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September 1, 1994

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Blanca S. Bayo, Director
Division of Records and Reporting
101 East Gaines Street
Tallahassee, Florida 32399

Re: Docket No. 931044-EI; Petition for Authority to Implement a Replacement Rate Schedule for Stand-by Electric Service by Gulf Power Company.

ACK ✓
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CAF ____
CMU ____
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Dear Ms. Bayo:

Enclosed for filing and distribution are the original and 15 copies of the Brief of the Industrial Intervenors, an original and 15 copies of the Industrial Intervenors' Proposed Findings of Fact and Conclusions of Law, and the original and 15 copies of the Industrial Intervenors' Post-hearing Statement of Issues and Positions, in the above docket. Also enclosed is a double-sided high density 5.25 inch floppy disk containing the above listed 4 pleadings (titled BRIEF.; FACT.; P-H.STA) in WordPerfect 5.1 format as prepared on a MS-DOS 3.30 based computer.

Please acknowledge receipt of the above on the extra copies enclosed herein and return them to me. Thank you for your assistance.

Yours truly,

Joe McGlothlin

Joseph A. McGlothlin

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Enclosures

Findings Brief P/H statement

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BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

In re: Petition for Authority to Implement a Replacement Rate Schedule for Standby Electric Service by Gulf Power Company.	DOCKET NO. 931044-EI FILED: September 1, 1994

BRIEF OF THE INDUSTRIAL INTERVENORS
Monsanto Company, Stone Container Corporation and Champion International, Inc.

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TABLE OF CONTENTS

	Page No.
INTRODUCTION	1
ISSUE I Is the Coordinated Maintenance Month (CMM) provision on the Standby and Supplemental rate schedule appropriate?	6
ISSUE II Is the annual review of the Option A daily demand charge found on the Standby and Supplemental rate schedule appropriate?	13
ISSUE IV Should the Commission approve the Gulf Power's Standby and Supplemental rate schedule?	15
CONCLUSION	17

INTRODUCTION

The same elements that made Gulf Power's former standby rate complex and unwieldy also make comparisons between that rate and the replacement rate that took effect on June 7, 1994 confusing and difficult. The Industrial Intervenors believe that a brief "before and after" description of the nature of the standby rate may help the Commissioners appreciate the improvements that two years of cooperative efforts between Gulf Power and its standby customers have wrought.

When a self-generating customer experiences a forced (unplanned) outage, Gulf Power sells the customer backup power that replaces the power ordinarily provided by the customer's own unit. If the customer's self-generation supplies only a portion of the customer's requirements for power, Gulf Power also sells the customer the supplementary service required to meet the customer's total needs. When the self-generating customer removes its unit from service to perform scheduled maintenance, Gulf Power provides maintenance power until the unit is returned to service. (Tr. 65, 66). All three of these distinct services are encompassed within the standby tariff. Each type imposes different costs on the utility. The differences in costs are reflected in the design of the rate elements applicable to each.

To compensate Gulf Power for the cost of maintaining sufficient capacity to provide backup power at any time, the customer pays a reservation charge designed for that purpose.

The amount of capacity needed to "back up" the generation of standby customers depends on a probabilistic calculation of how much self-generation capacity could be expected to be down due to a forced outage at any given time. Gulf Power's reservation charge is based on the assumption that a standby customer's unit will be out of service due to a forced outage for about two on-peak days per month. (Tr. 67). The standby customer pays the appropriately cost-based reservation charge during all months, regardless of the amount of standby service it actually requires. (Tr. 67).

To the portion of the customer's needs that consists of supplementary service, Gulf Power applies the same rate that the customer would pay if it were a full-service customer contracting for that amount of service. (Tr. 83).

Maintenance outage service must be scheduled six months in advance. Gulf Power agrees to provide maintenance service only when it knows it will have sufficient capacity available for the purpose. (Tr. 77-78). Therefore, maintenance service per se does not place additional capacity costs on Gulf Power's system beyond those already captured by the reservation charge. (Tr. 78).

To the extent a standby customer utilizes more standby power than is assumed by the 10% outage factor embodied in the rate, the customer must also pay a daily demand charge. While the number and duration of outages will vary over time, the assumption underlying the standby tariff is that a unit will be

out of service due to unplanned outages 10% of the time on average. (Tr. 126). Therefore, the basic cost of standby service is reflected in the reservation charge. The daily demand charge is properly viewed as a pricing signal designed to encourage the customer to manage its generation with a high degree of reliability. (Tr. 95).

