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BEFORE THE

FLORIDA PUBLIC SERVICE COMMISSION

DOCKET NO 891345-EI

TESTIMONY AND EXHIBITS
OF
A. E. SCARBROUGH

Gulf Power

GULF POWER COMPANY

Before the Florida Public Service Commission
Direct Testimony of
Arlan E. Scarbrough
In Support of Rate Relief
Docket No. 891345-EI
Date of Filing December 15, 1989

Q. Please state your name, business address and occupation.

A. My name is Arlan E. Scarbrough. My business address is 500 Bayfront Parkway, Pensacola, Florida 32501. I am Vice President - Finance of Gulf Power Company.

Q. Please outline your educational background and business experience.

A. I graduated from the University of Southern Mississippi in 1958 with a Bachelor of Science degree in Accounting. Following graduation from college, I attended Officer Candidate School and was commissioned in the United States Marine Corps. While serving in the Marine Corps, I graduated from East Carolina University in 1962 with a Master's degree in Business Administration.

Following my discharge from active duty in 1962, I was employed by Mississippi Power Company (an operating subsidiary of The Southern Company, as is Gulf Power Company) in the Accounting Department and held various positions in the department until June 1968, when I was elected Assistant Secretary and Assistant Treasurer of Mississippi Power Company. In this position, my primary function was responsibility for all accounting activities. I continued to serve in that capacity until October 1976, when I was elected Comptroller, with similar responsibilities. In October 1977, I accepted the position of Vice President and Comptroller and Chief Financial Officer of Gulf Power Company, and in April 1980, was appointed to the position of Vice President - Finance, with similar responsibilities.

Q. What professional license do you hold in the field of Accounting?

A. I am a licensed Certified Public Accountant and a member of the American Institute of Certified Public Accountants and Florida Institute of Certified Public Accountants.

Q. Will you briefly describe your duties as Vice President - Finance of Gulf Power Company?

A. I am the Chief Financial Officer with responsibility for all accounting, financial, corporate records, corporate planning, rates, and internal auditing and security activities of the Company. I also serve as Chairman of the Budget Committee.

Q. What is the purpose of your testimony?

A. The purpose of my testimony is to explain the need for immediate rate relief and to discuss the rate relief requested based on the 1990 test year approved by this Commission. I will describe my role in the budgeting process and the particular areas of the budget that I am supporting in these proceedings. I will discuss specific areas of the 1990 Operation and Maintenance expense (O & M) budget and provide justifications for variations from the benchmark in those areas.

Q. Have you prepared an exhibit that contains information to which you will refer in your testimony?

A. Yes.

Counsel: We ask that Mr. Scarbrough's Exhibit, comprised of 13 Schedules, be marked for identification as Exhibit ___ (AES-1).

Q. Are you the sponsor of certain Minimum Filing

Requirements (MFRs)?

A. Yes, these are listed on Schedule 13 at the end of my exhibit. To the best of my knowledge, the information in these MFRs is true and correct.

Q. Were all of the schedules in this exhibit prepared under your direction and supervision?

A. Yes.

Q. What is the source of the figures shown in these schedules?

A. The actual data presented on the schedules were prepared from the books and records of the Company. Gulf Power Company maintains its books and records in accordance with generally accepted accounting principles and the rules and regulations prescribed for public utilities in the Uniform System of Accounts published by the Federal Energy Regulatory Commission (FERC), and adopted by the Florida Public Service Commission (FPSC). Our books and records are audited by Arthur Andersen & Co., independent public accountants, and a copy of their latest audit opinion, for the year ending 1988, is included in the Company's 1988 Annual Report to Stockholders which is filed as MFR F-1 in this case.

Our books and records are also audited by the FERC and this Commission. In addition to the schedules presenting results of operations for 1989 (eight months actual and four months projected), I will also present certain budgeted data for 1990. Mr. D. P. Gilbert, Director of Corporate Planning, will testify about the budgeting process and methodology used in making the projections; Mr. Mark R. Bell of Arthur Andersen & Co. will testify to his review of the budget; and Mr. R. J. McMillan, Supervisor of Financial Planning will testify to the allocations to the Unit Power Sales customers and the calculations of the total retail revenue requirements.

Q. Why is it necessary for the Company to seek rate relief at this time?

A. Gulf last received an increase in retail rates in December 1984, five years ago. Gulf has made capital expenditures of over $385 million from January 1985 through August 1989 and is projected to make over $91 million of expenditures from September 1989 through December 1990. Thus the Company will have expended more than $476 million for plant facilities necessary to serve our customers since our last rate increase. Also, the Company has incurred significant increases in operating and maintenance expenses, primarily due to inflation and customer growth. Offsetting the impact of these increased capital expenditures and O & M expenses, to a significant degree, were benefits derived from extensive cost control efforts, increased Non-Territorial Sales (Unit Power Sales), a declining cost of money, and a decrease in the corporate federal income tax rate from 46 percent to 34 percent. All of these changing factors were concurrently reflected in the monthly surveillance reports that are filed by Gulf with the FPSC. These reports did not indicate a need for a significant adjustment in Gulf's retail rates until 1989.

The major factor triggering the Company's immediate need for rate relief is that all 515 megawatts of Gulf's portion of the Plant Daniel capacity and 63 megawatts (mw) of Gulf's ownership in the Plant Scherer capacity is now committed for territorial service. As shown in Mr. Parson's testimony and Schedule 9 of his exhibit, which I am jointly sponsoring, up until February 1989, the vast majority of this capacity was supported by our Unit Power Sales (non-territorial service) contracts. From June 30, 1988 to February 1, 1989, over 500 MW of generating capacity was returned to territorial service. The addition of this capacity, combined with the normal increases in capital expenditures and O & M expenses, created a significant 1989 retail revenue deficiency. This was not a surprise to Gulf Power Company. Since our last retail rate increase in 1984, our long-range financial forecasts have indicated a need for a substantial increase in retail revenues in 1989. Nevertheless, our Company has always placed great emphasis on attempting to find ways to avoid filing for rate relief. Despite these efforts, in order to maintain our high quality of service to our customers and a reasonable level of financial integrity, Gulf requested an increase in retail rates of $25.8 million on November 14, 1988. Even though the Company's financial condition continued to deteriorate as forecasted, Gulf withdrew its request for rate relief on June 9, 1989, because of the difficulties encountered in conducting a rate case during a Grand Jury investigation. At that time, the Company told the Commission we would file another case when the situation was resolved. As stated by Mr. McCrary, the investigation by the Grand Jury as it relates to Gulf Power was resolved on October 31, 1989. As anticipated, Gulf's earnings have continued to deteriorate to a seriously unreasonable level. Consequently, we are requesting a $26.3 million or a 6.21 percent increase in our retail revenues.

Q. Have you made a comparison of Gulf's retail cost to that of other companies?

A. Yes. I have compared Gulf's annual average retail revenue per kilowatthour sold to those of 25 other southeastern electric utilities for 1988. My Schedule 11, page 1, shows Gulf in the lowest quartile of this comparison group, with only three companies that had lower costs than Gulf Power Company.

Q. Would Gulf still have compared favorably if the $26.3 million rate relief requested in this case had been granted to Gulf in 1988?

A. Yes. As shown on my Schedule 11, page 2, Gulf's retail revenue per kilowatthour sold would have remained in the lowest quartile of the comparison group.

Q. Your projections indicate that in 1990 Gulf's earnings, without rate relief, will be less than its

annual common stock dividend requirement. What are the implications of this weak financial projection for the Company and its customers?

A. Common stockholders provide a significant portion of the capital needed to construct our generation, transmission and distribution facilities. In exchange, they expect, and they deserve, a fair return on their investment, and a large part of this return is in the form of dividends.

For an ongoing business, earnings are the ultimate source of dividend payments. On a short-term basis, the Company could meet its dividend obligation with cash flow from depreciation and other non-cash expenses, or from borrowings. But beyond the short term, a growing company like Gulf Power must earn at a level in excess of its dividend. It is not likely that additional equity capital would be available to a company earning only enough to cover its current dividend. Failure to meet the dividend obligation would adversely impact both the Company and its customers.

The evidence is clear with respect to the market's reaction to reduced or omitted dividends by utility companies. The immediate decline in stock price is only part of the overall reaction. The greater concern is the impact on the Company's ability to access the markets for additional common equity capital in the future. The inability of the Company to obtain additional equity capital on reasonable terms could restrict growth or result in increased leverage which would only exacerbate a deteriorating financial situation.

Gulf, as you know, obtains its equity from the Southern Company, but the above impact would be no less direct because Gulf is responsible for its share of Southern's dividend. Gulf's share is determined based on the amount of its equity as a percent of the total Southern system equity.

Q. Without rate relief, would your security ratings be put in jeopardy?

A. Yes. In a recent report on Gulf Power, Schedule 12 of my exhibit, the Standard & Poor's rating agency affirmed the single "A" rating of Gulf Power Company's First Mortgage Bonds and preferred stock. This report referenced Gulf's "aggressive" debt leverage and its need for rate relief. The report concluded with a "Negative outlook" that stated, "if needed rate relief is not forthcoming, financial protection measures could fall to levels below those commensurate with the current rating."

Therefore, we conclude that without rate relief our bond and preferred stock ratings would likely be downgraded. This, of course, would increase our cost of capital and possibly restrict, to some degree, our access to the capital markets.

Q. **Mr. Scarbrough, what are the projected earnings of Gulf Power Company for 1990 with present retail rates.**

A. With present rates, the adjusted jurisdictional return on average rate base is projected to be 6.60 percent for 1990. This provides a return on the average common equity (risk capital) component of 7.52 percent, which is significantly below the 13.00 percent determined by Dr. Morin to be appropriate for Gulf Power Company.

Q. **Mr. Scarbrough, what areas of the financial budget are you testifying to in these proceedings?**

A. As Vice President - Finance and as Budget Committee Chairman, I have overall responsibility for the entire budgeting process. In these proceedings, however, the budget areas I am supporting will be confined to the Customer Accounts function and the

Administrative and General area of Operation and Maintenance (O & M) expenses, and to taxes, interest rate assumptions, dividends, capital contributions from The Southern Company and other financings.

Q. Mr. Scarbrough, earlier you made reference to resolution of the Grand Jury investigation. I believe at least some of what occurred was as a result of the circumvention of internal controls by those involved. Have you made any changes to your Management Procedures that provide additional guidelines for internal controls?

