BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

ORIGINAL FILE COPY

In Re: Petition of Gulf Power Company for an increase in its rates and charges.	))))	Docket No. 891345-EI Filed: May 1, 1990

ORIGINAL FILE COPY

DIRECT TESTIMONY OF
HUGH LARKIN, JR.

ACK ✓
AFA 1
APP
CAF
CMU
CTR Orig
EAG
LEG 1
LIN 6
OPC
RCH
SEC 1
WAS
OTH
Orig & 12

Respectfully submitted,

Jack Shreve
Public Counsel

Office of Public Counsel
c/o The Florida Legislature
111 West Madison Street
Room 812
Tallahassee, FL 32399-1400
(904) 488-9330

Attorneys for the Citizens
of the State of Florida

TABLE OF CONTENTS

DIRECT TESTIMONY OF HUGH LARKIN, JR.
ON BEHALF OF THE CITIZENS OF FLORIDA
BEFORE THE
FLORIDA PUBLIC SERVICE COMMISSION
GULF POWER COMPANY
DOCKET NO. 891345-EI

INTRODUCTION

Q. WHAT IS YOUR NAME, OCCUPATION, AND BUSINESS ADDRESS?

A. My name is Hugh Larkin, Jr. I am a Certified Public Accountant licensed in the States of Michigan, Alaska, and Florida and the senior partner in the firm of Larkin & Associates, Certified Public Accountants, with offices at 15728 Farmington Road, Livonia, Michigan 48154.

Q. HAVE YOU PREPARED AN APPENDIX DESCRIBING YOUR QUALIFICATIONS AND EXPERIENCE?

A. Yes. I have attached Appendix I which is a summary of my experience and qualifications.

Q. BY WHOM WERE YOU RETAINED AND WHAT IS THE PURPOSE OF YOUR TESTIMONY?

A. My firm was retained by the Florida Public Counsel to review the rate increase request made by Gulf Power Company ("Gulf", or "Company"). I have reviewed the Company's filing as it related to various accounting and revenue requirement issues. Helmuth W. Schultz III has assisted in the Gulf Power Company rate request analysis and has also filed testimony in this docket.

Conclusions on Gulf's Rate Increase Request

Q. WOULD YOU PLEASE SUMMARIZE YOUR FIRM'S CONCLUSIONS REGARDING THE COMPANY'S RATE INCREASE REQUEST?

A. I have concluded that the Gulf Power Company has overstated its revenue increase request. In fact, a rate reduction of $11,791,000 is justified. Our analysis which incorporates the recommendations of Dr. Richard Rosen and Mr. James Rothschild has indicated that the Company has overstated its requirements in almost every area of the rate filing. The rate base has been overstated in several areas. If authorized by the Commission at the level requested by the Company, it will result in excess earnings to Gulf Power and its major stockholder, the Southern Company. If the Commission were to authorize the rate level requested by Gulf Power, ratepayers would be required to pay excessive rates which would not be justified by legitimate expenses which should be included for ratemaking purposes.

Q. PLEASE INDICATE THE MAJOR AREAS WHERE GULF POWER'S REVENUE REQUEST IS OVERSTATED.

A. The Company has overstated the rate base in several areas. Plant in service has been overstated. Additionally, Dr. Richard Rosen will testify that the Company's rate base allocation for unit power sales is understated. Additional plant and expenses should be allocated to the Company's unit power sales.

I have also concluded that the Company's requests for plant held for future use and working capital are overstated. These items should be reduced for purposes of establishing rates in this case.

In the area of operating income, Dr. Rosen has concluded that the Company's projection of retail sales is understated and should be adjusted. Mr. Schultz's review of the budgeted expenses has led us to the conclusion that expenses must be reduced in order to establish rates at a proper level.

Exhibit ___(HL-1) shows the revenue requirement after adjustment for the issues that I have summarized. This schedule indicates that rates should be reduced by $11,791,000.

