy unit cost from the cost study. (This would include the energy-related production plant and operations and maintenance expenses).

2) The maximum billing demand charge (which is applied to the customer's maximum demand whenever it occurs) would be equal to the distribution plant unit cost.

3) The on-peak demand charge would be an amount sufficient to recover the remaining revenue requirement including the transmission plant and the demand-related production plant.

G. Standby Service

1. Determination of Daily Standby Service Billing Demand

The following formula is Gulf's current formula for calculating daily standby service demand on Gulf's firm standby service (SS) tariff:

Daily Standby Service (KW) =

Maximum totalized customer generation output occurring in any interval between the end of the prior outage and the beginning of the current outage.

Minus the customer's daily generation output (KW) occurring during the on-peak period of the current outage.

Minus the daily on-peak load reduction (KW) that is a direct result of the customer's current generation outage.

The customer's daily generation output (KW) and daily on-peak period load reduction (KW) that are used in the formula must occur

during the same 15 minute interval as the daily Standby Service (KW) that is used for billing purposes.

The language in the above formula for calculating daily standby service demand should be changed from:

> Maximized totalized customer generation output occurring in any interval between the end of the prior outage and the beginning of the current outage

to:

> The amount of load in KW ordinarily supplied by the customer's generation.

This change would satisfy the Industrial Intervenors' request for adjustment for seasonal variation in generation output in calculating daily standby service demand. It would also ensure that self-generating customers (SGCs) are not billed for standby power when they reduce generation for purely economic reasons. We believe that this change in the formula will result in a more accurate determination of standby power used.

The Industrial Intervenors proposed formula would result in standby power used by SE rider customers not being properly billed as standby power.

The language in the formula in the interruptible standby service (ISS) should be replaced with the language in the formula we are approving herein for firm standby service.

2. <u>Design of Standby Service Charges</u>

The present standby service rates are based on system and class unit costs from Docket No. 840086-EI. We believe the standby rate schedule (SS and ISS) charges should be adjusted to reflect unit costs from the compliance cost of service study for this rate case and the 1990 IIC capacity charge rates.

The SS charges should be designed using this compliance cost of service study and the rate design specified in Order No. 17159. The forced outage rate to be used to calculate the reservation charge would be that approved herein. If the resulting charges generate either more or less revenue than the class' revenue responsibility as approved herein, all charges except the customer charge should be decreased or increased by the (same) percentage

required to generate the class' revenue requirement. The ISS charges should be the same as the SS charges except for the reservation and daily demand charges. The sum of the CP KW transmission unit cost plus an average IIC monthly charge rate of $6.69 should be used as the unit cost to develop these charges. Having decided herein to bill SE customers for distribution system costs on their maximum metered KW whenever it occurs, the billing KW in Exhibit 510 should be used to calculate the local facilities charges.

The customer charge should be the LP/LPT customer charge plus $25 except for those standby customers taking service on PX/PXT for whom the charge should be the PX/PXT charge plus $25.

The company should provide the staff a compliance cost of service study and the SS rates calculated in accordance with this decision. A spread sheet of component costs by function (retail revenue requirements) for the compliance study should also be provided.

With respect to the definition of the capacity used to determine the applicable local facilities and fuel charges, we are denying Gulf's proposed changes because they are not in conformance with the terms and conditions prescribed in Order No. 17159 for standby service.

3. SS Rate Forced Outage Factor

In the Standby Order No. 17159, a 10 percent forced outage rate was specified as the outage rate to be used in the calculation of the Reservation Charge. The overall reliability of the forced outage data in the record is questionable, however, in that the company was apparently accepting without review the forced outage data provided by self-generating customers (SGCs) and the SGCs may not have understood they were to report these outages, even if they signed up for zero standby power. Additionally, data was provided by only three of the four SGCS.

While we are tempted to rule that the assumed 10 percent forced outage rate should not be continued, there appears to be no practical alternative in the absence of sound, reliable data to support an alternative value for the forced outage rate.

Therefore, in the absence of reliable data to support a different value for the forced outage rate used to develop the reservation charge, the 10 percent forced outage rate prescribed in Order No. 17159 should continue to be used.

4. SE Rider Availability in Lieu of Standby Service

This issue is whether self-generating customers who are experiencing a forced outage or an outage for scheduled maintenance of their generating system can be billed on the SE rider rather than the standby service rate for standby power taken during the outage if the customer has another generator with which he could generate but chooses not to use for economic reasons. In other words, the issue is whether a self-generating customer can have standby power billed under a different rate tariff than the standby service if he has additional generating capacity available but which is less economic. Under the current standby service rate schedules, self-generating customers may reduce generation for economic reasons and take additional capacity and energy as supplementary service, including supplementary service with the SE rider applied.

Order No. 17159 at page 6, in addressing the issue of whether non QF standby customers would be entitled to the same service as QFs, requires the standby tariff resulting from that proceeding to be mandatory for all self-generating customers unless there is evidence to demonstrate that their load characteristics resemble those of normal full requirements customers. To allow such a customer to choose a different rate because it would result in a lower bill would allow that customer to escape costs properly assigned to him.

There is also a basic cost recovery problem if standby service is allowed to be billed on the provisions of the SE rider. The standby service rates have been developed by dividing the utility's full demand-related production and transmission unit cost per coincident peak kilowatt of demand by the average number of days per month that contain on-peak hours (21). Using this rate requires a standby customer who imposes load every day to pay the full demand-related unit cost per coincident peak KW because it is virtually certain that his load was on at the time of the system's peak.

The average number of days in 1988 and 1989 for which a self-generating customer would be billed daily demand charges if standby power was taken and billed pursuant to the SE rider is six. Thus, if a customer were using standby power for maintenance every day in a given month, the customer would be paying, on average, 6/21ths of the full demand-related unit cost per coincident peak KW even though it was virtually certain that his load was on at the time of the system's peak. In this scenerio, the rates for standby service should be recovering the full demand-related unit cost.

Additionally, to allow standby power to be taken under the terms and conditions of the SE rider if the customer had generating capacity available but less economic would discriminate against self-generating customers with only one generator versus those with multiple generators.