A. Yes. Several accounting and purchasing Management Procedures have been revised. Because of the increased amount of transactions and the problems which were focused during the investigation primarily on the use of professional services throughout the Company, we decided to include them in the purchase requisition process to provide additional assurance that the Company was getting the best possible services for the best price.

In addition, other revisions included changes to approval levels for purchase requisitions, personal expense statements, and executive controlled expenses. Blanket purchase orders were capped for total annual spending limits.

Q. Will the tightening of the internal controls guarantee that the circumvention of controls will not occur in the future?

A. To my knowledge, no cost effective system of internal controls exists which can detect every instance of theft or fraud where collusion exists. I firmly believe that we have carefully reviewed our controls and made those changes reasonable to deter the reoccurrence of this type activity. The best internal controls are honest and ethical employees who recognize the importance of adherence to these controls. As indicated in Mr. McCrary's testimony, a number of other steps have been taken to emphasize the importance of such conduct.

Q. Mr. Scarbrough, has the Company made those adjustments necessary to remove from this rate case any impact of the losses associated with the Grand Jury and internal investigations.

A. Yes, we have. On specific instruction from me, the auditing and accounting personnel have attempted to identify those dollars associated with theft or otherwise involving the circumvention of controls.

Virtually all of these items relate to years prior to 1989 and do not impact the test year. A relatively small amount was capitalized and would, therefore, be included in the test year had they not been removed from rate base as detailed in Mr. McMillan's testimony. In addition, $615,000 budgeted for legal fees in connection with the investigation was removed from O & M expenses in this case.

Q. Would you please explain your involvement in the O & M expense budget process?

A. As Budget Committee Chairman, I administer the budget process and participate in the review and approval of the O & M budget.

Q. What is the most appropriate comparison which can be made to determine the reasonableness of the 1990 O & M expense budget?

A. Before I respond, let me first say that I am fully aware of the Commission's directive to present a "benchmark" comparison using the level of O & M expenses approved in the last case. In Gulf's case, the base amount is the level of O & M approved in our last completed rate case, Docket No. 840086-EI, Order No. 14030. We have done this and, I believe, have fully justified the variances between the 1984 base year and the 1990 test year.

However, you have asked me to address the most appropriate method of measuring the reasonableness of requested O & M expense levels. I feel very strongly that the most appropriate and most realistic method is to examine the reasonableness of the prior year expenditures. One can then compare the amount requested in the test year with the prior year.

In this case, the most appropriate test of the reasonableness of the 1990 O & M budget is to examine the reasonableness of 1989 O & M expenses and compare them with 1990 and review the explanations for the increase. In 1989, we have spent at the level necessary to provide adequate and reliable electric service to our customers. An examination of 1989 expenses and the comparison of 1989 to 1990 is the best measure of the reasonableness of our 1990 O & M budget.

Q. Have you made such a comparison?

A. Yes, I have. I will present the 1990 O & M expenses, exclusive of fuel and purchased power, and summarize the explanations for the changes in O & M expenses from 1989 (8 months actual and 4 months projected) to

1990. Those explanations are provided on Schedule 1.

In addition, I am prepared to address the specific explanations for the variances related to Customer Accounting and Administrative and General expenses which are also shown on Schedule 1, page 2. Mr. Lee, Director of Power Generation, is responsible for O & M expenses related to Production. Mr. Howell, Manager of Transmission and System Control, is responsible for O & M expenses related to Transmission. Mr. Jordan, Director of Power Delivery, is responsible for O & M expenses related to Distribution. Mr. Bowers, Director of Marketing & Load Management, is responsible for O & M expenses related to Customer Service and Information and Sales.

In addition to the Schedule 1 analysis, Schedule 2 compares 1989 O & M expenses, escalated by inflation and customer growth (benchmark analysis) to the 1990 budgeted O & M expenses. The 1990 budgeted O & M expenses are $126.9 million, which is $5.9 million or 4.4 percent less than the escalated 1989 expenses.

Q. Mr. Scarbrough, earlier you indicated that you would present testimony relating to the benchmark comparison used by the Commission to measure the

appropriateness of increases in O & M expenses. Do you believe use of the benchmark is an appropriate tool for testing the reasonableness of O & M expenses?

A. As long as it is truly used as an analytical tool as the Commission intended, use of the benchmark may be appropriate.

If the benchmark procedure requires that those expenses in excess of the benchmark undergo a more rigid analysis and justification by the Company before they are approved by the FPSC then I think the technique is appropriate. However, the benchmark methodology, as interpreted by some, assumes that customer growth (except for production) and inflation as measured by the Consumer Price Index (CPI), will adequately cover increases in O & M expenses from whatever baseline year is used to the test year. We know this is the exception rather than the rule. A multitude of O & M increases in the utility industry are totally unrelated to either customer growth or inflation. These may take the form of new programs or increases associated with conforming to newly adopted laws or regulations. Moreover, the CPI is a measure of increases in the cost of a multitude of consumer items, only a few of which are directly related to the utility industry. The increases in utility related expenses may far exceed those associated with general increases in consumer products across the country.

The biggest fallacy which we see associated with use of the benchmark is the growing tendency of some to advocate its use as an absolute or, at the very least, a strong presumption that if a utility is over the benchmark, the overage should be disallowed. Arbitrary application and the absence of any clear guidelines for determining what constitutes a valid justification of an overage leaves the utilities in this state justifiably apprehensive over the use of the benchmark methodology. Finally, unless the baseline year is representative of O & M expenses required to be expended by the utility to maintain a high quality level of service to its customers, application of the benchmark methodology will render results which are unfairly skewed.

Q. In Gulf's 1984 rate case, Order No. 14030, issued January 25, 1985, the Commission approved 1984 adjusted O & M expenses (exclusive of fuel, purchased power, and ECCR) totaling $80.2 million. Was this amount representative of a normal level of O & M

expense for 1984?

A. No. My testimony in the 1984 rate case indicated that the level of O & M expenses included in the original filing for that case was the level necessary for the Company to continue normal operations. I also stated that due to the poor return on average common equity which would result if the expenditures were made and inadequate rate relief was received, the Company had deferred certain expenditures such as turbine maintenance, travel, training, and the hiring of new and replacement employees.

We were chastised for deferring expenses in Order No. 14030, and as a result, the Commission reduced the requested level of O & M expenses by $5.7 million. This reduction was determined by annualizing the actual expenditures for 1984 through July which were under the level budgeted and needed for normal operations. The Commission also made several adjustments related to the benchmark justification which further reduced the allowed O & M below the level needed for normal operations by approximately $3.7 million. The total reduction of O & M expenses amounted to $9.4 million.

Q. Have you prepared a comparison of 1990 O & M expenses, exclusive of fuel, purchased power, and ECCR, to a benchmark which uses the O & M allowed in Order No. 14030 as the base year?

A. Yes. The comparison of 1990 O & M expenses to the benchmark has been prepared and is included on Schedule 3. The 1990 O & M budget is $5.2 million over the 1990 benchmark.

As I stated earlier, while the benchmark can be a useful tool in performing an analysis of O & M expenses, the selection of the base year has a significant impact on the results obtained by using the benchmark methodology. The use of a base year that is well below the level of O & M expenses needed for normal operations will result in the need to provide extensive and additional justification for a disproportionately large amount of expenditures when analyzing a normal year.

As I have previously mentioned, the level of O & M expenses allowed in Order No. 14030 was $9.4 million below the level required for normal operations. The variance resulting from the application of the benchmark methodology to the 1984 allowed O & M expenses is larger than would have occurred had a normal level of O & M expenses been used as the base. Gulf does not believe that the use of the 1984 O & M expenses allowed in Order No. 14030 as the base is appropriate. Nevertheless, we have calculated the benchmark in compliance with the Commission's directive using the O & M expenses approved in Order No. 14030, with proper adjustments as I will discuss later in my testimony, as the base and provided the necessary justifications.

Q. Would it be more appropriate to use a base other than the O & M expenses allowed for the 1984 test year in the calculation of the 1990 benchmark?

A. Yes. Commission Order No. 11498, issued on January 11, 1983, allowed $84.4 million for adjusted O & M expenses (exclusive of fuel, purchased power and ECCR), which is $4.2 million higher than the $80.2 million of O & M expenses allowed for the 1984 test year. The use of the 1983 allowed O & M level as a base results in a benchmark of $130.4 million which is $3.5 million <u>greater</u> than the 1990 budgeted O & M expenses as shown on Schedule 4. The effect of the Commission's directive to use the 1984 allowed O & M as the base has required the Company to provide more detailed justification for a greater portion of our 1990 O & M expenditures than would have been necessary had a normal level of O & M been used as the base year, such as the O & M allowed in our 1983 Rate Case, Order No. 11498.

In Order No. 14030, the Commission stated that:

> Gulf's strategy of intentionally not spending what it professes to need has only served to complicate our examination of what its true and legitimate needs are. It is not a strategy that should be repeated or adopted by others.

In each year since 1984 the Company has heeded this Commission admonishment and Gulf has incurred the level of O & M expenses necessary to operate at a normal level. Applying the benchmark methodology to <u>any base year since 1984</u> yields a benchmark that is <u>greater</u> than the budgeted O & M expenses for 1990.

Q. Was the application of the benchmark methodology in Gulf's 1984 rate case properly calculated regarding the jointly owned Plant Daniel generating facilities?

A. No. In Order No. 14030, the benchmark methodology was improperly applied to make two significant adjustments to the O & M expenses related to Gulf's 50 percent ownership in Plant Daniel, which is jointly owned with and operated by Mississippi Power Company (MPC) as Gulf's agent. These adjustments were for transmission line rentals and Gulf's portion of MPC's Administrative and General (A & G) expenses which are incurred solely because of the jointly owned Plant Daniel production facility. The benchmark was calculated by applying the escalation factors to the 1979 base year, which contained O & M expenses for only Gulf owned and operated generating facilities. This benchmark was compared to the 1984 budgeted O & M expenses which included O & M expenses for Gulf operated facilities as well as O & M expenses for the jointly owned production facilities (Plant Daniel) which were operated by Gulf's agent, MPC.

The methodology as applied gave no consideration to the facts that (1) there were not any O & M expenses related to jointly owned facilities in the base year, (2) all O & M expenses for Plant Daniel are production, and (3) all production O & M expenses should be added to the benchmark when the plant is placed in service. The Commission inappropriately disallowed $2.0 million of Plant Daniel Production O & M expenses which Gulf is contractually obligated to pay in order to receive its 50 percent share of the electricity generated at Plant Daniel.

