



Rhonda J. Alexander
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May 1, 2018

Mr. Bart Fletcher
Division of Accounting and Finance
Florida Public Service Commission
2540 Shumard Oak Boulevard
Tallahassee, FL 32399-0850

RE: Forecasted Earnings Surveillance Report for Calendar Year 2018

Dear Mr. Fletcher:

Attached is Gulf Power Company's Forecasted Earnings Surveillance Report for the calendar year 2018.

Sincerely,

A handwritten signature in blue ink that reads "Rhonda J. Alexander".

Rhonda J. Alexander
Regulatory, Forecasting and Pricing Manager

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Attachments

cc/att.: Office of the Public Counsel
c/o Florida Legislature
111 W. Madison, Rm. 801
Tallahassee FL 32399-1400

GOV 2-1-5-3

FLORIDA PUBLIC SERVICE COMMISSION
 ELECTRIC FORECASTED EARNINGS SURVEILLANCE REPORT
 GULF POWER COMPANY
 2018

SCHEDULE 1

	(1) Actual Per Books	(2) FPSC Adjustments	(3) FPSC Adjusted	(4) Pro Forma Adjustments
I. Average Rate of Return				
(JURISDICTIONAL)				
	(a)	(b)		
Net Operating Income	\$149,690,494	(\$5,046,630)	\$144,643,864	\$0
Average Rate Base	\$3,808,938,615	(\$1,340,347,814)	\$2,468,590,801	\$0
Average Rate of Return	3.93%		5.86%	

(a) Includes AFUDC Earnings

(b) Includes Reversal of AFUDC Earnings

III. Required Rates of Return

Average Capital Structure
 (FPSC Adjusted Basis)

Low	5.15%
Midpoint	5.55%
High	5.96%

IV. Financial Integrity Indicators

A. T.I.E. With AFUDC	3.40 x (System per Books Basis)
B. T.I.E. Without AFUDC	3.40 x (System per Books Basis)
C. AFUDC To Net Income	0.08% (System per Books Basis)
D. Internally Generated Funds	44.36% (System per Books Basis)
E. LTD To Total Investor Funds	44.49% (FPSC Adjusted Basis)
F. STD To Total Investor Funds	2.01% (FPSC Adjusted Basis)
G. Return on Common Equity	11.00% (FPSC Adjusted Basis)

FLORIDA PUBLIC SERVICE COMMISSION
 ELECTRIC FORECASTED EARNINGS SURVEILLANCE REPORT
 AVERAGE RATE OF RETURN
 RATE BASE
 GULF POWER COMPANY
 2018

	PLANT IN SERVICE	ACCUMULATED DEPRECIATION & AMORTIZATION	NET PLANT IN SERVICE	PROPERTY HELD FOR FUTURE USE	CONSTRUCTION WORK IN PROGRESS	NUCLEAR FUEL (NET)	NET UTILITY PLANT	WORKING CAPITAL	TOTAL RATE BASE
SYSTEM PER BOOKS	5,281,014,913	1,742,778,396	3,538,236,517	14,111,047	128,953,419	0	3,682,300,983	190,792,445	3,873,093,428
JURISDICTIONAL PER BOOKS	5,130,691,842	1,713,041,287	3,417,650,575	13,717,081	126,955,526	0	3,566,323,181	250,615,434	3,808,938,615
FPSC ADJUSTMENTS									
ENVIRONMENTAL COST RECOVERY CLAUSE	(1,563,905,796)	(339,232,683)	(1,224,673,112)		(41,871,994)		(1,266,545,106)	(25,276,140)	(1,291,821,246)
INT BEARING CWIP					(2,300,074)		(2,300,074)		(2,300,074)
ENERGY CONSERVATION CLAUSE	(16,981,843)	7,093,631	(24,075,475)				(24,075,475)	(654,213)	(24,729,688)
LOANS TO EMPLOYEES / RETIREES								(26,175)	(26,175)
INTEREST AND DIVIDENDS RECEIVABLE								(131,625)	(131,625)
FUNDED PROP RES. N. ESCAMBIA & OTHER INV.								(3,612,438)	(15,666,189)
FUEL RELATED DEFERRED DEBITS				(12,053,751)			(12,053,751)	(5,672,817)	(5,672,817)
TOTAL FPSC ADJUSTMENTS	(1,580,887,639)	(332,139,052)	(1,248,748,587)	(12,053,751)	(44,172,068)	0	(1,304,974,408)	(35,373,408)	(1,340,347,814)
FPSC ADJUSTED	3,549,804,203	1,380,902,215	2,168,901,688	1,663,329	82,783,458	0	2,263,348,775	215,242,026	2,468,590,801

TOTALS MAY NOT ADD DUE TO ROUNDING.