KWH and capacity purchased to replace energy and capacity normally generated by a customer's generator which is experiencing a forced outage or an outage for scheduled maintenance, is clearly standby power and should be billed as standby power. However, to ensure that power taken to replace reduced generation for purely economic reasons is billed as supplemental power, the definitions of backup service and maintenance service should be more specific. Two sentences should be added to the definition (in the tariff) of backup service and maintenance service, the two forms of standby service, to indicate more clearly what constitutes scheduled and unscheduled outages. In the definition of backup service, an unscheduled outage should be defined as the loss or reduction of generation output due to equipment failure(s) or other condition(s) beyond the control of the customer. Simila ly, under maintenance service a scheduled outage should be deiined as the loss or reduction due to maintenance activities ɔf any portion of a customer's generating system.

5. Waiver of Ratchet Provision for Reservation Charge

All demands registered during any maintenance outage of a self-generating customer, regardless of whether the maintenance outage is fully coordinated with Gulf, should be subject to the ratchet provision of the SS rate for the local facilities charge. The ratchet provision is appropriate because the scheduling of the outage does not affect the capacity of the local facilities to serve the customer. Scheduling the outage will not enable Gulf to avoid local facilities cost as the capacity of the local facilities, particularly dedicated substations, must be sufficient to serve the customer's maximum demand whenever it occurs. An increase in demand should properly result in an increase in the billing demand for the local facilities charge.

The Company should excuse demands registered during such periods from the ratchet provision applicable to the reservation charge if (1) the maintenance outage is usefully coordinated with Gulf and (2) the maintenance is used in hours that do not include a peak hour(s) that determines Gulf's IIC payments or revenues. The ratchet provision should not be waived for maintenance power used during the peak hours that determine Gulf's IIC payments or revenues because the cost impact continues for three years.

H. Supplemental Energy (SE) Rider

1. No Separate SE Rate Class

Order No. 17568, Docket No. 850102-EI, approved the experimental Supplemental Energy (SE) (Optional) Rider as a permanent rate schedule on the condition that it become a separate rate class in the company's next rate case. In this docket however, Gulf has not provided separate cost of service analyses for the two rate classes employing the SE Rider, LPT-SE and PXT-SE.

The necessity for a separate rate class depends on the differences between billing KW and peak demand KW characteristics of SE customers, as opposed to these in the general LP/LPT and PX/PXT classes and considerations of local facilities costs. From the record in this docket it appears that there is a large dissimilarity in the ratios of billing KW to 12 CP KW and maximum metered KW between PXT-SE and LPT-SE classes and that these customers should not be grouped into a single class. The data implies that to put all SE customers into one class would create a serious cost recovery problem between the LPT-SE and the PXT-SE customers. Therefore, a separate rate class consisting of LPT and PXT customers on the SE rider should not be implemented in this rate class.

It does, however, appear that there may be sufficient dissimilarity between the ratios of billing KW and 12 CP KW and maximum metered KW to warrant separate rate classes for the LP/LPT SE customers and for the PX/PXT-SE customers. Since we do not have a cost of service study with LP/LPT-SE and PX/PXT-SE each as a separate rate class, the question of whether a separate rate class(es) should be implemented for either PX/PXT-SE or LP/LPT-SE customers should be considered in the next rate case. Gulf is instructed to file its cost of service study in that case with LP/LPT and PX/PXT each broken into SE and non-SE classes and with totals for LP/LPT and PX/PXT.

2. Distribution System Costs for SE Customers

The SE rider presently provides forgiveness of the demands incurred during SE periods both with respect to on-peak and off-peak billing KW. Five of the six SE customers have dedicated substations (Exhibit 517). The sum of the average billing KW for the three SE customers for whom dedicated substations were built in 1989 is only 53 percent of the capacity of these substations. However, the PXT-SE customers are billed on only 59 percent of their maximum metered KW. Therefore, to ensure that the SE

customers pay for the dedicated facilities that have been sized to serve their maximum demands whenever they occur, SE customers should be billed for distribution system costs on their maximum metered demand whenever it occurs. The provision of the SE rider for forgiveness of demand in the SE period would continue to apply to on-peak demand.

Therefore, Gulf shall bill SE customers for distribution system costs on their maximum metered KW whenever it occurs as per these guidelines.

I. Applicability Clause, GSD, LP and PX Classes

The applicability clause of the three demand classes (GSD, LP and PX) is stated in terms of the amount of KW demand for which the customer contracts. This is not an appropriate basis for determining applicability.

In the past, contracts have not been required of all these customers, and contract demand often bears little relationship to actual measured demand. As a part of this docket, tariffs should be modified to state that the applicability for both demand and the PX/PXT 75 percent load factor should be based on measured maximum billing demand. For SE customers, this would be the actual measured billing demand in non-SE periods. Customers whose annual load factor is less than 75 percent should not be allowed to opt for PXT because the PX/PXT rate is based on the costs of high load factor customers.

J. Minimum Charge Provisions for GSD/GSDT and LP/LPT

The current GSD/GSDT and LP/LPT rate schedules have minimum charges equal to the customer charge plus the demand charge for the minimum KW to take service on the rate schedule for customers opting for the rate schedule. This minimum charge provision is not appropriate. This provision unduly penalizes customers who opt for this higher rate class because they pay for the minimum KW to qualify for the class even if their usage falls below this level. Customers who meet the class minimum even once in every 12 month period, do not pay a minimum but pay only for their actual demand, even if it falls below the minimum.

We therefore eliminate the minimum charge provisions of the GSD/GSDT and LP/LPT rate schedules.

K. No Local Facilities Charge

The company proposed the implementation of a local facilities demand charge for LP/LPT and PX/PXT customers, which would be applied when the customer's actual demand does not reach at least 80 percent of the Capacity Required to be Maintained (CRM) specified in the Contract for Electric Power. We are denying the implementation of this charge because it is inequitable to apply the charge to the contract capacity because the contract demand for many customers bears little relationship to measured demand. Furthermore, it is an ineffective charge because no customers would have to pay the charge in the test year.

