

ORIGINAL
FILE COPY

BEFORE THE
FLORIDA PUBLIC SERVICE COMMISSION

DOCKET NO 891345-EI

TESTIMONY AND EXHIBITS
OF
D. L. McCRARY

Gulf Power



1 joined Alabama Power Company as a junior
2 engineer. Since then, I have held several
3 different management and executive positions,
4 including positions with Alabama Power Company;
5 Southern Company Services, Inc.; and Gulf Power
6 Company.

7 I became Vice President-Construction at
8 Alabama Power in 1971. In 1977, I became Senior
9 Vice President at Southern Company Services,
10 Inc. From January 1980 to May 1983, I served
11 as Executive Vice President at Southern Company
12 Services, Inc. On May 1, 1983, I was elected
13 to my present position at Gulf Power Company.
14 As a result of 36 years of experience within
15 the Southern electric system and service in
16 varied management and executive positions, I am
17 familiar with the operations of the Southern
18 electric system including the operations of
19 Gulf Power Company.

20
21 Q. Do you have an exhibit that contains
22 information to which you will refer in your
23 testimony?

24 A. Yes.

25 Counsel: We ask that Mr. McCrary's

1 exhibit, consisting of 3
2 schedules, be marked for
3 identification as Exhibit
4 No. _____ (DLM-1).
5

6 Q. What is the purpose of your testimony?

7 A. The primary purpose of my testimony is to
8 summarize for the Commission, Gulf's need for
9 immediate rate relief. As clearly reflected in
10 the testimony of Mr. Scarbrough, the other
11 witnesses and the supporting documentation, the
12 financial integrity of the Company is
13 substantially at risk. I would also like to
14 address certain of the events of the past few
15 years which could easily detract from the
16 merits of our case. These events, including
17 the numerous investigations of the Company, and
18 the Company's recent plea of guilty are of
19 understandable concern to the Commission. I
20 believe the record reflects that we have been
21 likewise concerned and have taken those actions
22 necessary to prevent a recurrence. Although of
23 no less importance to management, the amount of
24 money involved in the violation is minimal.
25 With the adjustments which we have made, there

1 should be no impact on Gulf's rate case. Even
2 so, there are those who would take the actions
3 of a few and cast aspersions on the whole.
4 This is extremely unfair to those who
5 throughout this entire process have maintained
6 their high standards and cooperated fully in
7 our efforts to ferret out any illegal or
8 unethical conduct. We will cooperate in the
9 Commission's continuing examination of these
10 events. We trust, however, that the Commission
11 and its staff will focus on those areas truly
12 relevant to the rate case. We have removed
13 from the rate case filing all of the expense
14 and rate base items associated with the
15 investigations.

16
17 Q. Mr. McCrary, in this regard, did you not
18 petition the Commission for rate relief in
19 November of 1988 and then file a "Notice of
20 Voluntary Dismissal" on June 12, 1989?

21 A. Yes. At the time of Gulf's filing for
22 permanent rate relief in November 1988, Gulf
23 Power Company -- its parent corporation, The
24 Southern Company, and its other operating
25 companies --- were under investigation by the

1 Federal Grand Jury for the Northern District of
2 Atlanta. At that time Gulf had hoped that the
3 investigation would be completed as it related
4 to Gulf by the time for the rate hearings. This
5 did not happen.

6 Although very few of the allegations
7 before the Grand Jury impacted upon Gulf's
8 request for rate relief, Gulf realized that the
9 cloud of rumor and innuendo surrounding the
10 investigation necessitated a full and complete
11 explanation of these events. Aware of its
12 obligation to prove its need for rate relief by
13 the appropriate evidentiary standard before the
14 Commission, yet constrained by the effect of
15 the pending Grand Jury proceedings, the Company
16 felt that it should withdraw its request for
17 rate relief in order to respect the sanctity of
18 the Grand Jury process and the concept of due
19 process, and to allay the justifiable concerns
20 which the Commission had. On October 31, 1989,
21 the Company entered into a plea agreement with
22 the United States government, finally disposing
23 of the issues under investigation.

24 In order to avoid prolonged, expensive and
25 divisive legal proceedings, the Company pleaded

1 guilty to two federal offenses:

2 * conspiring to violate a section of
3 the Public Utility Holding Company
4 Act, which prohibits regulated
5 utilities from making political
6 contributions; and

7 * conspiring to impede the Internal
8 Revenue Service through the creation
9 of false or inflated invoices.

10 After a thorough review of actions taken
11 by those named in the criminal information
12 filed by the Government, the Company
13 acknowledged with deep regret that federal
14 statutes were violated. As indicated in
15 the Government's Statement of Facts
16 Regarding the Gulf Power Company Plea, the
17 illegal activities were orchestrated by the
18 Company's former Senior Vice President and
19 carried out at his direction by a handful of
20 employees and were unauthorized by Gulf. As the
21 Government's Statement of Facts acknowledges,
22 "Gulf Power Company has suffered from the
23 dishonesty of the senior vice president and
24 certain others who acted under his direction
25 without the approval of the board of directors

1 of Gulf Power Co." Nevertheless, the Company
2 believes that the decision to plead to the
3 charges made by the government was
4 responsible and proper. The alternative,
5 a lengthy criminal trial, would only
6 contribute to continued publicity and
7 trauma for the company and its employees,
8 and would likely have resulted in a much
9 harsher indictment and fine than that
10 negotiated in the plea agreement. Gulf
11 certainly does not condone the abuses that
12 occurred, and is determined to prevent such
13 abuses in the future.