To complicate matters, Gulf Power also offers a special time-of-use service it calls the Supplemental Service Rider ("SE"). Gulf's choice of names for the service is unfortunate, but is explained by the fact that Gulf Power's SE Rider predates the PURPA - based "supplementary service" designation that is associated with the standby tariff. (Tr. 203). Gulf Power's SE Rider is designed to enable Gulf Power to sell cheap energy whenever economical base-loaded units on Southern Company's system are available to generate energy at an incremental cost lower than the system's average cost of energy. (Tr. 155-156).

When a standby customer experiences a forced outage, the customer must choose whether to purchase standby power or lose part or all of its industrial operations. Choosing the more economic path required an analysis that was impossible under the old rate. Under that rate, sorting the customer's overall load into its component parts required detailed knowledge of a myriad of dynamic plant conditions <u>plus</u> some subjective categorizations of use. (Tr. 32-33). Since the analysis could not be performed in a timely manner, the customer had to make an uninformed

decision in a crisis situation and hope for the best. (Tr. 32-33). Moreover, because of the number of variables involved, it was impossible for the customer to learn from one episode anything that would prepare it to deal with the next outage more effectively. (Tr. 33). Aside from the difficulty associated with making an informed decision as to whether to purchase standby power, the old rate resulted in some absurd charges to the customer. For example, the interplay between the components of the old rate was such that a customer could be charged for more power than the customer's tie line capacity was physically capable of pulling from the utility. (Tr. 125).

The replacement rate that took effect on June 7, 1994 and that was the subject of the August 1, 1994 hearing goes a long way toward rectifying the complexity and uncertainty of the former rate. Under the new rate, it is assumed that the first increment of the customer's load -- up to the amount of supplementary service identified in its contract with Gulf Power -- is supplementary service. The increment beyond that amount is standby service. Therefore, a customer knows at all times how much of each is being consumed. (Tr. 81-83). This certainty enables the customer to make informed economic decisions at the time of a forced outage.

At the same time Gulf Power and its standby customers overhauled the rate to reduce its complexity, they refined it in other ways. The replacement rate contains provisions designed to encourage standby customers to schedule maintenance outages

during months other than the summer peak months ("coordinated maintenance months," or "CMM's"). The rate is also designed to give standby customers the option to take advantage of the SE Rider ("Option A").

The issues that were identified by the Staff as it opposed the replacement standby rate have nothing to do with the reforms designed to reduce complexity and uncertainty. The presentations of the parties and the questioning by Staff at the evidentiary hearing essentially took both the need for such improvements and the success of the new rate in accomplishing them as "givens." Instead, Staff has raised issues regarding the separate refinements to the tariff. Staff questions the incentive to move maintenance outages off the summer peak; criticizes one aspect of the derivation of the demand charge which standby customers must pay to be eligible for the SE rider (Option A); and asserts that the rate will not recover the production and transmission costs associated with providing standby costs.

In the points that follow the Industrial Intervenors will demonstrate that Staff's concerns are unfounded. Far from being reasons to sacrifice the acknowledged improvements in the rate in the areas of reduced complexity and uncertainty, the Coordinated Maintenance Month and Option A provisions enhance and improve the standby tariff while adhering to the cost-based principles of rate design that the Commission has consistently espoused over time.

ISSUE I

Is the Coordinated Maintenance Month (CMM) provision on the Standby and Supplemental rate schedule appropriate?

Industrial intervenors: Yes. The replacement standby tariff recovers all costs of providing standby capacity through continuation of reservation charge while the CMM encourages customers to maintain units during off peak months. Staff's fear that customers will artificially extend maintenance outages is unfounded; it is inherently more efficient and more economical to self-generate.

DISCUSSION

Like any other piece of sophisticated machinery, a standby customer's generating unit must be removed from service periodically for maintenance. During these maintenance outages, the load normally served by the equipment is added to Gulf Power's system load.