L. Service Charges

The following service charges are approved:

Service	Charge
Initial Service	$20.00
Reconnect a subsequent subscriber	16.00
Reconnect of existing customer after disconnect for Cause	16.00
Collection Fee	6.00
Installing and Removing Temporary Service	60.00
Minimum Investigation Fee	55.00

M. Outdoor Service (OS)

1. Elimination of OS General Provisions

The company proposes to eliminate the general provisions pertaining to replacement of lighting systems on the Outdoor Service Rate Schedule (OS). We believe this is appropriate and that the present general provisions relating to the replacement of mercury vapor lighting fixtures with high pressure sodium fixtures should be removed.

The current provisions pertaining to replacement of lighting systems on the OS schedule are deleted as proposed by the company and no new provisions are adopted.

2. Street and Outdoor Lighting Rate

We approve the methodology used in developing the Street (OS-I) and Outdoor (OS-II) lighting rates. This entails setting the energy charges at levels which will collect the total non-fuel energy, demand, and customer-related costs at the class-approved rate of return. Maintenance charges were set so as to recover the total maintenance and administrative and general expenses allocated to OS-I and II in the cost of service study. The fixture charges were set at a level to collect the remaining revenue requirement after subtracting the energy, maintenance and additional facilities revenues. Attachment 6 sets forth the approved street and outdoor lighting rates for Gulf.

Gulf at present does not have records indicating the number of poles and other facilities in place which are dedicated to additional facilities. Because of this, it was not possible to develop cost-based rates for additional facilities in this rate case. We are directing Gulf to take the steps necessary to obtain this information so that cost-based additional facilities charges can be developed when the next rate case is filed.

3. Applicability of OS-III

The language in the OS-III (Other Outdoor Service) tariff will be modified to reflect that only customers with fixed wattage loads operating continuously throughout the billing period, such as traffic signals, cable TV amplifiers and gas transmission substations, will be allowed to take service on the OS-III rate.

N. Sports Fields Rate

Since the company's last rate case, sports fields taking service on Rate Schedules GS and GSD were allowed to transfer to the OS-III rate schedule. The company has now proposed an OS-IV rate for sports fields.

In deriving the 12 CP and NCP allocators for OS-IV, the company assumed that all recreational lighting customers would require service at a constant rate every day of the year from sunset to 10:00 p.m. A review of the customer accounting memo sheets for the sports fields customers indicates that approximately 36% of the billing months showed zero kwh usage. The company has no load data for sports fields, and does not intend to obtain such data using load research meters. The OS-IV rate was thus designed in the absence of reliable load research data.

In 1981 and 1982 the Commission eliminated special rates for sports fields, poultry farms and other uses. Addition of a special rate for sports fields is philosophically at odds with these past actions.

In spite of these problems, we will allow the rate design for OS-IV to be implemented. This is because the estimated OS-IV kilowatt hours have not been broken down into summer and winter components, and thus cannot be added to the kilowatt hours for GS and GSD to determine an accurate energy rate for those classes. In addition, the OS-IV as designed will not vary significantly from the GS rate. However, when the company files its next rate case they will be required to transfer their sports field customers to the appropriate GS or GSD rate schedules.

XV. CONCLUSIONS OF LAW

1) Gulf Power Company is a public utility within the meaning of Section 366.02, Florida Statutes, and is subject to the jurisdiction of the Commission.

2) This Commission has the legal authority to approve and use a projected test period for ratemaking purposes. Calendar year 1990 is an appropriate base test period.

3) The adjustments to rate base made herein are reasonable and proper. The value of the Company's 1990 rate base for ratemaking purposes is $861,159,000.

4) The adjustments made to the calculation of net operating income are proper and appropriate. For ratemaking purposes, Gulf's net operating income for 1990 is $61,085,000.

5) The fair rate of return on the equity capital of Gulf is 12.55%.

6) As a result of our finding of corporate mismanagement, Gulf's return on equity has been reduced by fifty (50) basis points for a two year period. This results in a return on equity of 12.05% for two years beginning September 13, 1990.

7) Gulf Power Company should be authorized to increase its rates and charges by $11,838,000 in annual gross revenues effective September 13, 1990. Gulf Power Company should be authorized to increase its rates and charges by $14,131,000 beginning September 13, 1992.

8) The rate schedules prescribed and approved herein are fair, just and reasonable within the meaning of Chapter 366, Florida Statutes.

9) The new rate schedules shall be reflected upon billings rendered for meter readings taken on or after September 13, 1990.

Accordingly, it is

ORDERED by the Florida Public Service Commission that the findings of fact and conclusions of law set forth herein are approved. It is further

ORDERED that the petition of Gulf Power Company for authority to increase its rates and charges is granted to the extent delineated herein. It is further

ORDERED that Gulf Power Company is hereby authorized to submit revised rate schedules consistent herewith designed to generate $11,838,000 in additional gross revenues annually for two years beginning September 13, 1990. The Company shall include with the revised rate schedules all calculations and workpapers used in deriving the revised rates and charges. It is further

ORDERED that the revised schedules authorized herein for the $11,838,000 revenue increase shall be reflected upon billings rendered for meter readings taken on or after September 13, 1990. It is further

ORDERED that Gulf Power Company is hereby authorized to submit revised rate schedules consistent herewith designed to generate $14,131,000 in additional gross revenues annually for two years beginning September 13, 1992. The Company shall include with the revised rate schedules all calculations and workpapers used in deriving the revised rates and charges. It is further

ORDERED that the revised schedules authorized herein for the $14,131,000 revenue increase shall be reflected upon billings rendered for meter readings taken on or after September 13, 1992. It is further

ORDERED that Gulf Power Company shall return to its ratepayers on a "per KWH basis" that portion of its interim increase set forth in the body of this order. It is further

ORDERED that Gulf Power Company shall include in each customer's bill, in the first billing of which the increase is

effective, a bill stuffer explaining the nature of the increase, average level of the increase, a summary of tariff charges, and the reasons therefore. The bill stuffers shall be submitted to the Division of Electric and Gas of the Florida Public Service Commission for approval before implementation. It is further

ORDERED that in its next rate case Gulf Power Company shall file a cost of service study with LP/LPT and PXT each broken into SE and non-SE classes, with totals calculated for LP/LPT and PX/PXT. It is further

ORDERED that when Gulf Power Company files its next rate case that it transfer its sports fields customers from the OS-IV rate to the appropriate GS or GSD rate schedules. It is further

ORDERED, Gulf shall take the steps necessary to determine the quantity of street and outdoor lighting facilities dedicated to additional facilities prior to the filing of the next rate case, in order that cost-based rates can be developed for these facilities.