14 I want to emphasize that, during the
15 investigation of the Company's records, we
16 cooperated fully with the Grand Jury and the
17 office of the United States Attorney.

18
19 Q. Has the Company taken the initiative in
20 investigating internal wrongdoing?

21 A. Absolutely. With respect to the Grand Jury
22 investigation, the Government itself recognized
23 in its Statement of Facts that "Gulf Power Co.
24 itself, by its own initiative, has
25 substantially contributed to the investigation

1 and the uncovering of the wrongdoing by this
2 now deceased senior vice president and a
3 handful of other employees who worked under
4 him." In fact, independently of the Grand Jury
5 investigation, the Company's internal auditors,
6 security personnel, managers, employees and
7 attorneys have consistently endeavored to
8 ferret out and eliminate internal wrongdoing.

9 Beginning in 1983, shortly after I came to
10 Gulf Power, I responded promptly to rumors of
11 theft and corruption at the General Warehouse
12 by appointing an investigative team to prepare
13 an independent report of conditions at the
14 Warehouse. Where illegal activities
15 were proven, as in the case of Kyle Croft,
16 General Warehouse Manager, decisive corrective
17 action was taken. Employees found to be
18 involved were, as appropriate, reprimanded,
19 fired, allowed to resign, or demoted.

20 Since the time of the investigative report
21 conducted in late 1983-early 1984, allegations
22 of vendor kickbacks and employee fraud have
23 continued to surface. Most of the allegations
24 arose from statements made by Kyle Croft in
25 connection with his wrongful termination

1 lawsuit against the Company. A Grand Jury in
2 Pensacola thoroughly investigated his
3 allegations, and properly dismissed them. His
4 civil suit against the Company and its
5 executives has likewise been appropriately and
6 finally dismissed. Other substantiated
7 allegations of vendor kickback schemes
8 resulted in Gulf's termination of contractual
9 business relationships with all but one of the
10 vendors involved. The one remaining vendor
11 never profited from the actions requested of
12 him by Company employees, and has cooperated
13 extensively with Gulf and the authorities in
14 investigating these issues. Because of this
15 vendor's consistently low bids and excellent
16 quality of service, Gulf saw no benefit to
17 terminating the relationship.

18 Unfortunately, other charges concerning
19 political contributions and unsubstantiated
20 billing by Gulf vendors, as documented in the
21 plea agreement between Gulf Power Company and
22 the United States Government, have proven to be
23 true. For a variety of reasons, these
24 improprieties were only relatively recently
25 substantiated.

1 Q. Should Gulf's management have been aware
2 earlier of the improper activities described in
3 the plea agreement and Government's Statement
4 of Facts?

5 A. It is difficult to say what more could have
6 been done under the circumstances to uncover
7 the illegal and unauthorized acts of Gulf's
8 former Senior Vice President and those who
9 acted at his direction. This Vice President,
10 Jake Horton, was a well-respected and
11 influential man in the Pensacola community. He
12 was able to accomplish a great deal of good for
13 the citizens of Northwest Florida. One does
14 not ordinarily suspect such a man of illegal or
15 unethical conduct. It was not until September
16 of 1988 that I became aware of the details of
17 the ledger kept by the Appleyard Agency
18 documenting questionable expenditures made and
19 billed back to the Company. I immediately
20 instructed our internal auditors to begin a
21 comprehensive review of all of the Company's
22 accounts with advertising vendors. It was this
23 internal audit and subsequent investigations by
24 the Internal Audit Committee of the Board which
25 indicated that Mr. Horton had circumvented

1 Company policies and procedures by authorizing
2 political and other contributions by vendors to
3 be billed back to the Company. The
4 Government's Statement of Facts documents the
5 thorough investigation conducted by Gulf's
6 internal auditors into this matter and reflects
7 that the activities of Mr. Horton and others
8 were unauthorized by the Company. Since Gulf
9 Power does not have the subpoena power
10 available to the United States Government
11 agencies, certain of the illegal acts were
12 unknown to the Company until settlement
13 discussions were begun with the United States
14 Attorney's office.

15
16 Q. What steps has the Company taken to ensure that
17 these abuses do not occur in the future?