Q. You stated previously that the O & M expenses allowed in Order No. 14030, issued January 25, 1985, were used as the base for calculating the 1990 benchmark. Have you made any adjustments to the allowed O & M in calculating the 1990 Benchmark?

A. Yes. In Order No. 14030, the Commission disallowed expenditures related to the transmission line rentals and the Administrative and General (A & G) expenses for Gulf's 50 percent ownership of Plant Daniel. We have adjusted the 1990 benchmark calculation to reflect the proper treatment of the costs for transmission line rentals and Administrative and General expenses incurred exclusively for Plant Daniel Production facilities.

Q. Please describe the adjustment made in Order No. 14030 related to Plant Daniel transmission line rentals.

A. The Commission excluded $425,000 of expenses for rentals of transmission lines necessary to transmit Gulf's 50 percent share of the Plant Daniel generation from Mississippi to Gulf's service territory. The disallowance was based on the calculation of the benchmark in which Gulf escalated 1979 base year transmission expenses by customer growth and inflation in accordance with benchmark methodology. We then justified the variance between the benchmark and the 1984 budgeted expenses by using transmission line rentals which were not included in the 1979 base. In 1984, this variance amounted to $1.4 million.

The Commission indicated that it was not proper to escalate the base year by customer growth and inflation and then ask for recovery of the line rentals. The Commission stated that "...we find the transmission line rentals to be comparable to new generating plants in purpose and shall disallow that portion of the requested expense that exceeds growth for inflation alone." I agree that transmission line rentals are comparable to new generating plants in purpose and should be treated in a like manner. I disagree with the Commission's position that Gulf's 1984 benchmark should have been reduced by customer growth in order to attain the proper treatment. The disallowance was calculated by determining the customer growth component of the 1984 benchmark, which amounted to $425,000. Schedule 5 shows the calculation of the Commission's adjustment of $425,000 related to transmission line rentals. The transmission line rentals are required in order for Gulf to receive the electricity generated by the new Plant Daniel facility and should be allowed in the same manner as the new capacity. The rentals should be added to the calculated benchmark prior to the determination of the benchmark variance.

Q. Please compare the treatment of transmission line rentals in Order No. 14030 with the proper treatment.

A. Gulf's 1979 expenses in Account 567, Rents, included $6,000; hardly an amount representative of the annual rental of a transmission line. The remaining expenses in the transmission function were for the normal operation and maintenance of Gulf owned transmission facilities for a total of $1,444,000. Gulf escalated the total 1979 expenses by customer growth and inflation and compared this amount to the projected 1984 expenses. The variance was explained primarily by $1,381,000 of transmission line rentals.

The transmission expenses included in 1979 represent the operation and maintenance costs of only Gulf owned transmission facilities. All depreciation expenses associated with those facilities are reflected in Account 403, Depreciation Expense, and the carrying cost of the investment is included in base rates through the rate of return calculation. The use of customer growth and inflation to calculate the benchmark is proper to cover the operation and maintenance costs of any new Gulf owned transmission facilities. However, rentals for transmission lines not only reflect the operation and maintenance costs of the rented facilities but also include depreciation and carrying costs of the owning utility. For that reason, it is not proper to conclude that the benchmark calculated only on the expenses associated with Gulf owned transmission facilities would be sufficient to cover the costs associated with the rental of transmission lines from others.

Schedule 5 contains the calculation of the Commission's adjustment which removed the customer growth component from the 1984 benchmark related to transmission. Also included on Schedule 5 is a 1984 benchmark calculation related to the transmission function which reflects the proper treatment of transmission line rentals. As shown, the proper treatment of transmission line rentals in the 1984 benchmark would have resulted in Gulf's being only $111,000 over the benchmark.

Q. Please describe the treatment of transmission line rentals in the calculation of the 1990 benchmark.

A. Schedule 6 contains a detailed calculation of the 1990 benchmark for transmission expenses. We have treated transmission line rentals in the same manner as we would treat a generating unit in calculating the 1990 benchmark. The transmission expense allowed in Order No. 14030 was divided between transmission line rentals and other transmission expenses. Other transmission expenses were escalated using customer growth and inflation in keeping with the benchmark methodology. In calculating the 1990 benchmark for line rentals, we added the Commission's transmission line rental adjustment of $425,000 as shown on Schedule 5, to the 1984 allowed amount for line rentals to arrive at the proper base. This base was then escalated by inflation only to calculate the 1990 benchmark for transmission line rentals. The total transmission benchmark for 1990 amounts to $7.2 million. The 1990 budgeted transmission expenses total $7.3 million resulting in the transmission function being over the benchmark by $143,000. Justification for this benchmark variance is included in MFR C-57.

Q. How is the inclusion of Plant Daniel transmission line rentals in Gulf's O & M expenses justified?

A. It is obvious that a means of transporting the power from Plant Daniel in Mississippi to Gulf's service area is required. Several options were evaluated to determine which option would be the most economical for Gulf to pursue. Rental of the transmission lines from Mississippi Power Company and Alabama Power Company was determined to be the most economical option. The testimony of Mr. Howell addresses the justification for renting the necessary transmission lines rather than selecting the other available alternatives.

Q. Please describe the adjustment made in Order No. 14030 related to Plant Daniel Administrative and General expenses.

A. The Commission excluded $1,573,000 of the Administrative and General expenses which are incurred solely as a result of Gulf's 50 percent ownership in Plant Daniel. The justification for the reduction was:

> ...we reject Gulf's attempted justification for this amount in excess of the CPI and customer growth benchmark. We reject it, not because we find the amount to be unreasonable or imprudent, but because we find that Gulf has already included this amount in a previous justification. This is so because we find that A & G for new plant is accounted for in the base O & M and to accept it as additional justification would result in counting this expense twice.

The A & G expenses for the new plant (Daniel) was not accounted for in the base O & M.

Q. **Do you agree with the adjustment made by the Commission in Order No. 14030 relating to Plant Daniel A & G expenses?**

A. No. Here again, the Commission applied the rationale that customer growth provides for sufficient increases in the base year level of A & G expenses to offset the increase in A & G expenses occasioned by the increase in new generating plant. This rationale is true for the addition of plant owned and operated by Gulf, as the base year includes A & G expenses of a similar nature. However, in the case of Plant Daniel, Gulf entered into a contract with MPC whereby MPC operates Plant Daniel for the benefit of Gulf and MPC. Under this contract Gulf is allocated a portion of MPC's A & G expenses as well as 50 percent of the production expenses of Plant Daniel.

The A & G expenses for our 50 percent ownership of Plant Daniel are incurred by Gulf exclusively for the operation of the plant by MPC. There were no Plant Daniel A & G expenses included in the 1979 base year. It is inappropriate to assume that an adjustment for customer growth when applied to a base year which included only Gulf A & G expenses would cover expenses for the A & G billed to Gulf by MPC for Plant Daniel.

Q. Please describe the treatment of Plant Daniel A & G in the calculation of the 1990 benchmark.

A. We have separated A & G expenses into production-related A & G and other A & G. Schedule 7 contains a detailed calculation of the 1990 benchmark for Administrative and General expenses. The A & G expense allowed in Order No. 14030 was allocated between production-related A & G and other A & G. The production-related A & G is composed of a portion of Gulf's pension and benefit expenses and property insurance expenses as well as the A & G costs billed to Gulf by Mississippi Power for the operation of Plant Daniel. Gulf's pension and benefit expenses were allocated to production based upon production labor to total O & M labor, and the property insurance expenses were allocated based upon insurable values. These components of A & G expense were included as production-related A & G since the level of these expenditures would fluctuate in direct proportion to the addition of new Gulf operated generating plant. Gulf's portion of Plant Daniel A & G is also included as production-related A & G.

In calculating the 1990 benchmark for production A & G, we have added the Commission's adjustment for Plant Daniel A & G to the allowed production-related A & G to arrive at the proper base. This base was then escalated by inflation <u>only</u> to calculate the 1990 benchmark for production-related A & G. The 1990 benchmark for other A & G expenses was calculated by applying the customer growth and inflation factors to allowed other A & G expenses. The 1990 benchmark for A & G was calculated to be $39.2 million. The 1990 budgeted A & G expenses, adjusted for the appropriate Net Operating Income adjustments, total $38.4 million which is $.8 million less than the benchmark.

Q. Why did you add the 1984 Daniel A & G disallowance to the Benchmark?

A. Gulf added the 1984 Daniel A & G expense disallowance to the production-related A & G benchmark for three reasons: (1) The Commission did not rule that the Plant Daniel A & G expenses were either unreasonable or imprudent; (2) the

Commission authorized the inclusion of Plant Daniel in rate base and the recovery of the production expenses in the last rate proceeding, and the disallowed A & G expenses were exclusively for production; and (3) these disallowed A & G expenses are a specific component of the Plant Daniel operating agreement between Gulf and Mississippi Power Company.

Q. Please summarize the justification for recovering the Plant Daniel A & G expenditures from Gulf's customers.

A. Gulf has a contract with MPC which allocates to Gulf a portion of MPC A & G expenses and 50 percent of the Production expenses of Plant Daniel. The A & G expenses for our 50 percent ownership of Plant Daniel are solely for the operation of the plant by MPC. The billings to Gulf by Mississippi are audited by the Internal Auditors of Southern Company Services on a periodic basis in order to determine whether such billings are in compliance with the terms of the operating agreement.

The approval by the FPSC of Plant Daniel capacity in Gulf's rate base in the last rate case, as well as the allowance of the production O & M expenses, recognizes that Plant Daniel costs are properly recoverable from Gulf's customers. Since the A & G expenses are a necessary component of the operating cost of Plant Daniel, they should also be recoverable from Gulf's customers.

Q. How have you handled the O & M expenses associated with the addition of Plant Scherer for benchmark purposes?

A. In calculating the 1990 benchmark, we have treated the O & M expenses for Plant Scherer the same as for Plant Daniel. We have included the Production O & M expenses, the A & G expenses for Plant Scherer billed to Gulf by Georgia Power, and the transmission line rentals billed to Gulf which are necessary for Gulf to receive the electricity generated by our 25 percent interest in Georgia Power's Plant Scherer Unit No. 3. These are expenses incurred by Gulf solely for the new generating capacity at Plant Scherer Unit No. 3 and as such should be included in the benchmark. This treatment is consistent with the treatment specified by the Commission in Order No. 14030 and given to our 50 percent ownership in Plant Daniel which we previously discussed.