ORDERED that this docket be closed should no petition for reconsideration or notice of appeal be timely filed.

DISSENTING VOTES

Commissioner Beard dissented as follows:

1) From the Commission's allowance of the total cost of Gulf's Bonifay and Graceville Offices in rate base.

2) From the Commission's allowance of 90% of the Caryville site as land held for future use. Commissioner Beard would have disallowed the amount budgeted for the Caryville site because there are no plans to use the site for 20 years.

3) From the Commission's approval of $457,390 for the Good Cents Improved and $1,023,995 for the Good Cents New Home Programs. Commissioner Beard would have disallowed these expenses as an unnecessary cost to ratepayers to assure compliance with the state building code.

4) I respectfully dissent from the majority opinion on the mismanagement issue. My disagreement stems from a different interpretation of evidence before the Commission. This interpretation results in my belief that the reduction to the return on equity should have been greater than fifty basis points. I would reduce the return on equity to 11.75%, the minimum amount necessary for Gulf Power Company to achieve a fair rate of return according to the record.

At page 19, the majority states that there is no record evidence to indicate that the president of Gulf Power knew that illegal or unethical conduct was taking place as it happened. (Emphasis in original) The Order then goes into various incidents from 1983 through 1988 involving the president and Mr. Jacob Horton, Executive Vice President of Gulf Power. There is no need to recount those incidents again here. Suffice to say that in this case repeated instances of unethical/illegal activity over the years by a close business associate give rise to knowledge in my view. This is particularly true in light of the warnings Mr. McCrary had received concerning Mr. Horton's mode of operation and the repeated warnings given by Mr. McCrary to Mr. Horton. I also have serious reservations concerning disparate disciplinary treatment between executives and lower-level employees. See majority opinion at pages 23-24.

The unfortunate pattern of conduct present in this case should not be analyzed in terms of legal abstractions, but rather how a utility conducts its business in the real world. In my mind, the proper analysis holds Gulf Power management responsible for the activities here and then reduces the return on equity in conformity with that responsiblity. I would set the return on equity at 11.75%.

Commissioner Wilson dissented as follows:

1) From the Commission's approval of Gulf's 1990 material and supply level. Commissioner Wilson would leave materials and supplies at the 1989 level.

2) From the Commisson's approval of a 12.55% return on equity. Commissioner Wilson favored a 12.8% ROE.

3) From the Commission's reduction of the GS class to 1.45 times parity. Commissioner Wilson favored a greater reduction.

4) From the Commission's vote to eliminate seasonal rates for the RS and GS rate classes. Commissioner Wilson favored retaining seasonal rates.

Commissioner Easley dissented as follows:

1) From the Commission's vote setting the coal inventory as the lesser of 90 days burn or the amount maintained at the plant.

2) From the Commission's classification of fuel stock as energy-related. Commissioner Easley would classify fuel stocks as demand-related.

Commissioner Gunter dissented as follows:

1) From the Commission's disallowance of $31,813 for acid rain research.

By ORDER of the Florida Public Service Commission, this 3rd day of OCTOBER, 1990.

STEVE TRIBBLE, Director
Division of Records & Reporting

(S E A L)

MAP/RDV

by: Kay Flynn
Chief, Bureau of Records

NOTICE OF FURTHER PROCEEDINGS OR JUDICIAL REVIEW

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

hearing or judicial review will be granted or result in the relief sought.

Any party adversely affected by the Commission's final action in this matter may request: 1) reconsideration of the decision by filing a motion for reconsideration with the Director, Division of Records and Reporting within fifteen (15) days of the issuance of this order in the form prescribed by Rule 25-22.060, Florida Administrative Code; or 2) judicial review by the Florida Supreme Court in the case of an electric, gas or telephone utility or the First District Court of Appeal in the case of a water or sewer utility by filing a notice of appeal with the Director, Division of Records and Reporting and filing a copy of the notice of appeal and the filing fee with the appropriate court. This filing must be completed within thirty (30) days after the issuance of this order, pursuant to Rule 9.110, Florida Rules of Appellate Procedure. The notice of appeal must be in the form specified in Rule 9.900 (a), Florida Rules of Appellate Procedure.

ATTACHMENT 1
ORDER NO. 23573
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COMPANY: GULF POWER COMPANY
DOCKET NO.: 891345-EI
TEST YEAR: DECEMBER 31, 1990

COMPARATIVE RATE BASES

SCHEDULE 1
16-Aug-90
01:59 PM

				COMPANY FILING				COMMISSION VOTE	
LINE NO.	CO. ADJ. NO.	ISSUE NO.	DESCRIPTION	SYSTEM PER BOOKS	JURISDICTIONAL PER BOOKS	ADJUSTMENTS	JURISDICTIONAL ADJUSTED	ADJUSTMENTS	JURISDICTIONAL ADJUSTED
1			PLANT IN SERVICE		$1,275,624				
2		2	PLANT IN SERVICE					(55)	
3		3	SCHERER TAX ADDER ADJUSTMENT					0	
4		4	SCHERER ACQUISITION ADJUSTMENT					0	
5		5	NEW CORPORATE HEADQUARTERS					(3,892)	
6		7	NAVY HOUSE					(23)	
7		8	APPLIANCE DIVISION					(214)	
8		9	TALLAHASSEE OFFICE					(24)	
9		10	BONIFAY/GRACEVILLE					0	
10		12	LEISURE LAKES					(142)	
11		16	UNIT POWER SALES					0	
12		25	PLANT DANIEL					0	
13		27	PLANT SCHERER					(52,987)	
14		29	REBUILDS & RENOVATIONS					0	
15		30	NETWORK PROTECTORS					0	
16									
17			Total plant in service	0	1,275,624	0	1,275,624	(57,337)	1,218,287
18									
19									
20			ACCUMULATED DEPRECIATION		454,964				
21		3	SCHERER TAX ADDER ADJUSTMENT					0	
22		5	NEW CORPORATE HEADQUARTERS					(338)	
23		8	APPLIANCE DIVISION					(7)	
24		9	TALLAHASSEE OFFICE					(11)	
25		11	JDITC UNDERSTATEMENT					0	
26		16	UNIT POWER SALES					0	
27		25	PLANT DANIEL					0	
28		27	PLANT SCHERER					(6,557)	
29		29	REBUILDS & RENOVATIONS					0	
30		30	NETWORK PROTECTORS					0	
31									
32			Total depreciation reserve	0	454,964	0	454,964	(6,913)	448,051
33									
34			Net plant in service	0	820,660	0	820,660	(50,424)	770,236
35									
36									
37			CONSTRUCTION WORK IN PROGRESS		14,949				
38		13	LEVEL OF CWIP					0	
39		14	NON-AFUDC CWIP					0	
40									
41			Total CWIP	0	14,949	0	14,949	0	14,949
42									
43									