Q. HOW WILL YOUR TESTIMONY BE ORGANIZED?

A. My testimony will be organized in the following manner:

1. Rate Base Adjustments
2. Unit Power Sales Adjustments
3. Retail Sales Adjustment
4. Depreciation and Amortization Expense
5. Interest Synchronization
6. Income Taxes

<u>RATE BASE</u>

Q. WHAT IS THE FIRST AREA OF THE COMPANY'S FILING THAT YOU WILL BE DISCUSSING?

A. The first section of my testimony deals with the projected rate base. The rate base adjustments which I have made are summarized on Exhibit ___(HL-2), and result in a recommended jurisdictional rate base of $842,270,000.

Plant in Service

Q. PLEASE DISCUSS THOSE ADJUSTMENTS YOU HAVE MADE TO PLANT IN SERVICE.

A. The Company's approach to determining the plant in service, which is the major component of the rate base, was to project the budgeted additions to plant in service from August 1989 through December 31, 1990. The Company's projections are overstated. Gulf projected additions to plant in service which have not taken place. Actual data is available for the first three months used in determining the thirteen month average plant in service. A comparison of the Company's projected plant in service with actual balances indicates that there have been overstatements of plant in service. In the month of December 1989 the plant in service was overprojected by $4,659,000. In January 1990 the plant in service balance was overprojected by $7,172,000. In February 1990 the plant in service balance was overprojected by $9,083,000. Although the data for the month of March 1990 was not available for use in our analysis, it indicated that the Company's projected March 1990 plant in service balance was overstated by $11,753,000.

Mr. Scarbrough stated in his deposition in Case 881167-EI which was withdrawn last year that while it was correct that the actual balances are less than the Company's projected balances, it was the Company's intention to catch-up at some point in the year. That never occurred. The Company's projected plant in service balance was overstated for every month of 1989 and is overstated for the first three months of 1990. In fact, the 13-month average balance for 1989 was overstated by $26,968,000. The Commission cannot accept the Company's projections since they have been consistently overstated.

Q. HOW HAVE YOU DETERMINED THE PLANT IN SERVICE BALANCES AS SHOWN ON EXHIBIT ___(HL-3)?

A. I used the actual balances for the first three months of the test year ending December 31, 1990. I projected the remaining months of the test year, i.e., March 1990 through December 1990, using a linear regression analysis. This analysis used the actual plant balances for all of 1988, 1989 and the actual balances for January and February of 1990. Since there are no major plant additions projected for the year 1990, this method will result in a more accurate projection of the Company's plant in service than that used by the Company in its presentation. Since this docket will be open for a substantial part of the year, the Commission can substitute actual balances of plant in service into my analysis in order to determine a more accurate plant balance as 1990 progresses. However, I do not believe it would be appropriate to use the Company's inaccurate projections in order to establish rates in this case. There is a definite overstatement in the Company's projection which will result in the overstatement of rates. I have reduced the Company's plant in service by $11,458,000 as shown on line 17 of Exhibit ___(HL-3). This amount is reflected on Exhibit ___(HL-8), line 13 under the adjustments proposed by Public Counsel.

Provision for Depreciation

Q. HOW HAVE YOU DETERMINED THE PROVISION FOR DEPRECIATION AND AMORTIZATION FOR USE IN THIS CASE?

A. For the first three months of the thirteen month average (December 1989 to February 1990), I used the actual reserve balance as it appears on the books and records of the Company. These balances are shown on Exhibit ___(HL-4). I also used the current depreciation expense as it appears on the Company's books and records for the months of January and February, and the actual retirements, cost of removal, and salvage for those particular months. I projected the provision for depreciation for the remainder of the test year by applying the effective depreciation rate for the year 1989 to the depreciable balance of plant in service as projected by me for the months of March through December 1990. The depreciable plant balances were calculated by subtracting the monthly land balances from my projected plant in service balances as shown on Exhibit ___(HL-3) for March through December 1990. The calculation of the effective depreciation rate (page 2 of 2) and the projection of the depreciation provision (page 1 of 2) appear on Exhibit ___(HL-5). The provision for depreciation as calculated on that exhibit has been carried forward to Exhibit ___(HL-4) and used in projecting the depreciation reserve balance for each month of the test year. I projected retirements, cost of removal, and salvage by using the actual balances for the first two months of the test year January and February. I projected the remaining months by subtracting the actual January and February balance from the retirements and cost of removal/salvage used by the Company and spread the amounts ratably over the remaining months. Those projections appear in columns (c) and (d) of Exhibit ___(HL-4). The month-end balances are shown in column (e). To these month-end balances, I have added the monthly job development investment tax credit (JDITC) balances to arrive at the month-end balances used to calculate the thirteen month average depreciation reserve balance.

