



Public Service Commission

CAPITAL CIRCLE OFFICE CENTER • 2540 SHUMARD OAK BOULEVARD
TALLAHASSEE, FLORIDA 32399-0850

-M-E-M-O-R-A-N-D-U-M-

DATE: MAY 11, 1999

TO: DIRECTOR, DIVISION OF RECORDS AND REPORTING (BAYÓ)

FROM: DIVISION OF AUDITING AND FINANCIAL ANALYSIS (MAILHOT)^{DM}
DIVISION OF ELECTRIC AND GAS (JENKINS)
DIVISION OF LEGAL SERVICES (ELIAS, COLLINS) *RVE For TRC JDJ*

RE: DOCKET NO. 990250-EI - INVESTIGATION INTO THE EARNINGS AND AUTHORIZED RETURN ON EQUITY FOR GULF POWER COMPANY.

DOCKET NO. 990244-EI - PETITION BY GULF POWER COMPANY FOR APPROVAL OF PROPOSED PLAN FOR AN INCENTIVE REVENUE SHARING MECHANISM THAT ADDRESSES CERTAIN REGULATORY ISSUES INCLUDING A REDUCTION TO THE COMPANY'S AUTHORIZED RETURN ON EQUITY.

AGENDA: 05/18/99 - REGULAR AGENDA - PROPOSED AGENCY ACTION - INTERESTED PERSONS MAY PARTICIPATE

CRITICAL DATES: NONE

SPECIAL INSTRUCTIONS: NONE

FILE NAME AND LOCATION: S:\PSC\AFA\WP\990250.RCM

CASE BACKGROUND

At the April 20, 1999 Agenda Conference, the Commission voted to propose a regulatory incentive plan for Gulf Power Company (Gulf or the Company). In preparing the order, staff became aware that there was some uncertainty over the disposition of a portion of the shared earnings. Staff is recommending in Issue 1 that the Commission resolve that uncertainty.

DOCUMENT NUMBER-DATE

05986 MAY 11 99

FFSC-RECORDS/REPORTING

DISCUSSION OF ISSUES

ISSUE 1: Should the Commission clarify its decision concerning the regulatory incentive plan for Gulf Power Company?

RECOMMENDATION: Yes. The Commission should clarify its decision.
(MAILHOT)

STAFF ANALYSIS: One of the provisions of the proposed regulatory incentive plan that was approved by the Commission is the sharing of earnings above a 12.5% return on equity (ROE) for 1999. For calendar years 2000 and 2001, the first \$2 million of revenues above 12.2% ROE each year will be added to the annual accrual to the Property Insurance Reserve. Any additional actual revenues contributing to earnings above 12.5% ROE up to a net earned jurisdictional return (after sharing) of 14.0% will be divided into three equal shares. One 33.3% share will be refunded to the ratepayers. The Company's shareholders shall receive one 33.3% share. The final 33.3% share needs clarification. Staff's recommendation was to use this to write off the balance of the loss on reacquired debt and then to increase the Property Insurance Reserve.

As staff prepared the order based on the Commission's decision, we became aware that the Commission may have wanted to adjust the priority of the one 33.3% share to first increase the Property Insurance Reserve, and second to write off the balance of the loss on reacquired debt. As of December 31, 1998, Gulf had approximately \$1.6 million in its Property Insurance Reserve. Based on Order No. PSC-96-1334-FOF-EI, the Commission approved an appropriate target level for the Reserve of \$25.1 to \$36 million. If the Commission changes the priority of these two items, then staff also recommends that any increase to the Property Insurance Reserve under this sharing provision should cease if the balance in the account reaches \$25 million.

Staff recommends that the Commission clarify its decision on the priority of the application of earnings under its proposed regulatory incentive plan.

DOCKET NOS. 990250- , 990244-EI
DATE: May 11, 1999

ISSUE 2: Should Docket No. 990244-EI be closed?

RECOMMENDATION: Yes. Docket No. 990244-EI should be closed if no person whose interests are substantially affected by the proposed action files a protest within the 21-day protest period. (ELIAS)

STAFF ANALYSIS: At the conclusion of the protest period, if no protest is filed, Docket No. 990244-EI should be closed.

ISSUE 3: Should Docket No. 990250-EI be closed?

RECOMMENDATION: No. Docket No. 990250-EI should remain open. (ELIAS)

STAFF ANALYSIS: Docket No. 990250-EI should remain open pending the investigation of GPC's CISR's and the disposition the revenues held subject to refund.