COMPANY: GULF POWER COMPANY
DOCKET NO.: 891345-EI
TEST YEAR: DECEMBER 31, 1990

COMPARATIVE RATE BASES

SCHEDULE 1
16-Aug-90
01:59 PM

LINE NO.	CO. ADJ. NO.	ISSUE NO.	DESCRIPTION	COMPANY FILING: SYSTEM PER BOOKS	COMPANY FILING: JURISDICTIONAL PER BOOKS	COMPANY FILING: ADJUSTMENTS	COMPANY FILING: JURISDICTIONAL ADJUSTED	COMMISSION VOTE: ADJUSTMENTS	COMMISSION VOTE: JURISDICTIONAL ADJUSTED
43									
44			PROPERTY HELD FOR FUTURE USE		3,925				
45		6	CARYVILLE SOD FARM					(135)	(135)
46		15	LEVEL OF PHFFU					0	0
47									
48			Total prop. held for future use	0	3,925	0	3,925	(135)	3,790
49									
50									
51									
52			ACQUISITION ADJUSTMENT		2,317				
53		4	SCHERER ACQUISITION ADJUSTMENT					(2,317)	
54									
55			Total acquisition adjustment	0	2,317	0	2,317	(2,317)	0
56									
57									
58			Net utility plant	0	841,851	0	841,851	(52,876)	788,975
59									
60									
61			WORKING CAPITAL		81,711				
62		16	UNIT POWER SALES					0	
63		18	PREPAID PENSIONS					0	
64		19	RATE CASE EXPENSES					(765)	
65		20	FUEL/CONSERVATION OVERRECOVERIES					0	
66		21	TEMPORARY CASH INVESTMENTS					0	
67		22	HEAVY OIL INVENTORY					(576)	
68		23	LIGHT OIL INVENTORY					(123)	
69		24	COAL INVENTORY					(6,017)	
70		25	PLANT DANIEL					0	
71		27	PLANT SCHERER					(2,187)	
72		28	CANCELED SCS BUILDING					0	
73		31	OTHER INVESTMENTS					0	
74		32	OTHER ACCOUNTS RECEIVABLE					0	
75		33	MATERIALS & SUPPLIES					0	
76		34	OTHER CURR. ASSETS & MISC. DEF. DEBITS					0	
77		35	CARYVILLE SUBSURFACE STUDY					(28)	
78		36	EXPENSE ADJUSTMENTS					169	
79									
80									
81			Total working capital	0	81,711	0	81,711	(9,527)	72,184
82									
83									
84			TOTAL RATE BASE	0	923,562	0	923,562	(62,403)	861,159

ATTACHMENT 2
ORDER NO. 23573
DOCKET NO. 891345-EI
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Gulf Power Company
13-Month Average Capital Structure
Test Year Ending 12/31/90

COMMISSION VOTE	LONG TERM DEBT	LONG TERM NOTE	SHORT TERM DEBT	PREFERRED STOCK	COMMON EQUITY	CUSTOMER DEPOSITS	DEFERRED TAXES	ITC's Zero Cost	ITC's Wtd. Cost	TOTAL
Company Per Book	439,734	42,089	4,432	67,432	367,404	15,775	203,823	858	48,068	1,189,615
Company Adjustments (Specific)	(98,837)	(42,089)		(10,278)	(63,994)		(14,785)		(5,793)	(235,776)
Subtotal	340,897	0	4,432	57,154	303,410	15,775	189,038	858	42,275	953,839
Commission Adjustments (Specific)	7,282	0	0	169	(7,793)	0	(5,877)	0	(2,402)	(8,621)
Subtotal	348,179	0	4,432	57,323	295,617	15,775	183,161	858	39,873	945,218
Prorata (Other Sources) (1)	(23,159)	0	(295)	(3,813)	(19,663)	(1,049)	0	0	0	(47,979)
Subtotal	325,020	0	4,137	53,510	275,954	14,726	183,161	858	39,873	897,239
Prorata Adjustments	(13,070)	0	(166)	(2,152)	(11,097)	(592)	(7,365)	(35)	(1,603)	(36,080)
TOTAL	311,950	0	3,971	51,358	264,857	14,134	175,796	823	38,270	861,159
Ratio	36.22%	0.00%	0.46%	5.96%	30.76%	1.64%	20.41%	0.10%	4.44%	100.00%
Cost Rate	8.72%	0.00%	8.00%	7.75%	12.55%	7.65%	0.00%	0.00%	10.26%	
Weighted Cost	3.16%	0.00%	0.04%	0.46%	3.86%	0.13%	0.00%	0.00%	0.46%	8.10%
50 basis pt reduction to equity	8.72%	0.00%	8.00%	7.75%	12.05%	7.65%	0.00%	0.00%	10.04%	
Weighted Cost With Reduction	3.16%	0.00%	0.04%	0.46%	3.71%	0.13%	0.00%	0.00%	0.45%	7.94%

Calculation of JDIC Rate

Capital Components	Adjusted Amount	Ratio	Cost Rate	Wtd. Cost
Common Equity	264,857	42.16%	12.55%	5.29%
Preferred Stock	51,358	8.18%	7.75%	0.63%
Long-Term Debt	311,950	49.66%	8.72%	4.33%
Total	628,166	100.00%		10.26%

Calculation of JDIC Rate with 50 basis pt reduction on the equity cost rate.