Q. WHAT IS THE THIRTEEN MONTH AVERAGE DEPRECIATION RESERVE BALANCE WHICH YOU HAVE CALCULATED?

A. The thirteen month average depreciation reserve balance as shown on Exhibit ___(HL-4) is $490,975,000. From that balance, I have deducted the Company 13-month average balance of $487,260,000. I have increased the depreciation reserve by $3,715,000 which is shown on Exhibit ___(HL-

4), line 17. This amount is reflected on Exhibit ___(HL-8), line 14 under the adjustments proposed by Public Counsel.

<u>JDITC Balance</u>

Q. I NOTE THAT THE JDITC-FPSC 1984 RATE CASE BALANCE WHICH YOU HAVE ADDED TO RESERVE IS SUBSTANTIALLY HIGHER THAN THE COMPANY'S. CAN YOU EXPLAIN THE DIFFERENCE?

A. At this point, I cannot. The balances that I have added to the depreciation reserve agrees with what the Company projected in the case which was withdrawn last year. I merely projected the balance to the end of 1990. I have utilized this amount since it appears to be the correct balance. I know of no reason why the balance would decrease from the prior case. If the Company can explain why the balance decreased, and I agree with that explanation, I would decrease my projection for this item; however, until a satisfactory explanation is received, I feel it is appropriate to use my projection.

Q. WHAT IS YOUR UNDERSTANDING OF HOW THIS BALANCE AROSE?

A. The Office of the Public Counsel has always contended that a tax deduction for ratemaking purposes should be imputed to the debt component of the overall rate of return earned on the JDITC. While the

Commission in theory agreed with that analysis, there was some concern that the imputation of this tax deduction might violate the normalization provision of the Internal Revenue Code. The Commission therefore did not authorize this deduction for ratemaking purposes. However, the rates associated with this particular component of overall rates were authorized under bond so that any future determination by the Internal Revenue Service that the imputation of a tax deduction would not be a violation of the Internal Revenue Code would result in recovery of this component of rates by ratepayers. In 1986, a regulation was promulgated which authorized the imputation of a tax deduction to the debt component of the overall rate of return earned on the JDITC. The Commission then authorized utilities to establish in the depreciation reserve, a balance which represented their overearnings on the JDITC until such time as rates were reestablished which would take into account the overstatement resulting from not imputing an interest deduction to the debt component of the overall rate of return earned on JDITC. The balances shown in column (f) of Exhibit ___(HL-4) represent the accumulation of the original balance and annual increases of the overstatement of rates associated with that JDITC tax deduction. The increase in this balance should stop after rates are established in this case.

Non-Electric Utility

Q. PLEASE DISCUSS THE ADJUSTMENTS SHOWN IN COLUMN (2) OF EXHIBIT __(HL-2) AS THEY RELATE TO PLANT IN SERVICE AND ACCUMULATED PROVISION FOR DEPRECIATION.

A. These adjustments are outlined on Exhibit __(HL-8) under the heading "Non-Electric Adjustments". These adjustments are the same as those proposed by the Company which remove the investment in appliance sales and services from the plant in service and depreciation reserve. The corresponding rate base-capital structure synchronization adjustment should be made entirely to the equity component for this item.

Commission Adjustments Made in Last Case

Q. PLEASE EXPLAIN THE ADJUSTMENTS SHOWN UNDER COLUMN (4) OF EXHIBIT __(HL-2) ENTITLED "COMMISSION ADJUSTMENTS MADE IN THE LAST CASE"?

A. These adjustments are also outlined on Exhibit __(HL-8) under the heading "Commission Adjustments". The adjustments to plant in service are comprised of three components.

I have excluded from the plant in service balance, prior Commission adjustments related to the Bonifay and Graceville offices and the Leisure

Lake investment. These investments were excluded by the Commission in the prior rate case as costs not being justified.