Q. Have you made any other adjustments in calculating the 1990 Benchmark?

A. Yes. We have made an adjustment related to certain Customer Service and Information (CS&I) expenses which were recovered through the Energy Conservation Cost Recovery (ECCR) mechanism in 1984 but are budgeted to be recovered through base rates in 1990.

Q. How were CS&I expenses handled in the 1984 case?

A. In 1984, Gulf budgeted $5.4 million of CS&I expenses. Our original rate filing with the FPSC in that case indicated that $2.1 million of conservation expenses would be recovered through the ECCR mechanism and the remainder of the conservation expenses would be recovered through base rates. The Commission ruled that all conservation expenditures should be recovered through ECCR and, as directed, Gulf moved $1.6 million from base rates to ECCR. These expenses were not disallowed. There was simply a change in the mechanism through which these expenses were to be recovered from our customers. Consequently, the Commission in Order No. 14030 provided for the recovery of $1.5 million of CS&I expenses through base rates and for the recovery of $3.7 million of CS&I expenses through the ECCR clause.

Q. **What has happened during the period 1984 through 1989 regarding the level of Customer Service and Information (CS&I) expenditures being recovered through ECCR?**

A. Since 1984 Gulf has continued to budget for and recover conservation expenses from our customers through the ECCR mechanism. However, due to changes in the conservation marketplace and FPSC rulings that certain of Gulf's programs were more customer service in nature, there has been a shift in the recovery of CS&I expenses from ECCR back to base rates. The Commission did not disapprove the programs but rather determined that they were no longer appropriately recovered through ECCR. Once again, the result was a shift in the method by which CS&I expenses should be recovered from our customers.

Q. **Please describe the adjustment that you made in calculating the CS&I benchmark.**

A. As mentioned above, the FPSC has ruled that the expenses associated with certain programs which were designated to be recovered through the ECCR mechanism in the 1984 rate case should no longer be recovered through that mechanism in 1990. The programs themselves were not disapproved. In order to properly calculate the 1990 benchmark it was necessary to reflect in the benchmark the change in the method of recovery of the CS&I expenses of certain programs. We identified the following programs which were designated for recovery through the ECCR clause in the 1984 rate case: (1) Gulf's Good Cents - New; (2) Good Cents - Improved; (3) Energy Education; and (4) Seminar programs and added the 1984 budgeted amounts for these programs to the CS&I expenses allowed to be recovered through base rates in Gulf's 1984 rate case. The affect of this adjustment is to determine a base year to be used to calculate the 1990 benchmark for CS&I expenses that is consistent with the recovery mechanisms being used to recover those CS&I expenses. This adjusted base level of CS&I expense was then escalated by customer growth and inflation to calculate the 1990 CS&I benchmark.

Q. Why was this adjustment made?

A. This adjustment was made to eliminate the effect of the method of recovery of CS&I expenditures on the 1990 benchmark. Mr. Bower's Exhibit No. 3 shows that, in total, Gulf's CS&I expenses are under the benchmark. However, without adjusting for the recovery mechanism in the base year, the benchmark methodology could artificially create benchmark variances. Of course, the adjustment for the recovery mechanism change does not eliminate Gulf's need to justify the CS&I programs.

Mr. Bower's testimony provides justification for the programs included in the CS&I function in 1990. The programs are justified on their merits without justifying benchmark variances due to a shift in the recovery mechanism.

Q. Who is responsible for addressing the expenditures that exceed the 1990 benchmark as shown on MFR C-57?

A. The 1990 non-fuel O & M expenses are compared to the benchmark for each of the seven functional areas. Schedule 8 contains a listing of all benchmark variance justifications included in MFR C-57 and the witness responsible for providing the justification.

Q. Have you compared Gulf's O & M salaries to the benchmark?

A. Yes. Schedule 9 of my exhibit contains the benchmark calculations related to salaries for all functions. As shown on Schedule 9, Gulf's total salaries are $1.3 million less than the benchmark even though Gulf's Production, Sales, and Administrative and General functions exceed the benchmark for salaries.

Q. Please elaborate on the reasons for the increases in salaries.

A. Gulf's compensation program is designed to achieve the two primary objectives of (1) attracting, motivating, and retaining qualified employees and (2) appropriately rewarding employee performance. In order to attain these objectives, Gulf strives to maintain pay levels at a competitive position in the job market while at the same time ensuring internal equity and individual recognition. Gulf regularly monitors its pay practices in relation to other companies through industry surveys.

During the 6-year period 1985-1990, Gulf's compound average annual merit increase for the group of employees exempt from the wage-hour law was 4.36 percent and for the non-exempt group was 3.87 percent. During the same period, the compound average annual general and step increases for the union group were 3.73 percent. In addition to merit increases, Gulf included in the 1990 budget 4.00 percent of the salaries of exempt and non-exempt employees for the Performance Pay Plan. The purpose of the plan is to focus the attention and efforts of the employees on achieving goals which have direct and significant influence on individual, organizational, and corporate performance. By attaining individual, organizational, and corporate goals, employees will be eligible to receive a one-time, lump-sum incentive award. Incentive awards are not added to base pay and must be earned every year.

Gulf's compound average annual exempt merit increase is 4.36 percent for the period 1985-1990, inclusive. For this same period, the compound average annual merit increase of several utilities and industries surveyed is 5.30 percent. Gulf's entry rate salary level for non-exempt employees is compared to the local businesses with which we compete for employees. In 1989 and projected 1990, Gulf is at 91.10 percent and 88.70 percent, respectively, of the average entry rate. The average annual general wage increase for Gulf's union group during the period 1985 through projected 1990, inclusive, is 3.73 percent compared to an increase of 3.74 percent in the Consumer Price Index for the same period. In addition, Gulf's average maximum journeyman lineman wage rate is 2.90 percent below the average for southeastern electric utilities. Gulf's salary and wage levels are reasonable when compared with other businesses with which we compete for employees, and our compensation program continues to meet its prime objectives.

Q. Please identify the major items comprising the benchmark variance related to the Customer Accounts function.

A. As shown on Schedule 3, the Customer Accounts expenses are under the benchmark by $1.6 million. Improvements in the processing of customer bills and increased computer enhancements have allowed Gulf to hold these expenses significantly below the benchmark level.

Q. What is the amount of the benchmark variances related to production-related A & G and other A & G expenses?

A. As shown on Schedule 3, production related A & G expenses are under the benchmark by $790,000 due primarily to a reduction in the property insurance attributable to production.

Other A & G expenses are over the benchmark by

$43,000 due to salary increases. I have previously justified Gulf's compensation philosophy and the overall salary increases for the period 1985 through 1990. Detailed justification is provided in MFR C-57.

Q. Have you compared Gulf's level of O & M expenses with other utilities?

A. Yes. We routinely develop several indicators with which we compare Gulf's O & M expenses, excluding fuel and purchase power, to other utilities throughout the southeast. Schedule 10 is a graph which compares Gulf's O & M expenses less fuel and purchased power per kilowatthour (kwh) generated to the average for the Southeastern Electric Exchange (SEE) companies for the period 1983 through 1988. As shown, Gulf's O & M expense per kwh generated is significantly less than the SEE average. Schedule 10 graphically depicts the reasonableness of Gulf's O & M expenses when compared to other electric utilities in the southeast.

Q. Mr. Scarbrough, does this conclude your testimony regarding the benchmark justification?

A. Yes, it does. However, I would like to emphasize once more that detailed justifications are provided in MFR C-57. I would also request that the Commission carefully consider Gulf's O & M expense budget process and the importance which we place on keeping our O & M expenses as low as possible while maintaining our historically high quality of service. We feel very strongly that the budgeted O & M expenses in 1990 are reasonable and necessary if we are to continue to maintain this reliable level of service for our retail customers.

Q. Please discuss the purchase of the Plant Scherer Common Facilities.

A. Georgia Power Company sold their undivided ownership in Plant Scherer Common Facilities to joint owners Oglethorpe Power Corporation (OPC) and Dalton in 1980 and 1977, respectively. On November 19, 1987, Gulf Power Company purchased its 6.25 percent (four unit plant - 25 percent x 25 percent ownership in one unit) proportionate share of the production plant facilities common to all four Scherer generating units commensurate with its previously acquired 25 percent ownership in Unit No. 3 of Plant Scherer. Gulf purchased its share of the common facilities from OPC and Dalton. Gulf paid a net price of $29,131,850 for these facilities. The original cost of the facilities was $24,266,406. The difference of $4,865,444 represents the interest (carrying costs) incurred by OPC and Dalton on the facilities purchased by Gulf until the date of the sale to Gulf. In addition, Gulf paid legal fees of $18,687 in connection with the purchase.

Q. How was the purchase of the Plant Scherer common facilities recorded on Gulf's books?

A. We recorded the purchase in accordance with the Uniform System of Accounts published by the FERC and adopted by the FPSC. Electric Plant Instruction No. 5, included therein, requires that when electric plant constituting an operating unit or system is acquired by purchase, the costs of acquisition ($29,131,850), including expenses incidental thereto ($18,687) properly includible in electric plant, be charged to Account 102, Electric Plant Purchased or Sold. The required accounting for the acquisition continues as follows:

(1) The original cost of plant ($24,266,406) is credited to Account 102, Electric Plant Purchased or Sold, and concurrently charged to

the appropriate electric plant-in-service accounts.

(2) The accumulated depreciation ($3,796,376) and amortization (estimated if not known) applicable to the original cost of the properties purchased is charged to Account 102, Electric Plant Purchased and Sold, and concurrently credited to the appropriate account for accumulated provision for depreciation or amortization.

(3) The amount remaining in Account 102 ($8,680,507), Electric Plant Purchased or Sold, is then closed to Account 114, Electric Plant Acquisition adjustments.

The Federal Energy Regulatory Commission accepted the Company's proposal to clear Account 102, Electric Plant Purchased or Sold, including depreciation, on November 2, 1988.

Q. What does the acquisition adjustment of $8,680,507 represent?

A. The $8,680,507 acquisition adjustment amount is made up of three components: interest or carrying cost in the amount of $4,865,444; Accumulated Depreciation $3,796,376; and A & G Cost (legal) in the amount of $18,687.

