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GULF POWER
A SOUTHERN COMPANY

May 9, 2013

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COMMISSION CLERK

The Honorable Ronald A. Brisé
Chairman
Florida Public Service Commission
2540 Shumard Oak Boulevard
Tallahassee, Florida 32399-0850

130140-EI

RE: Test Year Notification Pursuant to Rule 25-6.140, F.A.C.

Dear Chairman Brisé:

For many years, Gulf Power Company ("Gulf" or "the Company") has provided the people of Northwest Florida with safe and reliable electric service at reasonable prices. Gulf is thoroughly committed to continuing to serve our customers in this manner. This commitment is shown through Gulf's building, strengthening, operating and maintaining an electric system that provides Gulf's customers the service they deserve and expect.

Based on our financial projections, our current rates do not produce sufficient revenues for us to be able to continue adequately serving our customers and maintain the Company's financial integrity. Accordingly, it is Gulf's intent to file a petition to change the Company's base rates on a permanent basis. The purpose of this letter is to comply with the notice requirements of the Florida Public Service Commission set forth in Rule 25-6.140 of the Florida Administrative Code. Gulf is proposing the projected twelve months ending December 31, 2014 as the test year for the planned rate case filing. In compliance with the Commission's notification rule, we presently anticipate filing the petition, testimony and minimum filing requirements necessary to initiate a rate case not sooner than July 8, 2013 and not later than July 22, 2013. These dates are all at least 60 days after the date of this letter.

This decision to prepare a new rate case filing has been reached only after thorough and careful consideration. Gulf's last base rate case before the Commission was filed on July 8, 2011, in Docket No. 110138-EI, with new rates that became effective with meter readings in April 2012. While the Company has successfully controlled operation and maintenance expenses since our last rate case in 2011, the Company continues to make significant and critical capital expenditures for infrastructure that are both reasonable and necessary in order to continue to provide reliable electric service and to comply with federal regulations. Although Gulf has made and will continue to make every reasonable effort to avoid price increases, we must now seek an

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adjustment to the Company's base rates and charges in order to be able to continue fulfilling the public service requirements set forth in the statutes and the needs and expectations of our customers.

As part of this notification of the projected test year, Gulf submits the following information:

Test Year

The projected twelve-month period ending December 31, 2014 is the appropriate test year to be used in setting Gulf's rates for the future. The proposed test year is a calendar year that corresponds to the Company's fiscal year and largely corresponds with the first fiscal period that new, permanent rates could be in effect. As a result, the 2014 test year will match projected revenues with the projected costs and investment required to provide customers with service during the period following the effective date of the anticipated final order in this case. The chosen test year will more accurately depict the conditions under which Gulf expects to operate during the first twelve months new rates will be in effect than would a test year based on a historical period. This is particularly true given the demands of the changing economy as Northwest Florida emerges from the severe economic recession that has impacted Florida and the nation as a whole. Use of a projected test year that includes information related to rate base, net operating income, and capital structure for the time new rates will be in effect benefits all stakeholders by helping to reduce the impacts of regulatory lag.

Major Factors Necessitating a Base Rate Increase

Since Gulf's last rate case and through the test year that will form the basis for this rate case, the cost of providing electric service has continued to increase at a pace that exceeds growth in revenues. In Gulf's most recent rate case in 2011, Gulf discussed a significant multi-year increase in capital expenditures for transmission infrastructure that is necessary for Gulf to continue to maintain reliable electric service and to comply with federal regulations such as the North American Electric Reliability Corporation planning and reliability criteria. Over the past two years and continuing through the proposed 2014 test year and beyond, Gulf has and will continue to make these significant capital investments in transmission infrastructure, many of which are related to emerging environmental regulations.

By December 2014, Gulf will have invested over $270 million that is not included in the rate base approved in our last rate case. This amount includes costs associated with Gulf's generation fleet as well as our transmission and distribution infrastructure. This added investment constitutes an increased cost of providing electric service to Gulf's customers.