18 A. The Company has taken many specific steps to
19 ensure, within reason, that future abuses do
20 not occur. Management structure has been
21 reorganized to better divide responsibilities
22 and authority. Specific guidelines have been
23 published which strictly define the acceptable
24 use of outside firms providing professional
25 services to the Company. Purchasing and

1 invoice approval policies have been scrutinized
2 and, where appropriate, strengthened. Each and
3 every vendor and contractor doing business with
4 Gulf has been clearly advised that they are not
5 expected or required in any way to make
6 political or charitable contributions as a
7 condition of doing business with Gulf Power.
8 In addition, we have adopted a comprehensive
9 employee ethics program to ensure integrity
10 throughout the Company. All employees are
11 required to read, sign, and adhere to a Code of
12 Ethics which has been described as one of the
13 most rigorous in the corporate marketplace.
14 Violations of the Code of Ethics result in
15 disciplinary action up to and including
16 dismissal. Our ethics awareness program
17 provides ongoing guidance to all employees,
18 from top management to the newest hire. The
19 institution of a confidential Employee Concerns
20 Program which reports directly to me enhances
21 our ability to ensure that proper business
22 practices continue to be followed without
23 exception, encouraging all employees to report
24 any activity which appears to them to be
25 illegal or unethical.

1 A summary of certain of the actions we
2 have taken since 1983 to improve security over
3 Company materials and assets is attached as
4 Schedule 1 to my exhibit.

5 Although in our plea agreement we accept
6 the responsibility for the unauthorized actions
7 of a few employees, we do not accept or condone
8 what happened. I am confident that we have
9 taken reasonable and appropriate corrective
10 action both with our employees and in revision
11 of our policies and procedures to prevent
12 anything of this type from happening in the
13 future.

14
15 Q. Mr. McCrary, are there any other comments which
16 you would like to make about the investigation
17 and Gulf's responses to them?

18 A. Enough has probably already been said. It is
19 important to note, however, that it was our
20 actions, beginning in 1983, which precipitated
21 all the external investigations which occurred
22 subsequently. In other words, we have
23 attempted to clean up our own house. It was
24 recognition of this by and our cooperation with
25 the federal authorities which enabled us to

1 achieve a favorable plea agreement. While we
2 are perhaps justifiably criticized for having
3 failed to prevent these things from occurring,
4 we have taken those steps necessary to
5 disassociate those responsible and assure that
6 they do not reoccur. Again, the focus of
7 Gulf's request for rate relief should not be on
8 the actions of the past, but on the actions
9 taken for the future and on Gulf's need for
10 rate relief.

11
12 Q. Mr. McCrary, what is the amount of rate relief
13 the Company is requesting in this docket?

14 A. The Company is requesting retail rate relief
15 totaling \$26.3 million. The testimony of Mr.
16 Scarbrough and others discuss the
17 appropriateness of this amount. Mr. Haskins'
18 testimony discusses the appropriateness of the
19 allocation of these revenue requirements on the
20 basis of the Company's cost to provide service
21 to the various customer groups. Our panel of
22 witnesses present testimony demonstrating that
23 the operation and maintenance expense level we
24 are requesting is necessary to continue to
25 provide the quality of service that our

1 customers expect and deserve. These witnesses
2 also present testimony describing the
3 investment that has been made in facilities
4 used in providing this service to our
5 customers. Their testimony demonstrates that
6 this investment has been appropriately made in
7 response to our obligation to provide service.
8 Finally, our witnesses will present testimony
9 supporting the return that must be earned on
10 this investment if we are to be competitive in
11 attracting additional capital so that our
12 future service obligations can be met.

13 Certainly, no one likes to go through the
14 agony and turmoil that accompanies a request
15 for an increase in rates, least of all myself.
16 But, as you will see from the testimony
17 presented, this request is necessary given the
18 financial condition in which we find ourselves.
19 Gulf does not operate in a vacuum. We have
20 been impacted by the forces of inflation and
21 regulation in the five years since our last
22 increase. We should not be penalized and
23 constrained financially, or our ability to meet
24 usual financial obligations or attract sources
25 of capital will be eroded. Clearly our

1 obligation is to provide efficient and adequate
2 electric service to the citizens of Northwest
3 Florida, and to do that we must be afforded the
4 opportunity to collect these additional
5 revenues.

6
7 Q. Please describe the principal reason for
8 requesting rate relief at this time.

9 A. The principal reason for our need for rate
10 relief is the need to earn an adequate return
11 on the additional investment associated with
12 power generation resources, specifically Plant
13 Daniel and Plant Scherer, and the associated
14 operating and maintenance expenses.

15 Mr. Scarbrough presents in graphic detail the
16 revenue requirement impact which the additional
17 capacity is having on our need for rate relief.
18 Very simply, as both Mr. Parsons and Mr.
19 Scarbrough state in their testimony, a utility
20 the size of Gulf cannot add over 500 mw of
21 capacity without an increase in rates to
22 support the investment.