FLORIDA PUBLIC SERVICE COMMISSION
ELECTRIC FORECASTED EARNINGS SURVEILLANCE REPORT
AVERAGE RATE OF RETURN
INCOME STATEMENT
GULF POWER COMPANY
2018

	OPERATING REVENUES	O & M FUEL & NET INTERCHANGE	O & M OTHER	DEPRECIATION & AMORTIZATION	TAXES OTHER THAN INCOME	INCOME TAXES CURRENT	DEFERRED INCOME TAXES (NET)	INVESTMENT CREDIT (NET)	(GAIN)/LOSS ON DISPOSITION	TOTAL OPERATING EXPENSES	NET OPERATING INCOME
SYSTEM PER BOOKS	1,421,533,167	575,258,093	337,383,105	198,946,479	117,225,133	30,490,434	(53,720,508)	(324,234)	0	1,205,258,502	216,274,666 (a)
JURISDICTIONAL PER BOOKS	1,285,112,225	445,739,573	331,516,692	198,423,099	116,098,280	77,404,417	(53,313,785)	(318,382)	0	1,115,549,885	149,562,340 (a)
LESS FPSC ADJUSTMENTS:											
RETAIL FUEL REVENUES & EXPENSES	(285,938,699)	(361,896,506)				19,251,506				(342,645,000)	56,706,301
PURCHASED POWER CAPACITY REVENUES & EXPENSES	(75,531,700)	(83,843,067)				2,106,516				(81,738,551)	6,204,851
ENERGY CONSERVATION COST REVENUES & EXPENSES	(13,536,695)		(10,424,406)	(1,336,878)	(533,784)	(314,890)				(12,609,759)	(926,936)
ENVIRONMENTAL COST RECOVERY CLAUSE	(187,037,236)		(38,343,228)	(57,652,921)	(6,347,225)	(21,465,859)				(123,809,034)	(63,228,202)
FRANCHISE FEE REVENUE & EXPENSE	(41,905,948)			(57,652,921)	(41,050,258)	(216,875)				(41,267,132)	(638,815)
GROSS RECEIPTS TAX REVENUE & ADJUSTMENT	(30,937,761)			(30,914,085)		(31,343)				(30,845,438)	(92,323)
MARKETING SUPPORT ACTIVITIES			(181,306)			45,952				(135,354)	135,354
WHOLESALE EXPENSES			(270,418)			68,537				(201,881)	201,881
INSTITUTIONAL ADVERTISING EXPENSE			(108,380)			27,469				(80,911)	80,911
ECONOMIC DEVELOPMENT EXPENSE			(66,324)			16,810				(49,514)	49,514
MGMT FINANCIAL PLANNING SERVICES			(39,276)			9,955				(29,322)	29,322
DIRECTORS' & OFFICERS' INSURANCE			(72,348)			18,337				(54,012)	54,012
INDUSTRY ASSOCIATION DUES			(1,382)			345				(1,037)	1,017
TALLAHASSEE LIAISON EXPENSES			(543,742)		(32,353)	146,011				(430,084)	430,084
GRT, FPSC FEES ON CLAUSES & FEES					(1,383,326)	350,604				(1,032,722)	1,032,722
(GAIN) / LOSS ON DISPOSITION						5,857		(23,110)		(17,252)	17,252
INTEREST SYNCHRONIZATION						4,875,418				4,875,418	(4,975,418)
TOTAL FPSC ADJUSTMENTS	(634,888,040)	(445,739,573)	(50,050,782)	(58,989,798)	(60,161,040)	4,894,750	0	0	(23,110)	(629,869,564)	(4,918,476)
FPSC ADJUSTED	630,224,185	0	281,465,900	139,433,300	35,937,240	82,399,167	(53,313,785)	(318,392)	(23,110)	485,580,321	144,643,864

(a) THE ADDITION OF EARNINGS FROM AFUDC WOULD INCREASE THE SYSTEM NOI BY \$128,154 AND THE JURISDICTIONAL NOI BY \$130,844