Q. Is it reasonable and prudent to include the acquisition adjustment of $8,680,507 in rate base?

A. Absolutely. Unlike other circumstances which have been reviewed in the past by the Commission, particularly in the area of water and sewer utilities, the selling utilities made no profit on the sale of the common facilities to Gulf.

The Commission should not rely on a required accounting methodology in determining the prudency of a purchase but should compare the value of the asset received with the total amount paid for the asset in determining the appropriate amount to approve for recovery. To illustrate this point and the significant value to Gulf's customers, it is estimated, as shown in Mr. Parson's testimony, that Plant Scherer's Unit No. 3 1990 depreciated book cost including common facilities, of $760 per kilowatt is well under the estimated $1,120 per kilowatt cost to construct to a new coal unit in 1990, a savings of approximately $76.3 million.

Q. Please explain the non-utility adjustment made to the capital structure described by Mr. McMillan in his testimony?

A. In Gulf's 1984 rate filing, the Commission removed the Company's non-utility investments directly from equity, which was contrary to staff's own position in the staff recommendation. Staff acknowledged that each expenditure made by the Company has a multitude of effects on the Company's financial position which are impossible to quantify and that funds cannot be directly traced. No business can operate in today's competitive environment by financing with equity alone and expect to earn a reasonable return. The majority of our non-utility investments are related to Appliance Sales and Service, and a large percentage of that is the accounts receivable for merchandise sales. Recognizing that some items in the capital structure, such as customer deposits, may not be related to non-utility activities, we have adjusted the non-utility activities from the capital structure using long-term debt, preferred stock, and common equity sources of capital as a reasonable proxy for the cost of funds. As indicated in Dr. Morin's testimony, Gulf's non-utility activities do not increase the Company's cost of capital.

Q. What is the revenue deficiency in the test period brought about by the difference in the earned overall jurisdictional rate of return of 6.60 percent with present rates and the 8.34 percent requested?

A. The revenue deficiency is $26,295,000, as shown on Schedule 17 of Mr. McMillan's testimony.

Q. Would you please summarize your testimony?

A. Yes. As shown in my testimony, and the testimony of the other Company's witnesses, as well as the supporting documentation, Gulf Power needs and is entitled to the rate relief it is requesting. Without the interim and permanent rate relief requested, it will be impossible for the Company to sustain any reasonable level of financial integrity in the future. The need is immediate. We have been instructed by this Commission in the past not to cut expenses below that level necessary to provide quality reliable electric service to our customers. We have not done so. At the same time, our shareholders do not and should not expect to earn below a reasonable level on their investment in our Company. They are doing so. As the Chief Financial Officer of Gulf Power Company, it is my responsibility to see that the price of our product is sufficient to sustain the required level of service to our customers and to provide a reasonable level of return to our shareholders. We have, in our filings for interim and permanent relief, shown the need for the requested increase in our rates.

Q. Does this conclude your testimony?
A. Yes.

AFFIDAVIT

STATE OF FLORIDA)

COUNTY OF ESCAMBIA)

Before me the undersigned authority personally appeared Arlan E. Scarbrough, 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 7th of December, 1989.

Arlan E. Scarbrough

Arlan E. Scarbrough

Sworn to and subscribed before me this 7th day of December, 1989.

Peggy W. Lassitter

Notary Public

Notary Public, State of Florida
My Commission Expires March 23, 1991
Bonded Thru Troy Fain - Insurance Inc.

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Operation and Maintenance Expense
Excluding Direct Fuel, Purchased Power, and Over\Under Recovery of Fuel
Comparison of 1989 Prior Year to 1990 Budget

	1	2	3	4	5
	1989 PRIOR YEAR $	1990 BUDGET $	DIFFERENCE DOLLARS (COL 2-1)	DIFFERENCE PERCENT (COL 3/1)	WITNESS
PRODUCTION	52,762,788	52,736,690	(26,098)	-0.05%	LEE
TRANSMISSION	6,234,891	7,297,423	1,062,532	17.04%	HOWELL
DISTRIBUTION	13,641,160	14,530,411	889,251	6.52%	JORDAN
CUSTOMER ACCOUNTS	6,830,011	7,779,523	949,512	13.90%	
LESS NOI ADJUSTMENT	(640,254)		640,254	-100.00%	
ADJUSTED CUSTOMER ACCOUNTS	7,470,265	7,779,523	309,258	4.14%	SCARBROUGH
CUSTOMER SERVICE AND INFORMATION	5,776,191	7,065,574	1,289,383	22.32%	
LESS NOI ADJUSTMENT	1,892,761	1,640,125	(252,636)	-13.35%	
ADJUSTED CS&I	3,883,430	5,425,449	1,542,019	39.71%	BOWERS
SALES	1,524,346	835,070	(689,276)	-45.22%	
LESS NOI ADJUSTMENT	32,335	147,580	115,245	356.41%	
ADJUSTED SALES	1,492,011	687,490	(804,521)	-53.92%	BOWERS
ADMINISTRATIVE AND GENERAL	38,142,810	39,467,600	1,324,790	3.47%	
LESS NOI ADJUSTMENT	2,628,540	1,020,462	(1,608,078)	-61.18%	
ADJUSTED A&G	35,514,270	38,447,138	2,932,868	8.26%	SCARBROUGH
TOTAL ADJUSTED O & M	120,998,815	126,904,124	5,905,309	4.88%	
ADD NET OPERATING INCOME ADJUSTMENTS	3,913,382	2,808,167	(1,105,215)	-28.24%	
TOTAL SYSTEM O & M	124,912,197	129,712,291	4,800,094	3.84%	

GULF POWER COMPANY

Explanations for Comparison of
1989 Prior Year O & M Less Direct Fuel and Purchased Power
to the 1990 Budget by Function

Production

The decrease is due primarily to an increased level of structural painting performed at Plant Crist in 1989, a combustion turbine inspection and repair performed at Plant Smith in 1989, and decreased level of turbine and boiler inspections in 1990. These decreases are offset by salary increases and inflation.

Transmission

The increase is due to Environmental Ground Testing to be performed in 1990 as required by the State of Florida Department of Environmental Regulations and an increase in maintenance projects in the Divisions such as reclearing of transmission line right-of-ways and replacement of fiberglass strain rods in down guys and on crossarms.

Distribution

Increase is due to a transfer of the expense for Load Research Metering from the Customer Service and Information function, a change in fixed salary distribution for Engineering personnel, and an increase in overhead line maintenance.

Customer Accounts

The method of accruing for uncollectible accounts was changed as of September, 1989. The new method is based on an aging of receivables which more accurately reflects actual uncollectible account write-offs. The correction of the allowance for uncollectible accounts resulted in a credit balance in the uncollectible expense account in 1989.

Customer Service and Information

The Residential Pricing Research Project (ICS) was cancelled in 1989 and budgeted for 1990. Good Cents Existing, Energy Education and Industrial and Commercial Presentations and Seminars ECCR programs will be moved to base rates in 1990. Several changes in programs and the related advertising were delayed in 1989 due to the selection of a new advertising agency.

Sales

The decrease reflects changes in market strategies and program implementation caused by moving away from direct selling as a means of improving load factor to placing greater emphasis on energy management.

Administrative and General

Increase is due to salary increases and inflation, increases in office supplies, travel, and training, and an increase in outside services. These increases are offset by a decrease in rate case expense.

GULF POWER COMPANY

O & M Benchmark Comparison by Function
Excluding Direct Fuel, Purchased Power, Over/(Under) Recovery of Fuel and ECCR
Comparison of 1990 Benchmark Based on 1989 Adjusted Prior Year Escalated by Customer Growth and Inflation to 1990 Adjusted O & M

(Dollars in Thousands)

	1989 ADJUSTED O & M PRIOR YEAR	ECCR MOVED TO BASE RATES	1989 ADJUSTED BASE	COMPOUND MULTIPLIER	1990 BENCHMARK	BENCHMARK ADJUSTMENT FOR NEW PLANT RELATED O & M	TOTAL ADJUSTED BENCHMARK	1990 ADJUSTED O & M TEST YEAR	BENCHMARK VARIANCE
PRODUCTION	52,763		52,763	1.0437	55,069	1,957	57,026	52,737	(4,289)
TRANSMISSION LINE RENTALS	3,200		3,200	1.0437	3,340	1,822	5,162	3,017	(2,145)
OTHER TRANSMISSION	3,034		3,034	1.0674	3,238	3	3,241	4,280	1,039
TOTAL TRANSMISSION	6,234	0	6,234		6,578	1,825	8,403	7,297	(1,106)
DISTRIBUTION	13,642		13,642	1.0674	14,561		14,561	14,530	(31)
CUSTOMER ACCOUNTS	7,470		7,470	1.0674	7,973		7,973	7,780	(193)
CUSTOMER SERVICE AND INFORMATION	3,884	903	4,787	1.0674	5,110		5,110	5,426	316
SALES	1,492		1,492	1.0674	1,593		1,593	687	(906)
PRODUCTION RELATED A & G	5,576		5,576	1.0437	5,820	263	6,083	5,655	(428)
OTHER ADMIN AND GENERAL	29,938	85	30,023	1.0674	32,047		32,047	32,792	745
TOTAL ADMIN AND GENERAL	35,514	85	35,599		37,867	263	38,130	38,447	317
TOTAL ADJUSTED O & M LESS DIRECT FUEL, PURCHASED POWER, AND ECCR	120,999	988	121,987		128,751	4,045	132,796	126,904	(5,892)

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GULF POWER COMPANY
EXCLUDING FUEL, PURCHASED POWER, OVER/(UNDER) RECOVERY OF FUEL AND ECCR
COMPARISON OF 1990 BENCHMARK BASED ON 1984 ALLOWED IN ORDER 14030 ESCALATED BY CUSTOMER GROWTH AND INFLATION TO 1990 ADJUSTED O&M

(Dollars in Thousands)