23 These power plants and their corresponding
24 investment were discussed at length during our
25 1984 rate case. As we indicated at that time,

1 1989 was projected as the year these facilities
2 are needed to meet our retail load growth. Mr.
3 Parsons discusses this at length in his
4 testimony. As he also discusses, this capacity
5 is being made available to our retail customers
6 at bargain prices relative to what additional
7 capacity is currently costing other utilities.
8 Specifically, the Plant Daniel capacity
9 represents a current investment level of only
10 \$265 per kilowatt and Plant Scherer is only
11 \$760 per kilowatt. This compares to the
12 construction of new capacity with an initial
13 in-service date of 1990 at an estimated cost
14 of \$1120 per kilowatt.

15 In spite of the relatively low cost of
16 this additional capacity, it certainly requires
17 revenue support; and hence, we must have an
18 increase in retail rates. Fortunately, this
19 small increase will not be the "rate shock"
20 that other utilities adding capacity have
21 experienced. This price performance of our
22 Company provides a value and quality of service
23 that our customers appreciate when they compare
24 our prices with the prices faced by consumers
25 by other utilities throughout the nation.

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Q. Have operation and maintenance expenses contributed to your need for rate relief?

A. Yes, they have. The Company has incurred significant increases in operating and maintenance expenses, primarily due to inflation and customer growth. As other witnesses describe in detail, our operation and maintenance expense level is above the Commission's benchmark calculation. In accordance with the Commission's admonition in 1984, we have not attempted to defer or delay any necessary maintenance activities because of revenue deficiencies. As the needs in power plant maintenance, research and development have increased, we have responded by spending the necessary funds to meet those needs. These efforts have resulted in tangible benefits, with the power production area being a prime example. We have improved our heat rate from 10,909 btus per kwh in 1980 to 10,636 btus per kwh by the end of September 1989, resulting in \$67 million in fuel cost savings to our customers since 1980. Additionally, these maintenance efforts have increased our demonstrated net system peak hour generating

1 capability by 74.9 mw over the last nine years.
2 At today's cost for an avoided coal unit, this
3 additional capacity represents an added value
4 of \$84 million.

5
6 Q. What are some of the reasons why Gulf Power has
7 been able to operate since 1984 without an
8 increase in base rates?

9 A. We recognized the need for rate relief in 1989.
10 However, as I discussed earlier in my
11 testimony, we withdrew our request for rate
12 relief until the Federal Grand Jury
13 investigation was concluded. Several external
14 and internal factors made it possible to delay
15 the need for rate relief until 1989, and these
16 factors are fully discussed by other witnesses.
17 In addition to the obvious impact of the
18 corporate income tax rate change and retail
19 sales growth, the capital markets stabilized
20 substantially from 1984 through 1989.
21 Consequently, the cost of capital is somewhat
22 lower now than it was in 1984 and that has been
23 reflected in our filing.

24 Internally, all areas of Gulf Power
25 Company have been devoted to preventing having

1 to ask this Commission for an increase in our
2 rates. We have worked hard at effectively
3 marketing our base generating plant resources
4 through off-system sales, economic development
5 activities, supplemental energy sales and other
6 end use and demand side load management
7 programs.

8 We have also diligently worked over these
9 years to increase the efficiency of our
10 workforce. As Mr. Howell, Mr. Lee and Mr.
11 Jordan discuss in their testimony, we have
12 instituted productivity enhancement and
13 efficiency measurement programs to ensure that
14 both our people and our equipment are working
15 efficiently and effectively. A significant
16 portion of our workforce is now included in
17 quantitative productivity measurement programs.
18 As shown in Mr. Scarbrough's Schedule 10, our
19 operation and maintenance expense level has
20 consistently been below the Southeastern
21 Electric Exchange average; and we are making
22 every effort to continue that tradition.
23 Additionally, we have increased our generating
24 unit equivalent availability from a low of
25 83.7 percent in 1985 to 88.7 percent

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year-to-date October 1989. We continue to monitor and measure statistics such as these to ensure that we are maintaining a competitive posture within our industry.

Q. Are you convinced that this rate increase is necessary to provide the long-term quality of electric service that your customers expect and deserve?

A. Yes, I am. Our 1990 rate base represents appropriate investments in the facilities necessary to provide reliable electric service, and our level of operation and maintenance expenses is that which is also necessary to properly operate and maintain these facilities and our utility business. To continue providing this service into the future, our investors are entitled to a fair return on their investment. Without this fair return, we cannot expect to attract the capital necessary to meet the needs of our customers at reasonable rates. Unfortunately, this combination of needs now requires an increase in our retail rates.

As I have already pointed out, however,

1 and as shown on my Schedule 2, our current
2 rates are among the lowest in the country, and
3 even with this increase in our residential
4 rates, they will continue to remain in this
5 position. Additionally, as indicated in
6 Schedule 3 of my exhibit, the total bill to our
7 typical residential customer will still be
8 lower than it was in December of 1984, the time
9 of our last general rate increase.

10 As this Commission knows, one of the
11 principal reasons why our customers have
12 experienced a reduction in their electric
13 service rates over the last several years has
14 been our ability to substantially reduce our
15 fuel costs. We have accomplished this through
16 innovative negotiations resulting in coal
17 contracts which have been reviewed by this
18 Commission as part of our regular fuel cost
19 proceedings.