Capital Components	Adjusted Amount	Ratio	Cost Rate	Wtd. Cost
Common Equity	264,857	42.16%	12.05%	5.08%
Preferred Stock	51,358	8.18%	7.75%	0.63%
Long-Term Debt	311,950	49.66%	8.72%	4.33%
Total	628,166	100.00%		10.04%

(1) Deferred taxes and ITCs have been specifically identified for these items.

ATTACHMENT 3
ORDER NO. 23573
DOCKET NO. 891345-EI
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COMPANY: GULF POWER COMPANY
DOCKET NO.: 891345-EI
TEST YEAR: DECEMBER 31, 1990

COMPARATIVE NET OPERATING INCOME

SCHEDULE 3
16-Aug-90
02:32 PM

LINE NO.	CO. ADJ. NO.	ISSUE NO.	DESCRIPTION	COMPANY FILING				COMMISSION VOTE	
				SYSTEM PER BOOKS	JURISDICTIONAL PER BOOKS	ADJUSTMENTS	JURISDICTIONAL ADJUSTED	ADJUSTMENTS	JURISDICTIONAL ADJUSTED
1			REVENUE FROM SALES OF ELECTRICITY		249,813				
2		48	PXT / STANDBY RATES					16	
3		49	NON-UTILITY ELECTRIC BILLINGS					95	
4									
5			Total sales of electricity	0	249,813	0	249,813	111	249,924
6									
7									
8			OTHER OPERATING REVENUES		5,767				
9		6	CARYVILLE SOD FARM					(3)	
10		47	APPLIANCE DIVISION - USE OF LOGO					0	
11									
12			Total other operating revenues	0	5,767	0	5,767	(3)	5,764
13									
14									
15			Total operating revenues	0	255,580	0	255,580	108	255,688
16									
17									
18			OPERATING EXPENSES:						
19			OPERATION & MAINTENANCE		113,382				
20		7	NAVY HOUSE					(8)	
21		27	PLANT SCHERER - NET OF IIC OFFSET					4,070	
22		29	REBUILDS & RENOVATIONS					0	
23		30	NETWORK PROTECTORS					0	
24		35	CARYVILLE SUBSURFACE STUDY					57	
25		50	SALARIES & BENEFITS					0	
26		51	BAD DEBT EXPENSE					0	
27		52	FUEL REVENUE & EXPENSES					0	
28		53	CONSERVATION REVENUE & EXPENSES					0	
29		54	OUT-OF-PERIOD, NON-RECURRING, etc.					(190)	
30		55	INDUSTRY ASSOCIATION DUES					(20)	
31		56	CURRENT RATE CASE EXPENSES					(250)	
32		57	881167-EI RATE CASE EXPENSES					0	
33		58	BANK FEES & LINES OF CREDIT					0	
34		59	OUTSIDE SERVICES					0	
35		60	CUSTOMER ACCOUNTS					0	
36		61	COGENERATION & INDUSTRIAL PROGRAMS					(426)	
37		62	GOOD CENTS INCENTIVE PROGRAM					(50)	
38		63	GOOD CENTS IMPROVED & NEW HOME PROGRAMS					0	
39		64	ESSENTIAL CUSTOMER SERVICE PROGRAM					0	
40		65	ENERGY EDUCATION PROGRAM					0	
41		66	PRESENTATION / SEMINARS PROGRAM					(55)	
42		67	SHINE AGAINST CRIME					(92)	
43		68	ECONOMIC DEVELOPMENT					(687)	
44		69	PRODUCTION RELATED A&G					0	
45		70	OTHER A&G					0	
46		71	LOBBYING EXPENSES					(264)	
47		72	SCS EXPENSES					0	

COMPANY: GULF POWER COMPANY
DOCKET NO.: 891345-EI
TEST YEAR: DECEMBER 31, 1990

COMPARATIVE NET OPERATING INCOME

SCHEDULE 3
16-Aug-90
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LINE NO.	CO. ADJ. NO.	ISSUE NO.	DESCRIPTION	COMPANY FILING: SYSTEM PER BOOKS	COMPANY FILING: JURISDICTIONAL PER BOOKS	COMPANY FILING: ADJUSTMENTS	COMPANY FILING: JURISDICTIONAL ADJUSTED	COMMISSION VOTE: ADJUSTMENTS	COMMISSION VOTE: JURISDICTIONAL ADJUSTED
48		74	IRS, GRAND JURY, etc.					(5)	
49		75	PENSION EXPENSE					0	
50		76	STEAM PRODUCTION PERSONNEL					0	
51		77	RESEARCH & DEVELOPMENT PROJECTS					(32)	
52		78	EPRI / SCS DOUBLE COUNTING					0	
53		79	PLANT DANIEL ASH HAULING					0	
54		80	TRANSMISSION RENTS					(423)	
55		81	PUBLIC SAFETY INSPECTION & MAINT.					0	
56		86	EMPLOYEE RELATIONS PLANNING UNIT					0	
57		87	LABOR COMPLEMENT VACANCIES					(403)	
58		88	TURBINE & BOILER INSPECTIONS					0	
59		89	PLANT DANIEL					0	
60		90	1989 UNCOLLECTIBLES CREDIT					0	
61		91	EMPLOYEE SAVINGS PLAN					0	
62		92	PRODUCTIVITY IMPROVEMENT PLAN					(339)	
63		93	PERFORMANCE PAY PLAN					0	
64		94	EPRI NUCLEAR RESEARCH					0	
65		95	PLANT SMITH ASH HAULING					0	
66		96	EMPLOYEE RELOCATION & DEVELOPMENT PROGRAMS					(56)	
67		97	OBSOLETE MATERIAL					0	
68		98	MANAGEMENT PERKS					(65)	
69		99	DUCT & FAN REPAIRS					0	
70		100	CUSTOMER SERVICES & INFORMATION					0	
71		101	MARKETING EXPENSES					0	
72		102	O&M BENCHMARK					0	
73									
74									
75									
76									
77			Total operation & maintenance	0	113,382	0	113,382	762	114,144
78									
79									
80	DEPRECIATION AND AMORTIZATION				47,701				
81		3	SCHERER TAX ADDER ADJUSTMENT					0	
82		4	SCHERER ACQUISITION ADJUSTMENT					0	
83		5	NEW CORPORATE HEADQUARTERS					(101)	
84		8	APPLIANCE DIVISION					(12)	
85		9	TALLAHASSEE OFFICE					(1)	
86		12	LEISURE LAKES					(5)	
87		27	PLANT SCHERER					(1,774)	
88		82	REASONABLENESS					0	
89									
90			Total depreciation and amortization	0	47,701	0	47,701	(1,893)	45,808
91									