RATE BASE ADJUSTMENTS		AMOUNT	NET OPERATING INCOME STATEMENT ADJUSTMENTS		AMOUNT	TAX EFFECT
ENVIRONMENTAL COST RECOVERY CLAUSE			FUEL & IIC FUEL REVENUES AND ECONOMY PROFITS	(412,824,707)	(104,830,422)	
INVESTMENT	(1,609,174,801)		ENVIRONMENTAL COST RECOVERY CLAUSE REVENUES	(193,008,673)	(48,917,541)	
ACCUMULATED DEPRECIATION	349,052,153		PURCHASED POWER CAPACITY COST CLAUSE REVENUES	(75,540,779)	(19,145,811)	
CWIP	(43,084,026)		ENERGY CONSERVATION COST RECOVERY CLAUSE REVENUES	(13,536,895)	(3,430,875)	
ENERGY CONSERVATION COST RECOVERY			FUEL EXPENSE	(488,677,975)	123,855,433	
INVESTMENT	(16,981,843)		PURCHASED POWER CAPACITY COST EXPENSE	(88,273,592)	21,866,042	
ACCUMULATED DEPRECIATION	(7,093,631)		CONSERVATION EXPENSES - DEPRECIATION AND O & M	(11,781,285)	2,980,898	
CWIP	0		CONSERVATION EXPENSES - OTHER TAXES	(533,784)	135,287	
FAS 143 NET PLANT	(44,452,206)		ENVIRONMENTAL COST RECOVERY EXPENSE	(105,249,881)	26,675,532	
INTEREST BEARING CWIP	(2,348,352)		FRANCHISE FEE REVENUES	(41,905,948)	(10,621,062)	
PHFU - NORTH ESCAMBIA	(12,399,945)		FRANCHISE FEE	(41,050,258)	10,404,188	
WORKING CAPITAL:			GROSS RECEIPTS TAX REVENUES	(30,937,761)	(7,841,176)	
ECRC WORKING CAPITAL	(28,007,786)		GROSS RECEIPTS TAX EXPENSE	(30,814,095)	7,809,832	
CONSERVATION/AEM INVENTORY	(654,213)		MARKETING SUPPORT ACTIVITIES	(181,306)	45,952	
FUNDED PROPERTY RESERVE - NET	0		WHOLESALE EXPENSE	(278,291)	70,533	
LOANS TO EMPLOYEES AND RETIREES	(26,637)		INSTITUTIONAL ADVERTISING EXPENSE	(110,450)	27,994	
INTEREST & DIVIDENDS RECEIVABLE	(133,945)		ECONOMIC DEVELOPMENT EXPENSE	(66,324)	16,810	
NORTH ESCAMBIA SITE	(3,675,889)		MGMT FINANCIAL PLANNING SERVICES	(40,100)	10,183	
FUEL RELATED DEFERRED DEBITS	(5,672,817)		DIRECTORS' & OFFICERS' INSURANCE	(73,865)	18,721	
UNREALIZED LOSS ON FWD CONTRACT	(2,415)		INDUSTRY ASSOCIATION DUES	(1,388)	352	
FAS 143 WORKING CAPITAL	54,616,885		TALLAHASSEE LIAISON EXPENSE	(588,151)	149,067	
FAS 158 REGULATORY ASSETS	(168,799,446)		GRT/FPSC FEES ON CLAUSE REV ADJ & FRAN FEES	(1,383,326)	350,604	
FAS 158 REGULATORY LIABILITIES	168,799,446		COMP SALES/TRANS REV/G/L SALE GAS/PROV RT REFN. ESC REV	25,849	8,551	
PPA REGULATORY ASSETS	(108,107,474)		GAIN/LOSS ON DISPOSITION OF PROPERTY	(23,549)	5,969	
PPA REGULATORY LIABILITIES	108,107,474		INTEREST SYNCHRONIZATION	5,012,418	5,012,418	
FAS 133 REGULATORY ASSETS	(17,348,965)					
FAS 133 REGULATORY LIABILITIES	17,348,965					

SCHEDULE 3

FLORIDA PUBLIC SERVICE COMMISSION
ELECTRIC FORECASTED EARNINGS SURVEILLANCE REPORT
CAPITAL STRUCTURE
FPSC ADJUSTED BASIS
GULF POWER COMPANY
2018