20 I am proud of the economies we have
21 accomplished over the last several years and of
22 our success in keeping our rates stable. Our
23 ability to be competitive and effectively
24 control our costs has provided our residential
25 customers with more disposable income and

1 allowed our industrial customers to be more
2 competitive in today's international
3 marketplace. We can only continue to be a
4 viable and positive influence in the long term
5 if we are allowed adequate earnings on
6 necessary investments in electrical service
7 facilities that are efficiently operated and
8 maintained. Our tradition of reliable service
9 must continue, and we must be granted this
10 modest increase for it to do so.

11
12 Q There are some who have criticized the Company
13 for requesting rate relief so quickly after
14 having entered into the plea agreement with the
15 United States Government. Would you please
16 comment on this?

17 A. First, I want to say that we certainly do not
18 enjoy going through the ordeal of asking for an
19 increase in our rates at any time. The events
20 of the past few months have made the situation
21 all the more difficult, but they, in fact, have
22 no impact on the Company's need for rate
23 relief. The Company's financial situation is
24 such that we have no alternative. Our last
25 request for rate relief was necessarily

1 withdrawn because of the pending Grand Jury
2 investigation; however, the financial factors
3 which necessitated that request remain
4 constant, and in fact the Company's financial
5 position has continued to deteriorate. Now
6 that Gulf has successfully put the ordeal of
7 the investigation behind it by negotiating the
8 plea agreement, we have no choice but to return
9 to this Commission for rate relief.

10 Maintaining the delicate balance between
11 pricing our product attractively for our
12 customers while earning a competitive return
13 for our stockholders is difficult. Despite our
14 best efforts to avoid filing this case, the
15 addition of the large increment of the Daniel
16 and Scherer capacity makes this filing
17 mandatory. I want to emphasize that I believe
18 our ability to provide quality, reliable
19 service to our customers over the years, while
20 maintaining among the lowest rates in the state
21 and nation, is an excellent indicator of the
22 character and dedication of Gulf employees.
23 With the modest increase in rates requested in
24 this case, we will still continue to succeed in
25 delivering low cost, reliable electric service

1 to our customers.

2 I also want to reemphasize the fact that
3 we have thoroughly reviewed our filing to
4 remove any impact that the illegal acts to
5 which we have pleaded will have on our future
6 rates. We continue to assess any past affect
7 on our ratepayers from the Company having made
8 political or other contributions, through
9 inflated invoices. Our careful review of the
10 situation should indicate whether our
11 ratepayers bore any of these costs. In the
12 event that we discover any portion of the money
13 in question was paid by our customers, we will
14 make appropriate refunds to them.

15 Before concluding my testimony, I want to
16 commend the dedicated employees of the Company
17 who never wavered in their commitment to our
18 customers during one of the most difficult
19 periods in the Company's 63 years of service to
20 Northwest Florida. It is a shame that the
21 deeds of a few cast a shadow of doubt upon the
22 honesty and integrity of the other 1600
23 employees. I sincerely hope that this
24 Commission will consider the very fine
25 accomplishments of the Company over many years

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and allow us to move forward.

Q. Does this conclude your testimony?

A. Yes, it does.

AFFIDAVIT

STATE OF FLORIDA)

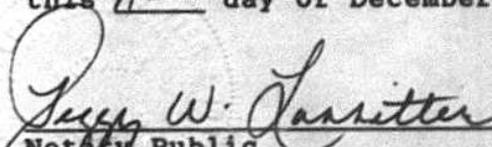
COUNTY OF ESCAMBIA)

Before me the undersigned authority personally appeared D. L. McCrary, who first being duly sworn, says that he is the witness named in the testimony to which the Affidavit is attached; that he prepared said testimony and any exhibits included therein on behalf of Gulf Power Company in support of its petition for an increase in rates and charges in Florida Public Service Commission Docket No. 891345-EI; and that the matters and things set forth herein are true to the best of his knowledge and belief.