The total amount of generating plant that Gulf Power must have available to serve its customers is driven by the magnitude of the peak demand that the customers place on its system. Gulf's peak demand occurs in the summer. (Tr. 62). If maintenance outages occur during the summer months, Gulf's ability to meet the peak demand and provide an adequate reserve margin with its existing resources will be diminished. The seasonal differentials in the daily demand charges of the old standby rate proved inadequate to induce standby customers to confine their scheduled maintenance outages to non-summer months. (Tr. 328).

Gulf Power designed the CMM provision to provide a stronger incentive in this direction. The CMM provision enables a standby customer to designate four non-summer months during which the customer will schedule its maintenance outages. During those designated months, the daily demand charge of the rate is eliminated. (Tr. 150-151).

While Staff raised several arguments in opposition to the CMM provision, the Industrial Intervenors believe that only two warrant attention. The first is that the CMM provision might increase costs to other customers in the form of higher payments through Southern Company's Intercompany Interchange Contract (IIC). The second is that the new standby rate should be rejected because 1987 billing determinants indicate that the rate may generate fewer revenues than the target set for the standby class in Gulf Power's last rate case. Neither of these contentions presents a valid basis for terminating the replacement standby tariff.

The CMM will not entice standby customers to extend maintenance outages unnecessarily. Maintenance outages that occur during a CMM will have no greater impact on the IIC than outages which occur in other months.

Under the IIC, the operating companies that comprise the Southern system equalize on a monthly basis the costs of maintaining the reserve capacity that is available to the system. Under the formula of the IIC, as the peak demand of Gulf Power (or any operating company) goes up (at the time of

Southern's system peak), the amount it must pay other companies to equalize reserves increases (or the amount due Gulf from the other companies decreases, as the case may be). (Tr. 170).

Because the standby customer's unit must be maintained sometime, the fact that the customer will be adding load during the CMM month does not mean that it will be causing overall annual IIC payments to increase. The CMM "event" cannot be viewed in isolation. The impact of the standby customer on the IIC payments in a CMM month must be compared to the impact in any other month the outage could take place, including a summer month. (Tr. 281). The alternative to maintaining the unit during a CMM would carry the same potential to affect the IIC. For example, when this relative comparison is made, it is clear that if the effect of the CMM provision is to move a 5 day outage from July to a 5 day outage in November the effect on IIC payments can essentially be viewed as a "wash." (Tr. 281-282). In fact, in 1992 a maintenance outage at the time of the July system peak would have had an impact on IIC payments more expensive to Gulf Power than an outage at the time of the November system peak. (Exhibit 4).

When one examines Staff witness Berg's testimony closely, it becomes clear that he did not rely on the simplistic perspective of an isolated scenario for his proposition that the CMM provision could possibly increase IIC payments. Instead, he reasoned that a waiver of the daily demand charges during a CMM month might result in a rate cheaper than self-generation,

thereby enticing the standby customer to artificially increase consumption of standby power or extend the scheduled outage in order to reap the "savings." (Tr. 282, 284).[1] Mr. Berg's concern consists of unfounded and erroneous supposition; it can only be based on a misapprehension of the nature and economics of self-generation. At hearing, Mr. Berg's concern was entirely dispelled by testimony of Jeffry Pollock, Tom Kisla, and Denny Brueggemeier.

Mr. Berg admitted that at the time he formulated his testimony he had made no analysis of the relative cost of self-generation and the cost of standby service taken during a CMM. (Tr. 284). The evidence needed to invalidate his premise was supplied in abundance.

The "variable" cost of standby service during a CMM month would be a function of the utility's cost of fuel and the fuel efficiency of the utility's generator (heat rate). (Tr. 327). To that cost the standby customer would compare its own variable costs of self-generation. Again, these consist primarily of the customer's cost of fuel and the heat rate of the customer's

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[1]During cross-examination, Mr. Berg said he was also concerned about the effect of a QF concentrating its maintenance outages in four months. (Tr. 284). This reference was not a part of his prefiled testimony addressing the IIC. (Tr. 271). It appears inconsistent with other areas of testimony in which he questions the need for a period as long as four months. (Tr. 271). In any event, this concern, like the one discussed above, is misplaced. Since the tariff identifies a total of nine months from which a customer may choose when designating 4 CMMs, there is no reason to believe maintenance outages of the class will be "concentrated" in four months. Besides, routine maintenance outages for a unit last only three days to two weeks; a major overhaul occurs every five to seven years and lasts only 21 to 45 days. (Tr. 386).

unit. Because cogeneration is inherently far more efficient than Gulf Power's central station plant, the comparison isn't close. The consideration of relative plant efficiencies alone indicates that the cost of self-generation could be as little (for very efficient units) as half of the utility's cost, even if fuel costs were equal. (Tr. 359). In the case of Champion International, 70% of its fuel is essentially free, because it burns mostly by-products of the papermaking process. (Tr. 327).