Q. HAS THE GULF POWER COMPANY OFFERED TESTIMONY IN THIS CASE ATTEMPTING TO JUSTIFY THE BONIFAY AND GRACEVILLE OFFICES DISALLOWANCE BY THE COMMISSION IN THE LAST CASE?

A. Yes, they have. Gulf Power has offered the testimony of Ernest C. Conner, Jr., justifying the expenditures on the Bonifay and Graceville offices.

Mr. Conner's testimony does not offer any additional information which the Commission did not have available to it when it originally made this disallowance. Mr. Conner was not involved with the construction of these offices and can not offer any personal insight into this construction.

Gulf was asked the following questions regarding Mr. Conner's participation in the construction of the Bonifay and Graceville office:

> 139. Was Mr. Conner an employee of Gulf Power Company when the Bonifay and Graceville offices were constructed?
>
> a. Was Mr. Conner specifically involved in the evaluation and letting of the contracts associated with the construction of the Bonifay and Graceville offices?

b. Did Mr. Conner evaluate the need for these buildings prior to the construction of the Bonifay and Graceville offices?

c. Was Mr. Conner a contracting officer who let the contracts for the construction of the Bonifay and Graceville offices?

ANSWER:

139. No, Mr. Conner became a Gulf Power Company employee in April of 1982. The new buildings for the Graceville and Bonifay offices were constructed prior to this date.

139a. No.

139b. No.

139c. No.

I recommend that the Commission disallow the same amount as in the prior case since there has been no change in circumstances since that case.

As far as the Leisure Lake property is concerned, the Commission concluded:

> ...that Gulf had imprudently constructed a substation and 2.2 miles of distribution line to serve the Leisure Lake subdivision, which we determined was properly served by another utility.

Again, this property should be excluded from rate base and not allowed to earn a rate of return. I have excluded the amount shown in the MFRs. Mr. McMillan is going to provide the actual amount included in plant in service as a late filed exhibit.

Q. WOULD YOU PLEASE DISCUSS THOSE ADJUSTMENTS ENTITLED "COMPANY ADJUSTMENTS" SHOWN IN COLUMN (6) OF EXHIBIT ___(HL-2).

A. The Company is proposing two adjustments, one to the depreciation reserve as a result of an investigation into improper costs being capitalized. I have accepted the theory of the adjustment but have no knowledge as to the accuracy of the amount. The second adjustment is to working capital which removes some items which should not be charged to ratepayers. I am proposing other adjustments to working capital which I will discuss later.

<u>Public Counsel Adjustments</u>

Q. WOULD YOU PLEASE DISCUSS THOSE ADJUSTMENTS LABELED "PUBLIC COUNSEL ADJUSTMENTS", SHOWN IN COLUMN (8) OF EXHIBIT ___(HL-2), WHICH RELATE TO PLANT IN SERVICE AND THE ACCUMULATED PROVISION FOR DEPRECIATION AND AMORTIZATION?

A. The adjustments which are reflected in this column are shown individually on Exhibit ___(HL-8), page 1 of 2 and 2 of 2, lines 13 through 25. The first two adjustments which are reflected on that schedule, I have previously discussed, i.e., the adjustments to plant in service and the understatement of the depreciation reserve. Those two adjustments are plant in service of $11,458,000 and depreciation reserve understatement of $3,715,000.

Additionally, I am proposing that the Commission remove the Company's investment in the Tallahassee office from the plant account balances. This investment is associated with the lobbying activities of the Company and should not be borne by ratepayers. The actual balance in the plant account amounted to over $43,000. It appears that these expenditures were made in the year 1987 and thus, would reflect approximately three years of amortization, assuming a five year life for these assets. Therefore, I have adjusted the depreciation reserve for three years of depreciation associated with this asset. This amounts to approximately $26,000.

Q. WHAT OTHER ADJUSTMENTS TO PLANT IN SERVICE AND ACCUMULATED DEPRECIATION ARE YOU RECOMMENDING?

A. Gulf Power had capitalized a cancelled Southern Company Services' building in 1984. Cancelled projects should not be included as part of plant in service. The 1984 cancellation of this project should have been expensed at that point in time and not capitalized. I am recommending that this cancelled project be removed from plant in service and any associated reserve for depreciation also be removed. The Staff's report on interim shows a net book value of $186,548. Based on a cancelled cost of $346,000, the reserve balance would be $159,000 ($346,000 - $186,548).