DESCRIPTION	(A) STEAM PROD	(B) OTHER PROD	(C) OTHER POWER SUPPLY	(D) TOTAL PROD	(E) TRANS-MISSION RENTS	(F) TRANS-MISSION OTHER	(G) TOTAL TRANS-MISSION	(H) DISTRI-BUTION	(I) CUSTOMER ACCOUNTS	(J) CUSTOMER SERVICE & INFO.	(K) SALES	(L) PROD REL ADM. & GENERAL	(M) OTHER ADM. & GENERAL	(N) TOTAL ADM. & GENERAL	(O) TOTAL
PROJECTED 1984 O&M EXPENSES LESS DIRECT FUEL AND PURCHASED POWER	40,073	84	1,024	41,181	1,387	2,607	3,994	7,911	6,763	5,395	176	4,958	23,806	28,764	94,184
NET OPERATING INCOME O&M ADJUSTMENTS	0	0	0	0			0	0	0	(3,730)	(175)		(717)	(717)	(4,622)
FPSC O&M ADJUSTMENTS DOCKET 840086-EI	(3,906)	(3)	(4)	(3,913)	(425)	(272)	(697)	(241)	(689)	(160)	(1)	(1,573)	(2,083)	(3,656)	(9,357)
1984 ALLOWED O&M LESS DIRECT FUEL, ECCR AND PURCHASED POWER - ADJUSTED SYSTEM O&M	36,167	81	1,020	37,268	962	2,335	3,297	7,670	6,074	1,505	0	3,385	21,006	24,391	80,205
TRUE-UP OF 1984 COMPOUND MULTIPLIER (FACTOR)						0.0368		0.0368	0.0368	0.0368	0.0368		0.0368		
ADJUSTMENT TO ACTUAL CPI-CUST GROWTH (AMOUNT)	0	0	0	0	0	53	53	167	140	33	0	0	373	373	766
1984 ALLOWED O&M LESS DIRECT FUEL AND PURCHASED POWER ADJUSTED FOR ACTUAL FACTOR	36,167	81	1,020	37,268	962	2,388	3,350	7,837	6,214	1,538	0	3,385	21,379	24,764	80,971
ADD PLANT DANIEL RELATED ADJ. DOCKET 840086-EI					425		425					1,573		1,573	1,998
FORMER ECCR PROGRAMS MOVED TO BASE RATES										2,248			348	348	2,596
TOTAL O&M BASE ADJ. FOR PLANT DANIEL & FORMER ECCR	36,167	81	1,020	37,268	1,387	2,388	3,775	7,837	6,214	3,786	0	4,958	21,727	26,685	85,565
COMPOUND MULTIPLIER 1984 - 1990	1.2468	1.2468	1.2468	1.2468	1.2468	1.5073		1.5073	1.5073	1.5073	1.5073	1.2468	1.5073		
1990 BENCHMARK LESS NEW PLANT SCHERER, RELATED NEW TRANSMISSION LINE RENTALS, DIRECT FUEL AND PURCHASED POWER - SYSTEM	45,093	101	1,272	46,466	1,729	3,600	5,329	11,813	9,366	5,707	0	6,182	32,749	38,931	117,612
1990 PLANT SCHERER AND ASSOCIATED TRANS LINE RENTS	1,957			1,957	1,822	3	1,825					263		263	4,045
1990 BENCHMARK LESS DIRECT FUEL AND PURCHASED POWER - SYSTEM	47,050	101	1,272	48,423	3,551	3,603	7,154	11,813	9,366	5,707	0	6,445	32,749	39,194	121,657
1990 BUDGETED O&M LESS DIRECT FUEL AND PURCHASED POWER - SYSTEM	51,547	47	1,143	52,737	3,017	4,280	7,297	14,530	7,780	7,066	835	5,655	33,812	39,467	129,712
NET OPERATING INCOME O&M ADJUSTMENTS	0	0	0	0	0	0	0	0	0	(1,640)	(148)	0	(1,020)	(1,020)	(2,808)
1990 BUDGETED O&M LESS DIRECT FUEL, ECCR AND PURCHASED POWER - ADJUSTED SYSTEM O&M	51,547	47	1,143	52,737	3,017	4,280	7,297	14,530	7,780	5,426	687	5,655	32,792	38,447	126,904
BENCHMARK VARIANCE - ADJUSTED SYSTEM O&M	4,497	(54)	(129)	4,314	(534)	677	143	2,717	(1,586)	(281)	687	(790)	43	(747)	5,247

GULF POWER COMPANY

O & M Benchmark Comparison by Function
Excluding Direct Fuel, Purchased Power, Over/(Under) Recovery of Fuel and ECCR
Comparison of 1990 Benchmark Based on 1983 Allowed in Order 11498 Escalated by Customer Growth and Inflation to 1990 Adjusted O & M

(Dollars in Thousands)

	1983 O & M ALLOWED IN ORDER 11498	ECCR MOVED TO BASE RATES	1983 ADJUSTED BASE	COMPOUND MULTIPLIER	1990 BENCHMARK	BENCHMARK ADJUSTMENT FOR NEW PLANT RELATED O & M	TOTAL ADJUSTED BENCHMARK	1990 ADJUSTED O & M TEST YEAR	BENCHMARK VARIANCE
PRODUCTION	40,966		40,966	1.3014	53,313	1,957	55,270	52,737	(2,533)
TRANSMISSION LINE RENTALS	1,172		1,172	1.3014	1,525	1,822	3,347	3,017	(330)
OTHER TRANSMISSION	2,527		2,527	1.6599	4,195	3	4,198	4,280	82
TOTAL TRANSMISSION	3,699	0	3,699		5,720	1,825	7,545	7,297	(248)
DISTRIBUTION	7,665		7,665	1.6599	12,723		12,723	14,530	1,807
CUSTOMER ACCOUNTS	6,510		6,510	1.6599	10,806		10,806	7,780	(3,026)
CUSTOMER SERVICE AND INFORMATION	1,392	1,813	3,205	1.6599	5,320		5,320	5,426	106
SALES	0		0	1.6599	0		0	687	687
PRODUCTION RELATED A & G	5,292		5,292	1.3014	6,887	263	7,150	5,655	(1,495)
OTHER ADMIN AND GENERAL	18,852	194	19,046	1.6599	31,614		31,614	32,792	1,178
TOTAL ADMIN AND GENERAL	24,144	194	24,338		38,501	263	38,764	38,447	(317)
TOTAL ADJUSTED O & M LESS DIRECT FUEL, PURCHASED POWER, AND ECCR	84,376	2,007	86,383		126,383	4,045	130,428	126,904	(3,524)

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GULF POWER COMPANY
ANALYSIS OF THE ORDER #14030 ADJUSTMENT TO
TRANSMISSION LINE RENTALS

DESCRIPTION	($000)
AS FILED 1984 TRANSMISSION EXPENSE BENCHMARK	
1979 TRANSMISSION O&M EXPENSES	1,444
1979 - 1984 BENCHMARK ESCALATION FACTOR	1.73248
1984 TRANSMISSION EXPENSE BENCHMARK	2,502
1984 BUDGET TRANSMISSION O&M EXPENSE	3,994
VARIANCE (BUDGET O&M MINUS BENCHMARK)	1,492
COMMISSION ADJUSTMENT RELATED TO LINE RENTALS	
1984 TRANSMISSION EXPENSE BENCHMARK	2,502
DIVIDE BY 1979 - 1984 CUSTOMER GROWTH FACTOR	1.20439
1984 BENCHMARK LESS CUSTOMER GROWTH ESCALATION	2,077
1984 TRANSMISSION EXPENSE BENCHMARK	2,502
1984 BENCHMARK LESS CUSTOMER GROWTH ESCALATION	(2,077)
ORDER #14030 ADJUSTMENT TO LINE RENTALS	425
PROPER 1984 BENCHMARK CALCULATION	
1979 TRANSMISSION O&M EXPENSES	1,444
1979 - 1984 BENCHMARK ESCALATION FACTOR	1.73248
1984 TRANSMISSION EXPENSE BENCHMARK FOR GULF - OWNED FACILITIES	2,502
TRANSMISSION LINE RENTALS (1984 AMOUNT) FOR NEW PLANT	1,381
1984 TRANSMISSION EXPENSE BENCHMARK	3,883
1984 BUDGET TRANSMISSION O&M EXPENSE	3,994
VARIANCE (BUDGET O&M MINUS BENCHMARK)	111

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GULF POWER COMPANY
CALCULATION OF 1990 BENCHMARK
RELATED TO TRANSMISSION EXPENSES

(DOLLARS IN THOUSANDS)

DESCRIPTION	TRANSMISSION LINE RENTALS	OTHER TRANSMISSION EXPENSES	TOTAL TRANSMISSION EXPENSES
TRANSMISSION EXPENSES ALLOWED IN ORDER #14030	962	2,335	3,297
ADJUSTMENT FOR TRUE - UP OF 1984 CUSTOMER GROWTH FACTOR	0	53	53
BASE YEAR AMOUNTS	962	2,388	3,350
ADD 1984 DANIEL - RELATED TRANS. LINE RENTAL ADJUSTMENT	425	0	425
TOTAL BASE ADJUSTED FOR DANIEL	1,387	2,388	3,775
ESCALATION FACTORS 1984 - 1990 (1)	1.2468	1.5073	
1990 BENCHMARK RELATED TO TRANSMISSION EXPENSE	1,729	3,600	5,329
ADD 1990 SCHERER - RELATED TRANSMISSION LINE RENTALS	1,822	3	1,825
1990 BENCHMARK RELATED TO TRANSMISSION EXPENSE	3,551	3,603	7,154
1990 BUDGETED TRANSMISSION EXPENSE	3,017	4,280	7,297
1990 BENCHMARK VARIANCE RELATED TO TRANSMISSION EXPENSE	(534)	677	143

(1) TRANSMISSION LINE RENTALS ARE ESCALATED BY THE INFLATION FACTOR ONLY WHILE THE REMAINING EXPENSES ARE ESCALATED BY CUSTOMER GROWTH AND INFLATION.