AVERAGE	SYSTEM PER BOOKS	RETAIL PER BOOKS	ADJUSTMENTS		ADJUSTED RETAIL	RATIO (%)	LOW POINT		MIDPOINT		HIGH POINT	
			PRO RATA	SPECIFIC			COST RATE (%)	WEIGHTED COST (%)	COST RATE (%)	WEIGHTED COST (%)	COST RATE (%)	WEIGHTED COST (%)
LONG TERM DEBT	1,309,375,852	1,285,756,573	(452,451,929)	0	833,304,744	33.78	3.94	1.33	3.94	1.33	3.94	1.33
SHORT TERM DEBT	64,640,299	58,102,564	(20,445,666)	0	37,656,898	1.53	2.40	0.04	2.40	0.04	2.40	0.04
PREFERENCE STOCK	0	0	0	0	0	0.00	0.00	0.00	0.00	0.00	0.00	0.00
CUSTOMER DEPOSITS	34,963,165	34,995,621	(12,315,116)	0	22,680,505	0.92	2.30	0.02	2.30	0.02	2.30	0.02
COMMON EQUITY	1,553,101,160	1,546,258,126	(544,120,897)	0	1,002,137,229	40.60	9.25	3.76	10.25	4.16	11.25	4.57
DEFERRED INCOME TAXES	546,681,885	536,857,776	(188,918,003)	0	347,939,773	14.09						
FASB 109 DEFERRED TAXES	352,310,126	345,972,785	(121,746,473)	0	224,226,312	9.08						
TAX CREDITS - ZERO COST	0	0	0	0	0	0.00						
TAX CREDITS - WEIGHTED COST	1,013,875	895,171	(349,831)	0	645,340	0.03	6.84	0.00	7.39	0.00	7.93	0.00
TOTAL	3,882,296,463	3,808,938,816	(1,340,347,814)	0	2,468,590,801	100.00		5.15 %		5.55 %		5.96 %

TOTALS MAY NOT ADD DUE TO ROUNDING.

FLORIDA PUBLIC SERVICE COMMISSION
ELECTRIC FORECASTED EARNINGS SURVEILLANCE REPORT
FINANCIAL INTEGRITY INDICATORS
GULF POWER COMPANY
2018

SCHEDULE 4

A. Times Interest Earned with AFUDC

Earnings Before Interest	212,378,835
AFUDC - Debt	40,418
Income Taxes	<u>(25,451,221)</u>
Total	186,968,031
Interest Charges (Before Deducting AFUDC - Debt)	<u>55,009,131</u>
Tie With AFUDC	<u>3.40</u> x

B. Times Interest Earned without AFUDC

Earnings Before Interest	212,378,835
AFUDC - Other	(90,426)
Income Taxes	<u>(25,451,221)</u>
Total	186,837,187
Interest Charges (Before Deducting AFUDC - Debt)	<u>55,009,131</u>
Tie Without AFUDC	<u>3.40</u> x

**C. Percent AFUDC To Net Income Available
for Common Stockholders**

AFUDC - Debt	40,418
X (1 - Income Tax Rate)	<u>0.7466</u>
Subtotal	30,174
AFUDC - Other	<u>90,426</u>
Total	<u>120,600</u>
Net Income Available for Common Stockholders	<u>157,410,122</u>
Percent AFUDC to Available Net Income	<u>0.08%</u>

D. Percent Internally Generated Funds

Net Income	157,410,122
Preference Dividends	0
Common Dividends	(153,370,000)
AFUDC (Debt & Other)	(130,844)
Depreciation & Amortization	206,135,454
Deferred Income Taxes	(53,720,508)
Investment Tax Credits	0
Other	<u>(19,101,186)</u>
Total	137,223,038
Construction Expenditures (Excluding AFUDC Other & Debt)	<u>309,362,556</u>
Percent Internally Generated Funds	<u>44.36%</u>

TOTALS MAY NOT ADD DUE TO ROUNDING

**E. Long Term Debt as Percent of Total
Investor Capital**

F. Short Term Debt as Percent of Total Investor Capital

Reconciled Average Retail Amounts

Long Term Debt	833,304,744
Short Term Debt	37,656,898
Preference Stock	0
Common Equity	<u>1,002,137,229</u>
Total	1,873,098,871
% Long Term Debt To Total	<u>44.49%</u>
% Short Term Debt To Total	<u>2.01%</u>