COMPANY: GULF POWER COMPANY
DOCKET NO.: 891345-EI
TEST YEAR: DECEMBER 31, 1990

COMPARATIVE NET OPERATING INCOME

SCHEDULE 3
16-Aug-90
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LINE NO.	CO. ADJ. NO.	ISSUE NO.	DESCRIPTION	COMPANY FILING				COMMISSION VOTE	
				SYSTEM PER BOOKS	JURISDICTIONAL PER BOOKS	ADJUSTMENTS	JURISDICTIONAL ADJUSTED	ADJUSTMENTS	JURISDICTIONAL ADJUSTED
98			TAXES OTHER THAN INCOME		20,822				
99		27	PLANT SCHERER					(245)	
100		48	PXT / STANDBY RATES					1	
101		83	REASONABLENESS					0	
102		87	LABOR COMPLEMENT VACANCIES					(30)	
103									
104									
105			Total taxes other than income	0	20,822	0	20,822	(274)	20,548
106									
107									
108			INCOME TAXES CURRENTLY PAYABLE	0	13,185				
109		84	REASONABLENESS					0	
110		85	Interest expense reconciliation					672	
111		N/A	Effect of other adjustments					(143)	
112									
113			Total income taxes - current	0	13,185	0	13,185	529	13,714
114									
115									
116			DEFERRED INCOME TAXES (NET)	0	1,621				
117		N/A	EFFECT OF ADJS. TO DEPRECIATION					45	
118		27	PLANT SCHERER					668	
119									
120									
121									
122									
123			Total deferred income taxes (net)	0	1,621	0	1,621	712	2,333
124									
125									
126									
127			INVESTMENT TAX CREDIT (NET)		(2,041)				
128		27	PLANT SCHERER					96	
129									
130									
131			Total investment tax credit (net)	0	(2,041)	0	(2,041)	96	(1,945)
132									
133									
134			(GAIN)/LOSS ON SALE		0				
135									
136									
137			Total (gain)/loss on sale	0	0	0	0	0	0
138									
139									
140			TOTAL OPERATING EXPENSES	0	194,670	0	194,670	(67)	194,603
141									
142									
143			NET OPERATING INCOME	0	60,910	0	60,910	175	61,085
144									

GULF POWER COMPANY
DOCKET NO. 891345-EI
APPROVED REVENUE INCREASE BY CLASS
BASED ON COMPANY'S 12 CP AND 1/13TH COST OF SERVICE STUDY
SUMMARY OF CLASS ROR'S AND % INCREASE (000 DOLLARS)

AUGUST 10, 1990

(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	
RATE CODE	APPROVED RATE BASE	APPROVED PRES.NOI	PRESENT ROR/ INDEX	INCREASE FROM SERVICE CHARGES	INCREASE FROM SALES OF ELECTRICITY	TOTAL INCREASE IN REVENUE	REQUIRED NOI	RECOMMENDED ROR/ INDEX	% INCREASE IN REV FROM SALES OF ELEC W/ADJ	BASE
RS	$475,918	$29,345	6.17% / 0.87	$47	$8,652	$8,699	$34,676	7.29% / 0.92	4.19%	6.58%
GS	$33,448	$4,835	14.46% / 2.04	$47	($1,655)	($1,608)	$3,850	11.51% / 1.45	-8.39%	-11.04%
RS-GS	$509,366	$34,180	6.71% / 0.95	$94	$6,997	$7,091	$38,526	7.56% / 0.95	3.10%	4.77%
GSD	$176,009	$13,846	7.87% / 1.11	$1	$1,817	$1,818	$14,960	8.50% / 1.07	2.00%	3.50%
LP/LPT	$104,427	$7,435	7.12% / 1.00	$0	$2,351	$2,351	$8,876	8.50% / 1.07	3.91%	8.06%
PX/PXT	$54,208	$4,363	8.05% / 1.13	$0	$395	$395	$4,605	8.50% / 1.07	1.03%	2.41%
OSI-II	$13,431	$872	6.49% / 0.92	$0	$202	$202	$996	7.42% / 0.93	4.19%	5.38%
OS-III	$613	$143	23.33% / 3.29	$0	($48)	($48)	$114	18.60% / 2.34	-9.58%	-14.29%
SS	$3,105	$246	7.92% / 1.12	$0	$29	$29	$264	8.50% / 1.07	3.30%	3.68%
TOT.RET	$861,159	$61,085	7.09% / 1.00	$95	$11,743	$11,838	$68,340	7.94% / 1.00	2.79%	4.72%