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GULF POWER COMPANY
CALCULATION OF 1990 BENCHMARK RELATED TO
ADMINISTRATIVE & GENERAL EXPENSES

(DOLLARS IN THOUSANDS)

DESCRIPTION	PRODUCTION RELATED A&G EXPENSES	OTHER A&G EXPENSES	TOTAL A&G EXPENSES
ADMINISTRATIVE & GENERAL EXPENSES ALLOWED IN ORDER #14030	3,385	21,006	24,391
ADJUSTMENT FOR TRUE - UP OF 1984 CUSTOMER GROWTH FACTOR	0	373	373
BASE YEAR AMOUNTS	3,385	21,379	24,764
ADD 1984 DANIEL - RELATED A&G EXPENSE ADJUSTMENT	1,573	0	1,573
FORMER ECCR PROGRAMS MOVED TO BASE RATES	0	348	348
TOTAL O&M BASE ADJ FOR DANIEL	4,958	21,727	26,685
ESCALATION FACTORS 1984 - 1990 (1)	1.2468	1.5073	
1990 BENCHMARK RELATED TO ADMINISTRATIVE & GENERAL EXPENSES BEFORE PLANT SCHERER A&G EXPENSES	6,182	32,749	38,931
ADD 1990 SCHERER - RELATED ADMINISTRATIVE & GENERAL EXPENSES	263	0	263
1990 BENCHMARK RELATED TO ADMINISTRATIVE & GENERAL EXPENSES	6,445	32,749	39,194
1990 BUDGETED A&G EXPENSES	5,655	33,812	39,467
NET OPERATING INCOME O&M ADJUSTMENTS	0	(1,020)	(1,020)
1990 ADJUSTED A&G EXPENSES	5,655	32,792	38,447
1990 BENCHMARK VARIANCE RELATED TO ADMINISTRATIVE & GENERAL EXPENSES	(790)	43	(747)

(1) A&G EXPENSES ASSOCIATED WITH PRODUCTION ARE ESCALATED BY THE INFLATION FACTOR ONLY WHILE THE REMAINING EXPENSES ARE ESCALATED BY CUSTOMER GROWTH AND INFLATION.

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GULF POWER COMPANY
SUMMARY OF BENCHMARK VARIANCE JUSTIFICATIONS
ADJUSTED NON-FUEL O & M EXPENSES LESS PURCHASED POWER BENCHMARK
COMPARISON BY FUNCTION 1984 ALLOWED TO 1990 BUDGET

NO.	DESCRIPTION	MFR C-57 PAGE REFERENCE	VARIANCE AMOUNT ($000)	WITNESS
	Benchmark Justification Index	1		
	Schedule of 1990 Benchmark Expenses	2		A. E. Scarbrough
	STEAM PRODUCTION	3		
1.	Research and Development	4	210	E. B. Parsons, Jr.
2.	Additional Personnel and Salary Increases	10	853	C. R. Lee
3.	Southern Company Services	14	907	Parsons and Lee
4.	Turbine and Boiler Inspections	35	202	C. R. Lee
5.	Electric Power Research Institute	41	242	E. B. Parsons, Jr.
6.	Condenser & Cooling Tower Corrosion - Crist Plant	42	289	C. R. Lee
7.	Plant Daniel	44	646	C. R. Lee
8.	Ash Hauling and Storage Dry Land Fill - Smith Plant	51	635	C. R. Lee
9.	Change of Fuel - Smith Plant	52	3	Parsons and Lee
10.	Duct and Fan Repair	54	684	C. R. Lee
	TOTAL STEAM PRODUCTION		4,671	
	TRANSMISSION OTHER	58		
1.	Environmental Ground Testing	59	693	M. W. Howell
	TOTAL TRANSMISSION OTHER		693	

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SUMMARY OF BENCHMARK VARIANCE JUSTIFICATIONS
ADJUSTED NON-FUEL O & M EXPENSES LESS PURCHASED POWER BENCHMARK
COMPARISON BY FUNCTION 1984 ALLOWED TO 1990 BUDGET

NO.	DESCRIPTION	MFR C-57 PAGE REFERENCE	VARIANCE AMOUNT ($000)	WITNESS
	DISTRIBUTION	60		
1.	Public Safety Inspection and Maintenance	61	740	C. E. Jordan
2.	Underground Line Extensions	62	351	C. E. Jordan
3.	Distribution System Work Order (DSO) Clearance	63	952	C. E. Jordan
4.	SCS Production & Maintenance Support - WMS	65	56	C. E. Jordan
5.	Load Research Expense	67	144	C. E. Jordan
6.	Street Lighting	68	102	C. E. Jordan
7.	Obsolete Distribution Material	69	83	C. E. Jordan
8.	Vehicle Rebuild Expenses	70	117	C. E. Jordan
9.	Electric Power Research Institute	71	55	E. B. Parsons, Jr.
10.	Pensacola Underground Network System Repair	72	135	C. E. Jordan
	TOTAL DISTRIBUTION		2,735	
	SALES	73		
1.	Economic Development	74	687	W. P. Bowers
	TOTAL SALES		687	
	OTHER ADMINISTRATION AND GENERAL EXPENSES	78		
1.	Salary Increases	78	883	A. E. Scarbrough
	TOTAL OTHER ADMINISTRATION AND GENERAL EXPENSES		883	
	SALARY INCREASE BENCHMARK JUSTIFICATION	79	All Functions	A. E. Scarbrough
	TOTAL JUSTIFICATIONS		9,669	
	TOTAL 1990 O&M BENCHMARK		121,657	
	TOTAL ADJUSTED 1990 O&M LESS DIRECT FUEL, PURCHASED POWER AND ECCR		126,904	
	TOTAL O&M BENCHMARK VARIANCE		5,247	

GULF POWER COMPANY

1990 O & M SALARY BENCHMARK
BASE = 1984 O & M ALLOWED IN ORDER #14030 BY FUNCTION

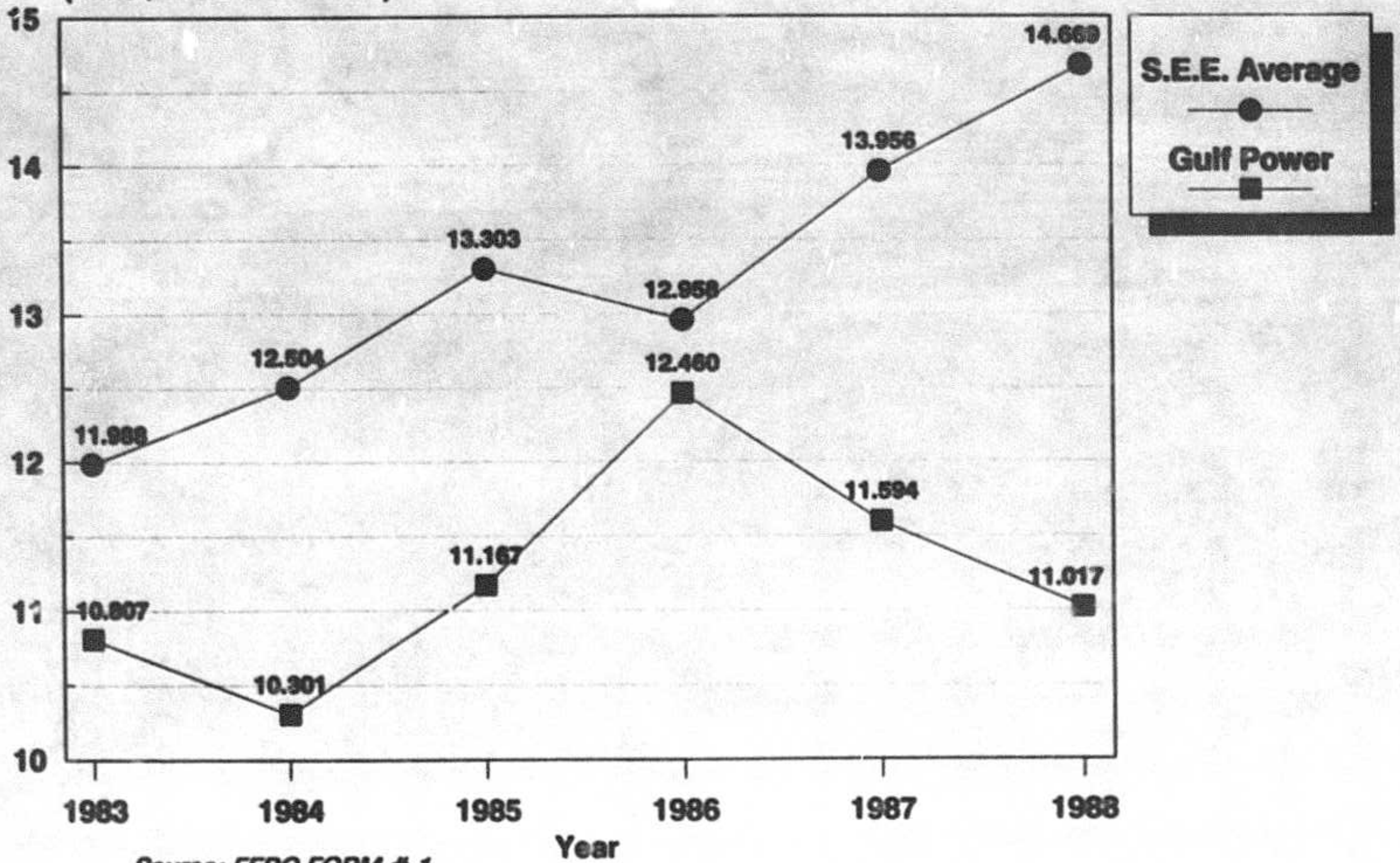
(Dollars In Thousands)

FUNCTION	1984 ALLOWED	ESCALATION FACTOR	1990 BENCHMARK	1990 BUDGET	VARIANCE
PRODUCTION	11,046	1.2468	13,772	14,625	853
TRANSMISSION	942	1.5073	1,420	1,341	(79)
DISTRIBUTION	4,086	1.5073	6,159	6,103	(56)
CUSTOMER ACCOUNTS	3,397	1.5073	5,120	4,541	(579)
CUSTOMER SERVICE AND INFO (A)	3,514	1.5073	5,297	2,666	(2,631)
SALES	0	1.5073	0	252	252
ADMINISTRATIVE AND GENERAL	7,078	1.5073	10,669	11,552	883
TOTAL	30,063		42,437	41,080	(1,357)

(A) INCLUDES THE LABOR ASSOCIATED WITH PROGRAMS PREVIOUSLY RECOVERED THROUGH THE ENERGY CONSERVATION COST RECOVERY (ECCR) MECHANISM AND NOW RECOVERED THROUGH BASE RATES. THE ADJUSTMENT IS REFLECTED ON SCHEDULE 3.