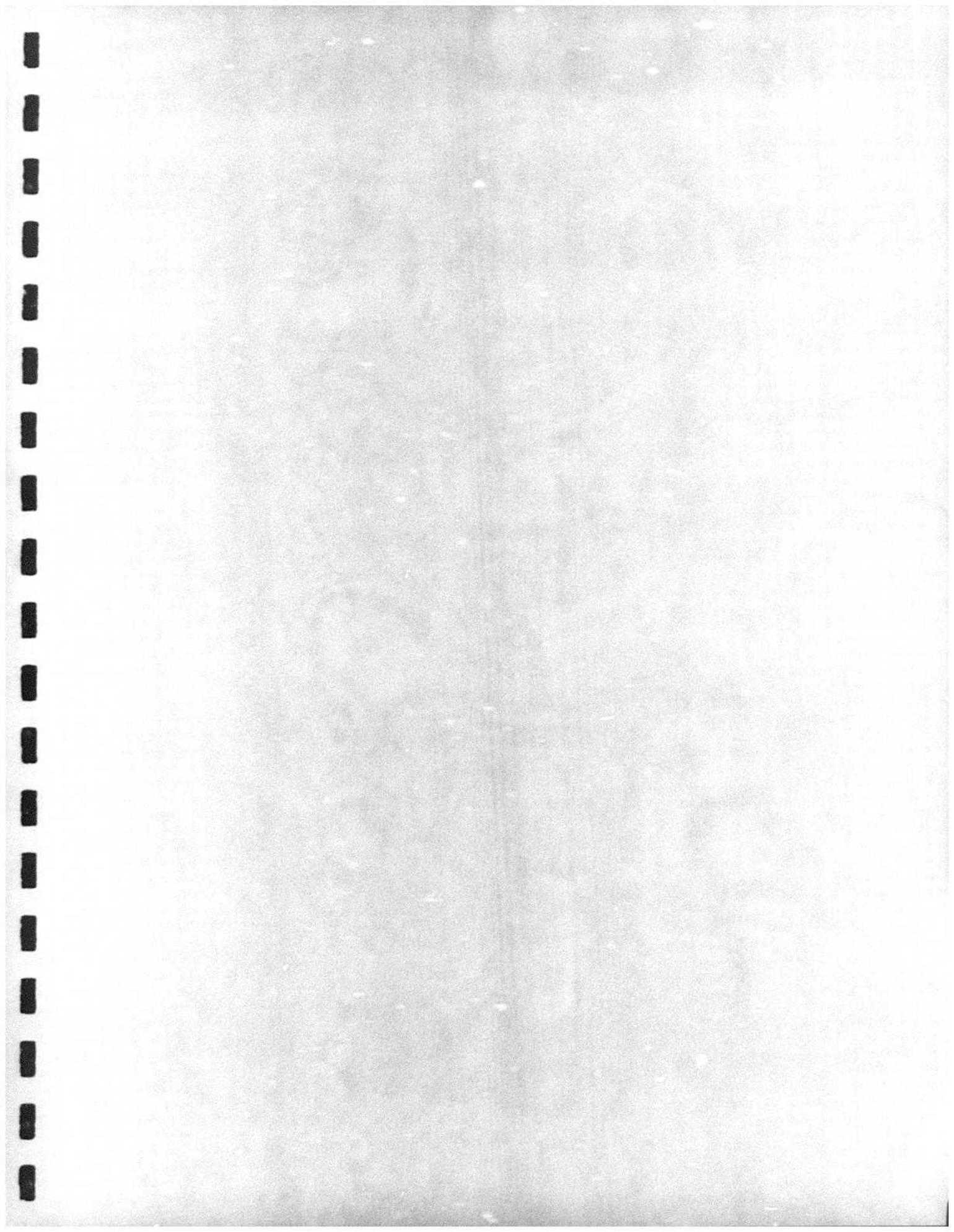
Dated at Pensacola, Florida this 11th of December, 1989.


D. L. McCrary

Sworn to and subscribed before me
this 11th day of December, 1989.


Notary Public

Notary Public, State of Florida
My Commission Expires March 23, 1991
Bonded The Terry Firm - Insurance Inc.



GULF POWER COMPANY

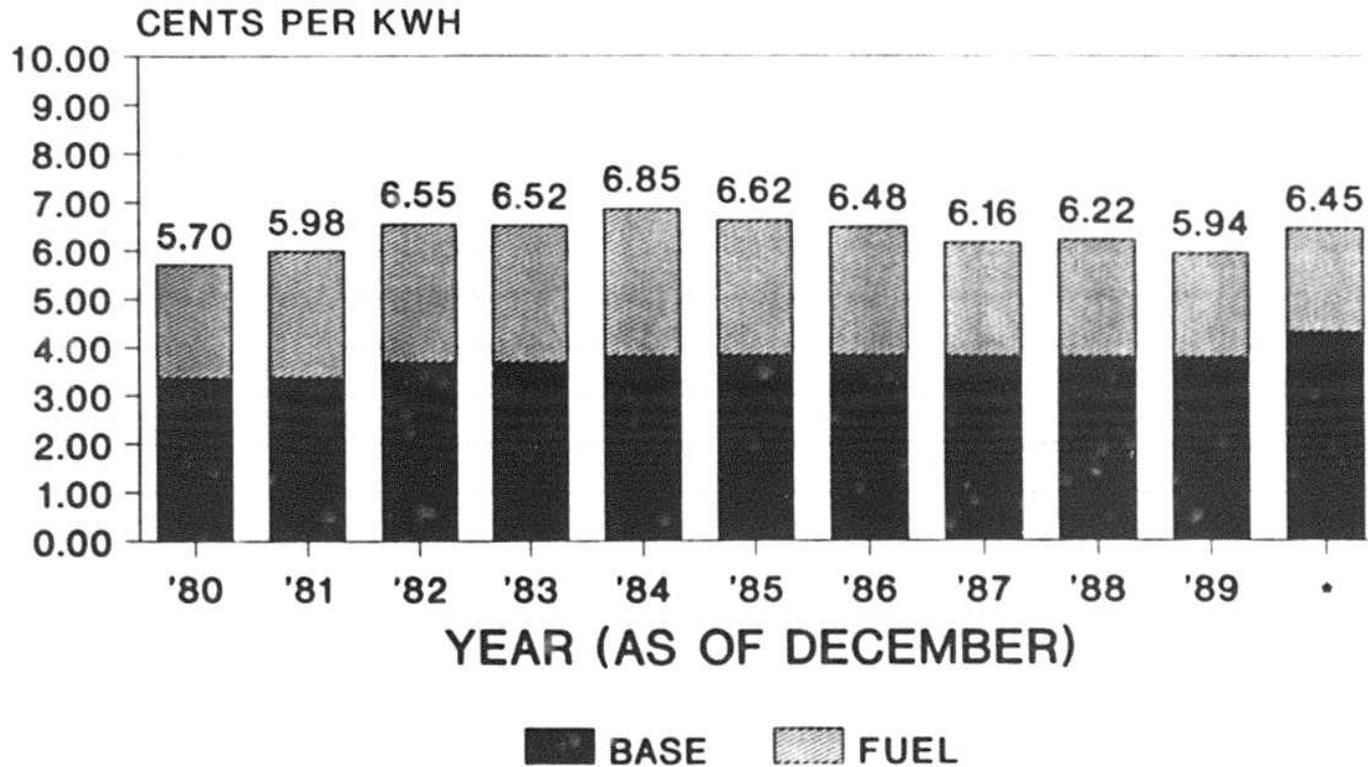
**SUMMARY OF CERTAIN ACTIONS TAKEN AT VARIOUS TIMES SINCE 1983
TO IMPROVE SECURITY OVER COMPANY MATERIALS AND ASSETS**