Even this lopsided comparison doesn't describe fully the advantages of the economics of self-generation over purchasing standby service. One must remember that the cogeneration unit efficiently produces steam and electricity, and that the cogenerator requires both. If the cogeneration unit is down for maintenance, the customer must supply its steam requirements through a less efficient and more expensive means. The steeply higher cost of essential thermal energy that a cogenerator incurs when the cogeneration unit is down bears directly on the economic comparison between self-generation and the cost of standby power. (Tr. 338; 331; 26-28). It tilts the scale even more heavily in favor of returning the unit to service as fast as possible. Clearly, Mr. Berg's fear that cogenerators might delay returning their units to service in order to continue buying standby service -- a concern that was formed in the absence of any information concerning the relative economics of buying versus generating -- is unfounded. The cogenerator will restore its unit to service as quickly as possible. As a

result, a maintenance outage is no more likely to have a greater impact on IIC payments in November than in July or in any other month.

It is inappropriate to use historical billing determinants to assess whether the replacement standby rate would result in a rate decrease for standby customers. Even if the replacement tariff were to generate fewer revenues than the target set for the class in the last rate case, the amount would be de minimis and immaterial, and no other class will be affected.

From the time the replacement standby rate developed by Gulf Power and its customers was first advanced, Staff has opposed it based on Staff's claim that the replacement rate would not generate the revenue requirement allocated to the standby class during Gulf's last rate case. Staff reasons that the elimination of daily demand charges during coordinated maintenance months will result in fewer revenues. However, to reach this conclusion, Staff relies on the historical 1987 billing determinants that were employed in that case.

The revenues that will be generated by the replacement tariff will depend on current usage characteristics, which may differ from the 1987 data. While Staff carried forward 1987 billing determinants, Gulf Power has overhauled the method for determining the portion of the customer's consumption which represents standby, and the portion which represents supplemental service. (Tr. 381). Staff's static approach is inappropriate for that reason.

Moreover, it appears that the costs that the standby customers impose on Gulf Power's system have changed since the original rate was designed. The obligation of Gulf Power to provide backup capacity depends on the forced outage rates of the customers' units: the higher the outage rate, the greater the costs that these customers impose on Gulf Power. The original tariff assumed an overall outage rate of 10%, and that assumption has been carried forward to the replacement standby tariff. However, Bruce Hollinger, the witness for Monsanto Company (the newest and by far the largest of Gulf Power's standby customers), testified that Monsanto's cogeneration unit has operated with an availability of more than 98% over its first eleven months. (Tr. 15). Stated differently, the unit has experienced a forced outage rate of less than 2%. If the class of standby customers realizes an overall forced outage rate that is materially less than 10%, Gulf Power will overrecover the costs attributable to that class.

In short, both billing determinants and costs associated with the standby class are especially dynamic, given the relationship of the performance of the customer's unit to both. In seizing upon the historical billing determinants, Staff has applied a test that is inappropriate under the circumstances because the utility has since gained experience with pricing and selling standby service. (Tr. 366).

Finally, even if the "lower rate level" of the replacement rate is related to the 1987 billing determinants, the resulting

reduction in annual revenues is only $300,000. (Tr. 254). This represents less than 0.1% of Gulf Power's annual revenue requirement (Tr. 255). Such a de minimis amount is simply not going to prejudice other customers.

The Industrial Intervenors submit that the Commission should accept the standard used by Gulf Power in fashioning the rate. The replacement tariff involves no increase to any customer in the standby class, no increase to Gulf Power, and no adverse impact to any other customer. (Tr. 253).

ISSUE II

Is the annual review of the Option A daily demand charge found on the Standby and Supplemental rate schedule appropriate?

Industrial Intervenors: Yes. Staff's concern that Gulf's Option A may result in underbilling looks to the past. In the future, Southern will build only gas turbines. As Southern's load grows, supplemental energy from existing base-loaded units will be less available. Gulf's design limiting non-Se days to seven is appropriate.