PROPOSED RATES FOR GULF POWER COMPANY - DOCKET NO 891345-EI

	CURRENT RATES	COMPANY PROPOSED	COMMISSION VOTE	AFTER EXPIRATION OF MANAGEMENT PENALTY
INCREASE IN REVENUES		$26,137,000	$11,838,000	
RATE CLASS				
RESIDENTIAL				
CUSTOMER CHARGE	$6.25	$8.00	$8.00	$8.07
ENERGY				
Oct - May	$0.03148	$0.03489		
June - Sept	$0.03716	$0.04114		
NON SEASONAL			$0.03487	$0.03518
RESIDENTIAL TOU				
CUSTOMER CHARGE	$9.25	$11.00	$11.00	$11.10
ENERGY				
ON PEAK	$0.07797	$0.08623	$0.10218	$0.10308
OFF PEAK	$0.01378	$0.01608	$0.00529	$0.00534
GENERAL SERVICE				
CUSTOMER CHARGE	$7.00	$10.00	$10.00	$10.09
ENERGY				
Oct - May	$0.06174	$0.05441		
June - Sept	$0.06348	$0.06423		
NON SEASONAL			$0.05086	$0.05131
GENERAL SERVICE TOU				
CUSTOMER	$10.00	$13.00	$13.[illegible]	$13.11
ENERGY				
ON PEAK	$0.14727	$0.14324	$0.157[illegible]	$0.15849
OFF PEAK	$0.02296	$0.02188	$0.00511	$0.00515
GS-DEMAND				
CUSTOMER CHARGE	$27.00	$40.00	$40.00	$40.35
KW DEMAND	$6.25	$4.52	$4.52	$4.56
ENERGY	$0.00641	$0.01424	$0.01289	$0.01300
GS DEMAND TOU				
CUSTOMER	$32.40	$45.40	$45.40	$45.80
KW DEMAND				
MAXIMUM	$2.96	$2.17	$2.15	$2.17
ON PEAK	$3.42	$2.44	$4.97	$5.01
ENERGY				
ON PEAK	$0.01395	$0.03269	$0.00445	$0.00449
OFF PEAK	$0.00302	$0.00692	$0.00445	$0.00449

APPROVED RATES FOR GULF POWER COMPANY - DOCKET NO 891345-EI

	CURRENT RATES	COMPANY PROPOSED	COMMISSION VOTE	AFTER EXPIRATION OF MANAGEMENT PENALTY
INCREASE IN REVENUES		$26,137,000	$11,838,000	
RATE CLASS				
LP				
CUSTOMER CHARGE	$51.00	$225.00	$225.00	$226.98
KW DEMAND	$6.25	$8.52	$8.50	$8.57
SE MAXIMUM CHARGE			$1.81	$1.83
ENERGY	$0.00861	$0.00568	$0.00528	$0.00533
LP TOU				
CUSTOMER CHARGE	$51.00	$225.00	$225.00	$226.98
KW DEMAND				
MAXIMUM	$2.97	$4.15	$1.81	$1.83
ON PEAK	$3.35	$4.52	$7.21	$7.27
ENERGY				
ON PEAK	$0.01928	$0.01211	$0.00417	$0.00421
OFF PEAK	$0.00390	$0.00300	$0.00417	$0.00421
PX				
CUSTOMER CHARGE	$146.00	$570.00	$570.00	$575.01
KW DEMAND	$7.50	$8.25	$8.25	$8.32
SE MAXIMUM CHARGE			$0.68	$0.69
ENERGY	$0.00521	$0.00445	$0.00409	$0.00413
PX TOU				
CUSTOMER CHARGE	$146.00	$570.00	$570.00	$575.01
KW DEMAND				
MAXIMUM	$3.56	$3.97	$ .68	$0.69
ON PEAK	$3.99	$4.32	$ .66	$7.73
ENERGY				
ON PEAK	$0.01299	$0.00984	$0.00406	$0.00410
OFF PEAK	$0.00242	$0.00262	$0.00406	$0.00410

GULF POWER COMPANY
APPROVED STREET AND OUTDOOR LIGHTING RATES
891345-EI

TYPE OF FACILITY	FIXTURE CHARGE	MAINTENANCE CHARGE	ENERGY CHARGE	TOTAL MONTHLY CHARGE
HIGH PRESSURE SODIUM (OS-I)				
5,400 LUMEN	$1.95	$1.34	$0.74	$4.03
8,800 LUMEN	$1.96	$1.06	$1.05	$4.07
20,000 LUMEN	$2.26	$1.56	$2.13	$5.95
25,000 LUMEN	$2.81	$2.03	$2.68	$7.52
46,000 LUMEN	$3.17	$1.61	$4.24	$9.02
20,000 LUMEN *	$4.31	$1.79	$2.13	$8.23
46,000 LUMEN **	$9.09	$2.00	$4.24	$15.33
20,000 LUMEN **	$10.79	$1.79	$2.13	$14.71
8,800 LUMEN ***	$6.14	$1.56	$1.05	$8.75
MERCURY VAPOR (OS-I)				
3,200 LUMEN	$1.44	$1.40	$1.03	$3.87
7,000 LUMEN	$1.43	$1.04	$1.76	$4.23
9,400 LUMEN	$1.91	$1.66	$2.50	$6.07
17,000 LUMEN	$2.22	$1.73	$4.00	$7.95
48,000 LUMEN	$6.03	$3.16	$9.79	$18.98
HIGH PRESSURE SODIUM (OS-II)				
5,400 LUMEN	$1.95	$0.84	$0.74	$3.53
8,800 LUMEN	$1.75	$0.79	$1.05	$3.59
20,000 LUMEN	$2.26	$1.05	$2.13	$5.44
25,000 LUMEN	$2.80	$1.50	$2.68	$6.98
46,000 LUMEN	$3.17	$1.10	$4.24	$8.51
20,000 LUMEN #	$4.27	$1.92	$2.21	$8.40
46,000 LUMEN #	$3.81	$1.79	$4.39	$9.99
8,800 LUMEN ***	$6.15	$0.76	$1.05	$7.96
MERCURY VAPOR (OS-II)				
7,000 LUMEN	$1.41	$0.65	$1.76	$3.82
17,000 LUMEN	$2.21	$1.29	$4.00	$7.50
17,000 LUMEN #	$4.11	$1.84	$4.29	$10.24

* NEW OFFERING, DIRECTIONAL, COASTAL

** NEW OFFERING, DIRECTIONAL

*** NEW OFFERING, DECORATIVE

\# DIRECTIONAL

GULF POWER COMPANY
APPROVED STREET AND OUTDOOR LIGHTING RATES
891345-EI

ENERGY RATES ($ PER KWH)

RATE CLASS	RATE
OS-I AND OS-II	$0.02631
OS-III	$0.03751
OS-IV	$0.03711

OS-IV CUSTOMER CHARGE: $10.00

ADDITIONAL FACILITIES CHARGES

30-FOOT WOOD POLE	$2.00
30-FOOT CONCRETE POLE	$4.50