- Established a Company Code of Ethics, which all employees are required to sign, resulting in increased awareness of ethical behavior.
- Management procedures have been reviewed and enhanced to strengthen controls over Purchasing and reviewing functions.
- Blanket purchase orders were reviewed and extensively reduced.
- The Automated Purchasing System was implemented. This system provides extensive inquiry and monitoring capability for both Purchasing and user department management and personnel.
- The Purchasing staff has been encouraged and supported in participation in professional organizations which resulted in professional certification, enhanced professional ethics and exposure to purchasing law.
- More employees were required to sign the Conflict of Interest Statement.
- The employee selection process ensures qualified candidates.
- Implemented a drug testing policy.
- All items at the General Warehouse have been identified, marked, and stored in warehouse bins.
- Implementation of the Copics Inventory Controls System has provided extensive inquiry and material tracking capabilities Company-wide.
- Segregation of duties and job rotation was initiated at the General Warehouse.
- Warehouse employees are no longer allowed to purchase inventory.
- Transformers are included in Copics inventory. Copics inventory items are monitored, and periodically cycle counted to verify Copics balances.

- Access to Company facilities is restricted through the card key system.
- An increased emphasis has been placed on inventory accuracy and turn-over rates in performance plans for key management personnel responsible for warehousing functions.
- An Inventory Control Action Committee was established to monitor and make recommendations regarding inventory control activities.
- Inventory control performance reports are provided to key management personnel on a regular basis in order to identify potential problem areas.
- Increased physical security at the General Warehouse including the following:
 1. Electronic surveillance equipment was installed.
 2. The entrance and exit has been restricted to one guarded access gate.
 3. Unauthorized personnel (customers, truck drivers, etc.) are restricted from direct access to the warehouse facility.
 4. The warehouse perimeter has been cleared to improve visibility.
 5. Security grills have been installed in the merchandise holding areas.
 6. Seals are used to detect tampering on contract delivery trucks.
- Access to gasoline pumps are restricted through the use of an electronic/key access system.
- Considerable training and support has been provided to Company employees who utilize the Automated Inventory Control and Purchasing Systems.
- An Investment Recovery Section was established (independent of warehousing) to dispose of or refurbish obsolete, surplus, and scrap materials and equipment.
- Developed procedures to be used Company-wide to segregate and provide controls for investment recovery functions.

- Revisions of policies and procedures governing professional services and other procurement activities.
- A re-emphasis of the crucial importance of the Code of Ethics by the Audit Committee and The Board of Directors.
- Established two task forces, one to study and recommend to the Audit Committee an employee awareness program of the importance of the Code of Ethics, and a similar but separate one to recommend to the Audit Committee a policy and procedure by which employees may disclose to appropriate officials of the Company perceived wrongdoing without fear of retribution. These task forces resulted in the establishment of the Employee Concerns Committee and the Employee Awareness Committee, with ongoing responsibilities.
- Internal Auditing responsibilities have been redefined in order to enhance existing mechanisms for carrying out audit work at the Operating Companies and reporting the results of that work to the audit committees of Gulf Power Company and The Southern Company. In addition, the Southern Electric System independently assesses the internal audit process at each subsidiary company, including Gulf Power Company, in order to insure that the work continues to be performed in a competent, objective fashion and that the findings as a result of the audit work are properly responded to by management.
- Gulf's political action committee, "Responsible Government Committee of Gulf Employees, Inc.", or "PAC I", is and always has been a totally voluntary PAC which is organized in compliance with state and federal laws and regulations. "PAC II" was never a formalized structure, but represented the name given to the activities of Company personnel who collected and made personal political contributions to candidates of their own choice. PAC II has been discontinued since October 1988.