DISCUSSION

"Option A" of the replacement standby rate is designed to make Gulf Power's SE Rider available to standby customers. Of course, whenever supplemental energy (SE) is available, the Option A standby customer will buy SE rather than standby power. Since SE will not always be available, it is necessary to design a rate that will equitably send the pricing signal of the daily

demand charge on those days during which SE is not available ("non-SE days").

The amount of the appropriate demand charge that Option A customers should pay is a function of the number of days during a given month when they may request standby: The demand costs for the month are divided by the number of days service may be required to develop a daily demand charge. As the number of non-SE days in a month increases, the daily demand charge decreases.

Gulf Power derived the demand charge value by assuming there would be an average of seven non-SE days per month. However, an "annual review" provision of the rate calls for Gulf to reimburse a portion of revenues provided by Option A customers if the actual experience turns out to be more than seven non-SE days per month.

Staff's objection is not to the alternative service offered under Option A, but to the fact that under the Annual Review, Gulf Power would not have a corresponding ability to increase the effective daily demand charge if the actual number of non-SE days averages is fewer than seven days per month. (Tr. 275).

Gulf Power's approach to the design of the annual review is proper. The sources of SE are the surplus, otherwise idle, base-loaded coal units on the Southern system. In the future, Southern intends to build only gas turbines, which are more expensive to operate. (Tr. 72). Therefore, it is only realistic to project that, as Southern's load grows over time,

the base loaded units will be free to generate SE less of the time. (Tr. 72). The design of Option A's annual review mechanism is consistent with operational reality.

Gulf's plan avoids any issue of retroactive ratemaking that would be associated with an attempt to adjust the demand charge upward at the end of the period in which the rate was in effect and also results in good customer relations. The suggested alternative of setting the Daily Demand charge at a rate that could ensure that there would always be a downward adjustment would also be unsatisfactory because it would leave the customers in the position of having to make operational decisions based on unrealistic costs. (Tr. 157). Option A customers will pay Gulf's cost of providing capacity, because they must always pay the reservation charge designed for that purpose.

ISSUE IV

Should the Commission approve the Gulf Power's Standby and Supplemental rate schedule?

Industrial Intervenors: Yes. The new rate is a product of two years of cooperative effort and negotiations resulting in a rate that reduces complexity in making operational decisions for the affected customers and helps the utility avoid the cost of adding generating capacity, all without negatively affecting other customers.

DISCUSSION

The replacement standby rate achieves direly needed improvements by reducing the complexity and uncertainty that created serious and expensive problems for Gulf Power's standby customers. Staff's objections to the additional refinements are misplaced. The CMM provision is properly cost-based, as it recognizes that the annual peak demand of both Southern Company and Gulf Power occur during the summer. (Tr. 63, 64).

Additionally, because they have a powerful economic incentive to return their units to service as quickly as they can, standby customers will not be more likely to impact IIC payments during a CMM than at other times. Besides, any possible impact on IIC payments during a CMM pales in comparison to the possibility that summer maintenance outages could require Gulf Power to build more expensive generating capacity to meet its higher peak. (Tr. 71). Any potential decrease in revenues associated with the replacement standby rate is speculative, and de minimis in relation to Gulf's total revenues. In any event, other customers would not be harmed by the potential 0.1% reduction in total revenues.

The annual review provision of Option A reflects the reasonable expectation of the future availability of SE power. It is needed to enable Gulf Power to offer the SE rider to standby customers in a manner that is not discriminatory. (Tr. 155). Option A provides standby customers with SE on terms comparable to those available to full service customers. At the

same time, the annual review provision of the option assures that their total exposure to the possibility of paying daily demand charges is no different than that of standby customers who do not elect Option A. (Tr. 156).

Finally, all standby customers must pay the reservation charge of the standby rate. Through the reservation charge -- which was carried over from the original rate -- they will continue to pay Gulf Power the full costs associated with providing standby capacity.

CONCLUSION

The replacement standby rate now in effect should be retained on a permanent basis.

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CERTIFICATE OF SERVICE

I HEREBY CERTIFY that a true and correct copy of the Brief of the Industrial intervenors has been furnished by U.S. Mail or by hand delivery* to the following parties of record, this 1st day of September, 1994.

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