I should also point out that if the Commission were to accept this amount as plant in service, it would be retroactive ratemaking. This plant was abandoned in 1984. If the Commission were to accept this as an expense ratepayers should pay, they would, in effect, be going back to 1984 to approve this plant abandonment. There is no current value to ratepayers by the inclusion of the amount in rates.

Q. PLEASE EXPLAIN THE AMOUNTS SHOWN ON EXHIBIT ___(HL-8), PAGE 2 OF 2, LINES 19 AND 20.

A. Mr. Schultz has recommended that certain rebuilds and renovations which were expensed by the Company should be capitalized. The adjustments on lines 19 and 20 reflect the capitalization of these costs and the depreciation reserve which would be reflected in the Company's accounts assuming a 10-year life for these assets. Mr. Schultz's testimony provides more details on why these items should be capitalized.

Q. PLEASE EXPLAIN THE AMOUNTS ON EXHIBIT __(HL-8), PAGE 2 OF 2, LINES 21 AND 22.

A. Mr. Schultz has recommended underground net protectors which were expensed by the Company should be capitalized. The adjustments on line 21 and 22 reflect the capitalization of these costs and the depreciation reserve which would be reflected in the Company's accounts assuming a 10-year life for these assets. Mr. Schultz's testimony provides more details on why these items should be capitalized.

<u>Plant Held for Future Use</u>

Q. PLEASE DISCUSS THE "PLANT HELD FOR FUTURE USE" ITEMS WHICH SHOULD BE EXCLUDED FROM RATE BASE.

A. Three items in the Plant Held for Future Use account should be excluded from rate base. These items are detailed on OPC Exhibit __(HL-6).

The first exclusion involves the Company's Caryville land site. In 1976, the Caryville land was certified for two 500 megawatt units under Florida's Power Plant Siting Act. Plans for building those units were cancelled. The site, however, remains certified for a 3,000 megawatt capacity generating plant. The Company claims the land has value because it has been certified as a future plant site. The Company claims such land should be included in rate base because it may be used in the Company's long-range plans for additional capacity.

The Company's budgeted amount for the Caryville land includes $50,000 for the acquisition of additional land. The Company claims that, if a large plant needs to be built on the site, more land will be needed. The Company claims further that it is less costly to acquire additional land now than it would be later. The Company states further that its Caryville land was allowed in rate base by the Commission in Dockets 800001-EI, 810136-EU, 820150-EU and 840086-EI.

I am recommending that the Caryville land site be removed from rate base for the following reasons. The Company is presently in a situation where it has excess generating capacity. It appears the need for adding new capacity will not exist for several years. Since the Company has no definite plans to build a plant on this site in the reasonable future, the land and any additional acquisitions at the site should be removed from rate base. Ratepayers have already been paying the Company a rate of return on such land since the 1980 rate case. During this period of approximately ten years, ratepayers have received no benefit or useful electric service from the plant site. This land should not be allowed in rate base until and unless it becomes apparent that it is going to be used in providing electric service to customers within a reasonable time frame.

Ratepayers should not be required to pay the Company a rate of return on this idle land indefinitely. I am recommending that the $1,398,000 average test year investment in the Caryville land site be excluded from rate base.

The second item of plant held for future use to be excluded is the Bay Front Office. The Company's present Bay Front Office is not yet being fully utilized. Given this fact, it is unlikely for the Company to have a real need for additional office space in the near future. The Company projects that this Bay Front Office site will be in use some time during the period 1994 through 2010. I believe the Company's plans for using this property are too indefinite to qualify this land as a legitimate item of plant held for future use deserving rate base treatment. It would be highly unreasonable to require ratepayers to pay the Company a return on idle land from now until 2010. This property cannot be considered used and useful in providing utility service. Therefore, the $1,844,000 must be removed from rate base.