Gulf Power Company vs. S.E.E. Average
Total O&M Expense Excluding Fuel & Purchased Power

(Mills / KWH Generated)



Source: FERC FORM # 1

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GULF POWER COMPANY

1988 TOTAL RETAIL SALES PER KWH SOLD FOR COMPARISON COMPANIES

COMPANY NUMBER	RETAIL REVENUE PER KWH SOLD	RANK	
1	7.66971	1	
17	7.12548	2	
23	6.97564	3	
15	6.93725	4	
18	6.78951	5	
22	6.74349	6	
13	6.71452	7	4th QUARTILE
25	6.45198	8	
6	6.16351	9	
26	6.09617	10	
12	6.05666	11	
4	6.05067	12	
9	5.94514	13	3rd QUARTILE
10	5.87909	14	
3	5.81048	15	
2	5.74534	16	
5	5.60469	17	
7	5.60025	18	
14	5.50517	19	
21	5.50496	20	2nd QUARTILE
8	5.38322	21	
20	5.18185	22	
19	5.07982	23	GULF POWER
11	4.71037	24	
16	4.61604	25	
24	4.34189	26	1st QUARTILE

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GULF POWER COMPANY

1988 TOTAL RETAIL SALES PER KWH SOLD FOR COMPARISON COMPANIES

ASSUME RATE RELIEF OF $26,295 IN 1988 FOR GULF ONLY

COMPANY NUMBER	RETAIL REVENUE PER KWH SOLD	RANK	
1	7.66971	1	
17	7.12548	2	
23	6.97564	3	
15	6.93725	4	
18	6.78951	5	
22	6.74349	6	
13	6.71452	7	4th QUARTILE
25	6.45198	8	
6	6.16351	9	
26	6.09617	10	
12	6.05666	11	
4	6.05067	12	
9	5.94514	13	3rd QUARTILE
10	5.87909	14	
3	5.81048	15	
2	5.74534	16	
5	5.60469	17	
7	5.60025	18	
14	5.50517	19	
21	5.50496	20	2nd QUARTILE
19	5.44363	21	GULF POWER
8	5.38322	22	
20	5.18185	23	
11	4.71037	24	
16	4.61604	25	
24	4.34189	26	1st QUARTILE

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Gulf Power Co.
(The Southern Co. unit)

Reviewed: ratings affirmed

Rationale: Ratings are affirmed on Gulf Power Co.'s senior secured debt at 'A' and senior unsecured and preferred stock at 'A–'. At June 30, total debt outstanding was approximately $506 million. Ratings incorporate expectations that financial parameters will remain appropriate for the current rating given healthy retail sales growth and a supportive Florida regulatory environment. Reductions in off-system and other wholesale revenues and dedication of additional amounts of plant Daniel and plant Sherer to retail rate base have resulted in increased rate relief needs. The company is expected to file for a rate increase later in the year and regulation is anticipated to continue to support current credit quality. The agreement by the company to plead guilty to two counts of felony charges ends a rather long and politicized grand jury investigation. Nevertheless, the company is still subject to regulatory scrutiny involving illegal payments to vendors, which could negatively impact upcoming rate hearings. Healthy retail sales growth should offset some of the loss of wholesale load and preclude significant erosion in financial measures. While debt leverage remains aggressive for the current rating, limited capital requirements should be internally funded, allowing opportunities to improve the capital structure. Also, the company will continue to have access to ongoing equity infusions from the parent company. In light of the current weak capital structure and loss of significant wholesale revenues, if needed rate relief is not forthcoming, financial protection measures could fall to levels below those commensurate with the current rating. *Outlook: Negative*

Gulf Power Co. financial statistics

		—Year ended Dec. 31—			
(Mil. $)	1989*	1988	1987	1986	1985
Funds from operations	115.5	128.0	114.1	130.5	101.0
Dividends	42.2	41.2	40.2	39.3	37.1
Net cash flow (NCF)	73.4	86.9	73.8	91.2	63.9
Capital expenditures (Capex)	65.9	65.8	95.5	73.7	78.0
Total capital (mil. $)	934.8	939.5	881.8	876.1	789.7
Short-term debt (%)	1.6	1.7	1.7	0.8	0.5
Long-term debt (%)	52.7	52.9	53.8	55.1	52.0
Preferred stock (%)	7.2	7.2	7.8	8.2	9.3
Common equity (%)	38.5	38.1	36.6	36.0	38.2
Pretax interest coverage (x)	2.80	2.95	2.93	2.86	2.85
Preferred div. coverage (x)	2.29	2.41	2.35	2.23	2.24
Return on avg. equity (%)	11.1	13.0	12.6	9.7	10.6
AFDC/common earnings (%)	1.8	2.8	4.8	35.5	32.0
Common div. payout (%)	90.7	77.5	81.0	71.3	67.7
Capex/avg. total cap. (%)	7.0	7.2	10.9	8.8	10.1
Cash flow int. coverage (x)	4.01	4.27	3.75	3.82	N.A.
NCF/avg. total debt (%)	14.3	17.3	15.1	20.2	15.7
NCF/Capex (%)	111.4	132.1	77.3	123.7	81.9

*For 12 months ended June 30 (unaudited)
N.A.—Not available

Deborah A. Goldsmith
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A-1a	Full Revenue Requirements Increase Requested
A-1b	Interim Revenue Requirements Increase Requested
A-2	Summary of Rate Case
A-3	Reasons for Requested Rate Increase
A-7	Statistical Information
A-8	Five Year Analysis-Change in Cost
A-9	Summary of Jurisdictional Rate Base
A-10	Summary of Jurisdictional Net Operating Income
A-11	Summary of Adjustments Not Made
A-12a	Summary of Jurisdictional Capital Structure
A-12b	Summary of Jurisdictional Capital Cost Rates
A-12c	Summary of Financial Integrity Indicators
A-14	Financial and Statistical Report

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B-1	Balance Sheet-Jurisdictional
B-2a	Balance Sheet-Jurisdictional Asset Calculation
B-2b	Balance Sheet-Jurisdictional Liabilities Calculation
B-3	Adjusted Rate Base
B-4	Rate Base Adjustments
B-5	Commission Rate Base Adjustments
B-6	Company Rate Base Adjustments
B-11	Capital Additions and Retirements-Property Merged or Acquired From Other Companies
B-12d	Property Held for Future Use - Cold standby Units
B-13c	Construction Work In Progress - AFUDC
B-14	Working Capital-13 Month Average
B-15	Working Capital-13 Month Average Balances
B-16	Nuclear Fuel Balances
B-17a	System Fuel Inventory
B-17b	Fuel Inventory by Plant
B-19	Accounts Payable-Fuel
B-20	Plant Materials and Operating Supplies
B-21	Other Deferred Credits
B-22	Miscellaneous Deferred Debits
B-23	Investment Tax Credits-Annual Analysis
B24a	Total Accumulated Deffered Income Taxes

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B-24c	Federal Accumulated Deffered Income Taxes
B-25	Additional Rate Base Components
B-26	Accounting Policy Changes Affecting Rate Base
B-27	Detail of Changes in Rate Base
B-28a	Leasing Arrangements
B-28b	Leasing Arrangements (ERTA 1981)
B-29	10 Year Historical Balance Sheet

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C-2	Adjusted Jurisdictional Net Operating Income
C-3	Jurisdictional Net Operating Income Adjustments
C-4	Commission Net Operating Income Adjustments
C-5	Company Net Operating Income Adjustments
C-6	Out of Period Adjustments to Revenues and Expenses
C-7	Extraordinary Revenues and Expenses
C-8	Report of Operating Compared to Forecast-Revenues and Expenses
C-10	Operating Revenues Detail
C-12	Budgeted Versus Actual Operating Revenues and Expenses
C-13	Monthly Fuel Revenues and Expenses
C-14	Monthly Fuel Expenses
C-15	Fuel Revenues and Expenses Reconciliation
C-17	Conservation Revenues and Expenses
C-18	Conservation Revenues and Expenses
C-19	Operation and Maintenance Expenses-Test Year
C-20	Operation and Maintenance Expenses-Prior Year
C-21	Detail of Changes in Expenses
C-25	Uncollectible Account
C-26	Advertising Expenses

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C-27	Industry Association Dues
C-28	Accumulated Provision Accounts-228.1, 228.2 and 228.4
C-29	Lobbying and other Political Expenses
C-30	Civic and Charitable Contributions
C-31	Administrative Expenses
C-32	Miscellaneous General Expenses
C-33	Payroll and Fringe Benefit Increase Compared to CPI
C-36	Current Depreciation Rate
C-37	Proposed Depreciation Rates
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C-38b	Revenue Taxes
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C-40	Federal Deferred Income Taxes
C-41	State and Federal Income Taxes
C-42	Deferred Tax Adjustment
C-43	Reconciliation of Tax Expense
C-44	Interest in Tax Expense
C-45	Consolidated Return
C-46	Income Tax Returns

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C-48	Reconcilation of Total Income Tax Provision
C-49	Miscellaneous Tax Information
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C-53	O & M Benchmark Comparison By Function
C-54	O & M Adjustments by Function
C-55	Benchmark Year Recoverable O & M Expenses by Function
C-56	O & M Compound Multiplier Calculation
C-57	O & M Benchmark Variance by Function
C-58	Revenue Expansion Factor
C-59	Attrition Allowance
C-60	Transactions with Affiliated Companies
C-61	Performance Indicies
C-62	Non-Utility Operations Utilizing Utility Assets
C-63	Statement of Cast Flows
C-64	Earning Test
C-65	Outside Professional Services
C-66	Pension Cost

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D-2	Cost of Capital-10 Year History
D-3a	Short-Term Debt
D-3b	Short-Term Financing Policy
D-4a	Long-Term Debt Outstanding
D-4b	Debt Outstanding - Call Provisions and Special Restrictions
D-5	Common Stock Issues-Annual Data
D-6	Reports of Operations Compared to Forecast-Cost of Capital
D-7	Preferred Stock
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D-10b	Financing Plans - General
D-11a	Financial Indicators-Summary
D-11b	Financial Indicators-Calculations of Interest and Peferred Dividend Coverage Ratios

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D-11c	Financial Indicators-Calculations as a percentage of Income Available for Common
D-11d	Financial Indicators-Calculation of the Percentage of Construction Funds Generated Internally
D-12a	Reconciliation of Jurisdictional Rate Base and Capital Structure
D-12b	Schedule of Pro-Rata Adjustments

MINIMUM FILING REQUIREMENTS

Schedule	Title
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F-2	Financial Statements-Opinions of Independent Certified Public Accountants
F-3	SEC Reports
F-4	FERC Audit
F-5	Company Directors
F-6	Officers of Affiliated Companies or Subsidiaries
F-7	Business Contracts with Officers or Directors
F-8	NRC Safety Citations
F-17	Assumptions