**G. FPSC Adjusted Average Jurisdictional Return
On Common Equity**

	G. FPSC ADJ.	H. PROFORMA
FPSC Adjusted Average Earned Rate of Return	<u>5.86%</u>	<u>5.86%</u>
Less: Reconciled Average Retail Weighted Cost Rates For:		
Long Term Debt	(1.33)	(1.33)
Short Term Debt	(0.04)	(0.04)
Preference Stock	0.00	0.00
Customer Deposits	(0.02)	(0.02)
Tax Credits - Weighted Cost	(0.00)	(0.00)
Subtotal	<u>(1.39)</u>	<u>(1.39)</u>
Total	4.47	4.47
Divided by Common Equity Ratio	<u>40.60</u>	<u>40.60</u>
Jurisdictional Return on Common Equity	<u>11.00%</u>	<u>11.00%</u>

FORECAST ASSUMPTIONS

<u>Customers (Avg.)</u>	<u>2018 Forecast</u>	<u>2017 Actual</u>
Residential	407,742	401,793
Commercial	57,040	56,428
Industrial	255	255
Other	573	573
Total	465,609	459,049


<u>KWH Sales</u>		
Residential	5,304,615,804	5,229,275,828
Commercial	3,790,810,148	3,813,560,906
Industrial	1,609,614,883	1,739,652,901
Other	25,419,264	26,127,225
Inter Departmental	0	0
Total	10,730,460,099	10,808,616,860

See Attached For Additional Information

I am aware that Section 837.06, Florida Statutes, provides:

Whoever knowingly makes a false statement in writing with the intent to mislead a public servant in the performance of his official duty shall be guilty of a misdemeanor of the second degree, punishable as provided in s. 775.082, s. 775.083, or s. 775.084.

Josh J. Mason
 Name
Assistant Treasurer, Financial Planning & Budgeting Manager
 Title


 Signature
May 1, 2018
 Date

**FLORIDA PUBLIC SERVICE COMMISSION
ELECTRIC FORECASTED EARNINGS SURVEILLANCE REPORT
GULF POWER COMPANY
2018 FORECAST ASSUMPTIONS**

Attachment to Schedule 5

The forecast of energy sales for 2018 assumes the number of customers is expected to grow in 2018, reflecting steady growth for the economy in Northwest Florida. Economic projections were from Moody's Analytics May 2017 forecast. Normal weather conditions are assumed for the year. Energy sales and peak demand forecasts include the effects of Gulf's conservation programs and other market place initiatives. The resulting 2018 sales forecast reflects our latest estimate of growth. Base rate revenues reflect Gulf's 2018 Stipulation and Settlement Agreement approved by the FPSC per Order No. PSC-2018-0180-FOF-EI, issued April 12, 2018.

The forecasted levels of operations and maintenance expense and capital additions are necessary to properly fund the projects and activities required to meet the company's customer service and reliability requirements and compliance with all regulatory and legal requirements. These projections include the estimated impacts of customer growth, changing regulations, changes to business processes and/or requirements and inflation.

The provisions of the 2017 Stipulation and Settlement Agreement, as filed in consolidated Docket Nos. 20160186-EI and 20160170-EI and approved by the Commission in Order No. PSC-17-0178-S-EI dated May 16, 2017, are incorporated herein and implemented in this Forecasted Surveillance Report as set forth in the terms of the Stipulation and Settlement Agreement.

Additionally, the provisions of the 2018 Stipulation and Settlement Agreement, as filed in Docket No. 20180039-EI and approved by the Commission in Order No. PSC-2018-0180-FOF-EI dated April 12, 2018 are incorporated herein and implemented in this Forecasted Surveillance Report as set forth in the terms of the Stipulation and Settlement Agreement. This settlement, which was approved in its entirety by the Florida Public Service Commission ("Commission") on March 26, 2018, resolved all matters and issues associated with the Tax Cuts and Jobs Act (TCJA) except for the calculation and appropriate regulatory treatment of the excess "protected" deferred income taxes. The Company is evaluating the calculation and appropriate regulatory treatment of the excess "protected" deferred income taxes at this time.

FLORIDA PUBLIC SERVICE COMMISSION
ELECTRIC FORECASTED EARNINGS SURVEILLANCE REPORT
FORECAST ASSUMPTIONS
GULF POWER COMPANY
2018

Supplemental Schedule

Projects Estimated To Exceed \$10,000,000 Commencing This Period

<u>Project Description</u>	<u>Estimated Total Cost (\$ 000s)</u>	<u>Construction Start Date</u>	<u>Estimated In - Service Date</u>
PE 2929 115kV ROW Clearing	15,000	February 2018	December 2022
PE 3555 Overhead Grid Modernization	72,000	February 2018	December 2029