The third item of plant held for future use which should be disallowed from rate base is the Company's land at Pace Boulevard. The Company began acquiring this land in 1988 and has plans to continue acquisition of such land through 1994. The Company has designated this land as the site for construction of a building maintenance facility, construction of a control testing laboratory, and for additional parking. These items have various projected in-service dates ranging from 1990 through 2008. See Mark Bell 1990 Financial Forecast Review workpapers.

This item should be removed from rate base for the following reasons. Company witness Conner testified that the Company's new Bay Front office building has a third floor which was purposefully left unfinished to accommodate building maintenance service functions and to postpone the need for a new facility for same. Building maintenance is currently conducted from the location of the third floor of the Company's Bay Front office building. Apparently it will be situated there for some time. Thus, I fail to see the need for the Pace Boulevard site to house the Company's building maintenance group. Moreover, if the building maintenance function would be facilitated by locating it at the Pace Boulevard site in the near future by moving this function from its present location in the third floor of the Company's Bay Front office, this would raise the question of whether the Company's third floor of the Bay Front office building would qualify as used-and-useful public utility property.

The Company has indicated that it plans to acquire $1,104,000 more Pace Boulevard land during the period 1990 through 1994. In lieu of including this item in rate base as plant held for future use, I recommend that the Company be allowed to record on its books an AFUDC-like accrual for carrying costs. At such time when the Company is able to present to the Commission that definite plans have been developed and actual construction has commenced at the site, the cost of the property plus the recorded carrying charge could be compared to what the land would have cost had it been purchased at a later date. To the extent that the land plus recorded carrying charge represents a reasonable price, at that point it would be appropriate to include this item in rate base. Until then, I am recommending the removal of the 13-month average rate base amount of $612,000.

Construction Work in Progress

Q. ARE YOU RECOMMENDING ANY ADJUSTMENTS TO THE COMPANY'S PROJECTED CONSTRUCTION WORK IN PROGRESS BALANCE?

A. No, I am not. I have reviewed the balance and it appears that this level of construction work in progress will be incurred during the future test year. I am not absolutely convinced that the small amount of CWIP removed because it earns an AFUDC return, is an appropriate level. Therefore, at this point in time, I have not proposed an adjustment to that balance.

Plant Acquisition Adjustment

Q. I NOTE THAT IN THE PUBLIC COUNSEL ADJUSTMENTS YOU ARE NOT REMOVING THE PLANT ACQUISITION ADJUSTMENT SHOWN BY THE COMPANY IN THE AMOUNT OF $8,043,000. PLEASE EXPLAIN.

A. I have not recommended the disallowance of this balance because it is being removed under Dr. Richard Rosen's recommendation that an additional 63 megawatts of Scherer capacity be allocated to unit power sales. If the Commission does not accept Dr. Rosen's recommendation to reflect the additional 63 megawatts of capacity as unit power sales, I would recommend that the entire plant acquisition adjustment should be excluded from rate base.

In addition, in the case which was withdrawn last year, the Staff located an additional plant acquisition adjustment which, according to the Staff report, was in the amount of $7,980,114 (I understand part of this amount has been refunded by Georgia Power Company). Again, this amount would be excluded if Dr. Rosen's recommendation was accepted to allocate all of Plant Scherer capacity to unit power sales. However, if that is not accepted, I would recommend that any balance associated with the acquisition adjustment be removed from rate base such that no acquisition amount remains in the rate base upon which ratepayers would pay a rate of return.

Q. WHY IS IT APPROPRIATE TO EXCLUDE THESE ACQUISITION ADJUSTMENTS FROM THE RETAIL RATE BASE?

A. It is appropriate because the ratepayers should only be required to pay a return on the original cost of property dedicated to public service. Acquisition adjustments represent additions to cost in excess of the original book value. They artificially inflate the cost to be borne by ratepayers. In this instance, the benefit flows to the Southern Company through Georgia Power's inflation of the purchase price which Gulf paid for the Scherer unit. The two acquisition adjustments which are incorporated into the purchase price paid by Gulf do not represent the true cost of the unit and would allow Georgia Power and its parent, the Southern Company, to profit from the sale of this unit to Gulf Power, an affiliated company.