In addition to the increase in the cost of providing electric service noted above, Gulf's base rate revenues have not grown as expected. The economic recovery from the severe nationwide economic recession is slower than previously predicted. Significant uncertainty still surrounds the pace of economic recovery in northwest Florida and in the nation as a whole. As a result of the slower than expected economic recovery in our region, sales in each customer segment have failed to meet forecasted growth. Gulf estimates that by 2015 sales will still be below the level forecast for 2012 at the time of our last rate case.

As a combined result of the increase in the cost of providing electric service and the slower than expected growth in base rate revenues, Gulf's return on equity has remained below the range of reasonableness set by the Commission in Gulf's last rate case. Gulf's achieved return on equity has consistently been below the bottom of the applicable range of reasonableness set by the Commission since May 2010. In fact, Gulf's allowed return on equity is currently the lowest among the electric utilities whose rate of return is regulated by this Commission. Gulf presently estimates that an increase in annual revenues of approximately $75 to $80 million is necessary to produce sufficient revenues to allow us to continue to provide the electric service our customers require.

Actions and Measures Implemented to Avoid a Base Rate Increase

Gulf's emphasis on cost control and cost reductions has continued since our last rate case in an effort to avoid requesting rate relief during this time period. The Company regularly reviews its O&M budget and planned capital expenditures to keep expenses and investment at reasonable and adequate levels. Actual costs are tracked, monitored and evaluated to ensure expenditures incurred are prudent, reasonable and in the best interest of our customers. Our employees pursue productivity improvements and cost efficiencies in all aspects of our business.

Since Gulf's last rate case, the Company's operation and maintenance expense levels have remained relatively flat without adversely affecting the quality of service. For example, in 2012 and 2013, Gulf extended the outage cycles of its coal fired generating units which will result in cost savings in those years. Gulf has also been able to realize additional cost savings for our customers through the refinancing of approximately $100 million of debt at lower interest rates.

As evidenced by our strong levels of customer satisfaction, Gulf continues to provide safe, reliable service to our customers. However, the fact remains that growth in base rate revenues has not kept pace with the cost of providing service to our customers. Adequate rate relief through an increase in base rates is necessary now in order for Gulf to have the capability to continue providing our customers with safe and reliable electric service at reasonable prices. Similarly, granting adequate rate relief now would lessen the likelihood of Gulf needing to initiate another base rate case in the immediate future.

Other Matters

Pursuant to Rule 25-6.140, this letter must contain a statement indicating that Gulf either is or is not requesting that the Commission process the Company's petition for rate increase ". . . using the proposed agency action process authorized in Section 366.06(4), Florida Statutes." Since Gulf's annual sales to end-use customers exceeds the 500 gigawatt-hour threshold specified in that statutory section, Gulf is not requesting that the Commission process the Company's petition for a rate increase using the proposed agency action process.

The Company anticipates a filing date as soon as practicable following the required notification period (i.e., no earlier than July 8, 2013). If the Company cannot file by July 22, 2013, the Company will notify the Commission in writing prior to that date. Such letter will include an explanation as to why the Company will not meet the filing date as well as a revised target filing date.

As I hope is evident from this letter, we are planning to file a request for rate relief only after serious deliberation. An increase in base rate revenues is now necessary to maintain a reliable electric system and to preserve our financial integrity, which is in the long-term best interest of our customers.

Respectfully submitted,

GULF POWER COMPANY

By: ______________________
S. W. Connally, Jr., President and CEO

cc: Florida Public Service Commission

Hon. Lisa Polak Edgar, Commissioner
Hon. Art Graham, Commissioner
Hon. Eduardo E. Balbis, Commissioner
Hon. Julie Imanuel Brown, Commissioner
Braulio L. Baez, Executive Director
S. Curtis Kiser, General Counsel
Charles Hill, Deputy Executive Director/Technical
Marshall Willis, Director, Division of Accounting and Finance
Ann Cole, Commission Clerk

Office of Public Counsel

J. R. Kelly, Public Counsel