RS RATE TYPICAL BILL HISTORY

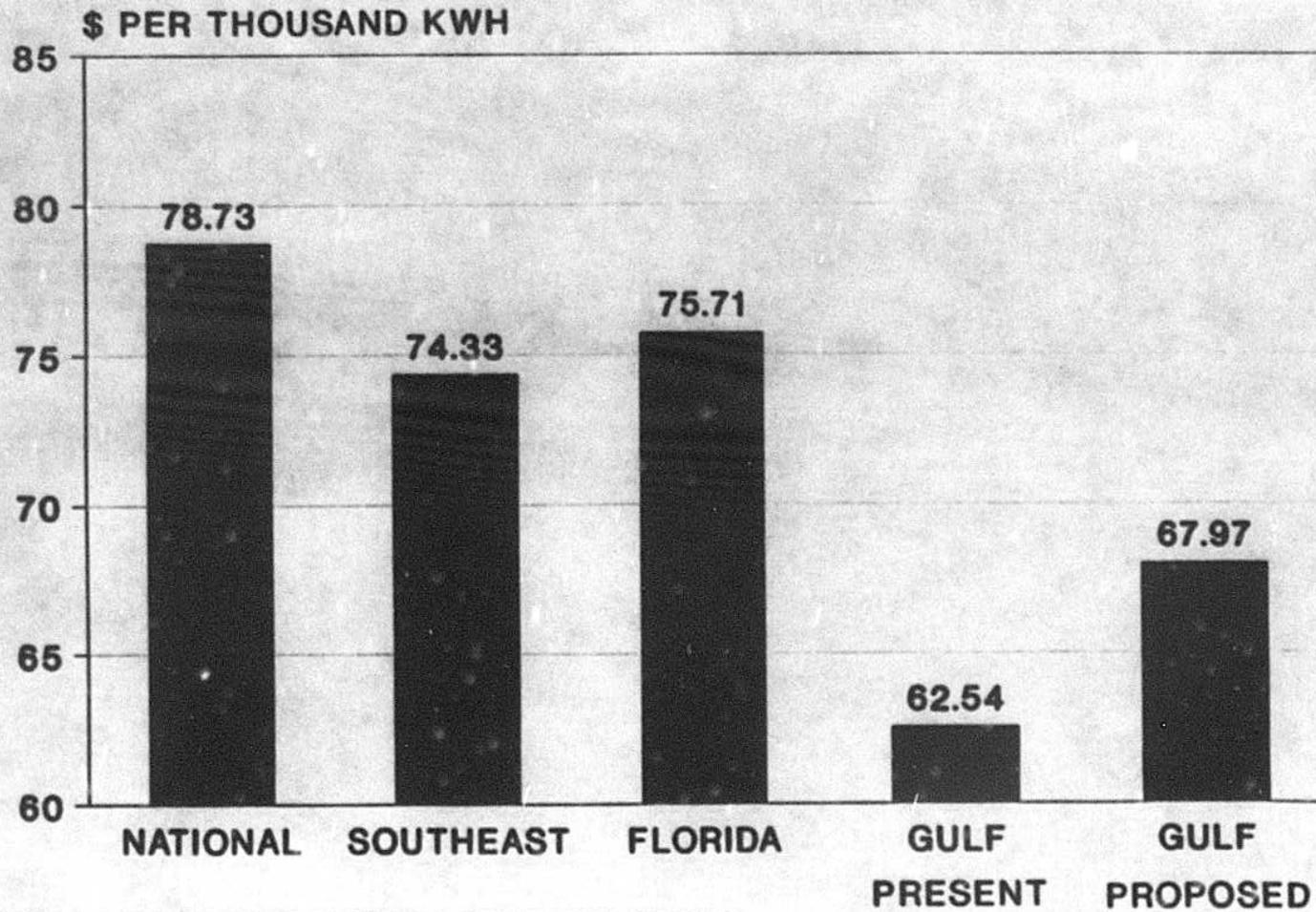


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• DECEMBER 1989 PLUS REQUESTED INCREASE

Florida Public Service Commission
 Docket No. 891345-EI
 GULF POWER COMPANY
 Witness: McCreary
 Exhibit No. (DLM-1)
 Schedule No. 2
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RESIDENTIAL RATE COMPARISON NOVEMBER, 1989



SOURCE: JACKSONVILLE ELECTRIC AUTHORITY SURVEY

Florida Public Service Commission
Docket No. 891345-EI
GULF POWER COMPANY
Witness: McCrady
Exhibit No. (DLM-1)
Schedule No. 3
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