Q. WASN'T PART OF THE ACQUISITION PRICE PAID TO OGLETHORPE POWER CORPORATION AND THE CITY OF DALTON?

A. Yes, it was. However, these resale agreements were all part of a Southern Company obligation and were not transactions negotiated by Gulf Power in the best interests of the Gulf Power ratepayers. To pass along these acquisition costs which discharged the obligation of the Southern Company related to the Oglethorpe Power Corporation and the City of Dalton would be unfair and unequitable to the Gulf Power ratepayers and would unjustly enrich the Southern Company. The Commission must exclude both of these acquisition adjustments when establishing retail rates in this case if it does not accept the adjustment to unit power sales recommended by Dr. Rosen.

Q. WOULD YOU PLEASE DISCUSS THOSE ADJUSTMENTS WHICH YOU HAVE MADE TO THE COMPANY'S WORKING CAPITAL CALCULATIONS?

A. The adjustments which I have made to the Company's working capital calculations is reflected on Exhibit ___(HL-7). The first adjustment is shown on line 2 and reflects additional working capital allocation to the UPS sales. This adjustment reflects Dr. Rosen's recommendation that an additional 63 megawatts of capacity be allocated to UPS sales. I will discuss the additional working capital allocated to UPS sales later in my testimony.

Q. PLEASE DISCUSS THE REMAINING ADJUSTMENTS SHOWN ON EXHIBIT ___(HL-7).

A. The first adjustment I am recommending after the adjustment for additional working capital allocated to UPS sales, is to remove the remaining balances in "Other Investments". This balance amounts to $113,000. The largest single amount in this balance is associated with "energy insurance reserve". There are two other minor balances associated with reserve premium - ACE and reserve premium - XL. There is no showing on the part of the Company that these deposits really benefit the ratepayers and reduce the insurance premium paid by ratepayers. Until such time that the Company can clearly show that there is a benefit to ratepayers of including these insurance reserves in the rate base, ratepayers should not be required to pay a rate of return on them.

The next item that I have excluded from rate base is "other accounts receivable". The net balance which the Company has included in working capital is $1,230,000. This balance is comprised of miscellaneous accounts receivable and property damage. The majority of the balance is related to miscellaneous accounts receivable. There is no showing on the part of the Company what is in this account nor that the receivable is even related to utility services. I have excluded the balance because I am not certain that these receivables actually pertain to utility service nor that the ratepayers receive any benefits from their inclusion in working capital.

The next item excluded from working capital is based on the Staff's recommendation in the interim filing that $6,355,000 of working capital associated with fuel inventories be excluded from the rate base. It is my understanding that this recommendation was based on the Staff's analysis of a reasonable level of fuel inventory to be maintained by Gulf. It is my recommendation that the Staff level of inventory for fuel be accepted by the Commission.

The next adjustment to the working capital that I am recommending is associated with the Company's materials and supplies inventory. The Company has projected an increase in that inventory over actual balances experienced historically. There is no basis on which to conclude that the plant inventory balances will increase. I have used the actual 13-month average balance for the period ended February 28, 1990. Based on that actual 13-month average period, an adjustment to the materials and supplies inventory of $2,307,000 is warranted.

The next item that I have excluded from working capital is prepaid pension costs. The Company has included in working capital requirements $1,485,000 of prepaid pension costs. In the rates established in 1984, the Company was allowed a full pension expense in rates. Ratepayers have fully paid that pension expense through rates each and every year. The Company's pension fund is now fully funded and the Company has made an additional payment to that pension trust fund. It is inappropriate for those prepayments to become an additional revenue requirement to the ratepayers. Any future pension liability would not accrue for several years. Ratepayers should not be burdened with prepayments when the past payments have fully funded the Company's liability to its employees. Therefore, it is appropriate to exclude any prepaid pension cost from the working capital requirement.

I have excluded from prepayments under the current asset category, an additional amount of $136,000. These are designated in the Company's analysis as "other". There is no other explanation of what these prepaids are nor is there any account designation where one could review the account classification under which this category would fall. Unless, and until, the Company can fully explain what type of prepaid would be under the category of "other", and how it benefits ratepayers by making this type of prepayment, no generic amount under the heading of "other" should be included for ratemaking purposes.

The next item I am excluding from working capital is under the category of deferred debits. Again, the Company has a miscellaneous category in the amount of $30,000. It is designated as "other miscellaneous". The Company's analysis shows that there is no balance in that account for the actual months January through August 1989. The Company, however, projects an amount in that category from September 1989 through December 1990 in the amount of $30,000. The explanation on the workpaper is "This account contains several amounts such as cashier's and agent's overage, suspense accounts, etc., all relatively small in nature. Amount based on historical balance." However, the Company's historical balance shows there is no balance in this account and to estimate an amount that does not exist, would not be appropriate for inclusion in working capital. Additionally, there are balances in the "Deferred Debit" category Preliminary Survey ($1,276,000) and Clearing Accounts ($452,000) which represent suspense amounts which have not been cleared.

The next balance which is excluded from working capital relates to the Caryville subsurface study. I have excluded the Caryville project entirely from rate base and it would not be appropriate to include any balance in working capital associated with the Caryville site. Therefore, this amount is excluded form working capital.

The next item I am excluding from working capital is the projected investment in unamortized rate case expense. A rate reduction is required in this case and the ratepayer should not be required to pay a return on the Company's expenses in requesting an unjustified rate increase. This investment is therefore excluded from rate base.

If the Commission eventually decides that Gulf is entitled to a rate increase, then a rate case working capital requirement might be included which reflects the ratio of an authorized rate increase to the requested rate increase times the deferred debit balance which the Company has requested. In that manner, the level of rate case expense will be reflected by the amount of the rate increase which the Company actually receives.

The next series of adjustments actually increase working capital and they relate to the fact that these expenses have been excluded from operating income and therefore it would not be appropriate to include the deferred credit balance as a reduction of working capital.

The first item excluded from working capital is the supplemental pension and benefit reserve. Mr. Schultz has excluded expenses associated with supplemental pensions and benefits and therefore, the reserve associated with those expenses should also be excluded from working capital.

Post retirement, life and medical insurance reserves should be excluded from working capital. Mr. Schultz has made an adjustment to the expense for post retirement, life and medical benefits to include only those actual payments made on this expense. The additional reserve expense in the amount of $2,935,000 which has been accumulated on the balance sheet, should be excluded from working capital. Since both Mr. Schultz and I agree that these expenses should be reflected on an actual payment basis, any reserve accumulated reflecting additional expenses expensed, but not paid, should not be a reduction of working capital.

Deferred school plan appliance has also been excluded from working capital. These appliances relate to donations by Gulf Power to schools where electrical appliances are used to teach home economics. The provision of these appliances to the schools is not a necessary part of providing electric service and any credit associated with this program should be excluded from working capital.

I have also excluded the reserve associated with productivity improvement plan. This is a deferred compensation plan where employees who earned productivity improvements are allowed to defer their compensation under that plan. Since the productivity improvement plan has been excluded by Mr. Schultz from the expenses in this case, any reserve associated with that plan should also be excluded from working capital.

Q. THE ONLY ADJUSTMENTS YOU HAVE NOT DISCUSSED ON EXHIBIT __(HL-7) ARE THOSE WORKING CAPITAL ADJUSTMENTS RELATED TO THE ADDITIONAL ALLOCATION OF 63 MEGAWATTS OF SCHERER CAPACITY TO UPS SALES. WOULD YOU PLEASE DISCUSS

THOSE ADJUSTMENTS.

A. Line 2 on Exhibit ___(HL-7) reflects the additional working capital allocated to UPS sales based on Dr. Rosen's recommendation that 63 additional megawatts of Scherer capacity be allocated to UPS sales. The amounts were calculated based on the workpapers provided by the Company. The additional fuel stocks, other materials and supplies and prepayments reflect the balances for Scherer 3 shown in the Company's workpapers. The other balances have been calculated based on the original allocation of these amounts in the UPS allocation workpapers.

Q. ON LINE 16 OF EXHIBIT ___(HL-7) YOU MAKE ADDITIONAL ADJUSTMENTS WHICH ARE LABELED "EFFECT OF UPS EXCLUSION". WOULD YOU PLEASE EXPLAIN THOSE ADJUSTMENTS?

A. I have excluded several items from working capital which have been allocated in part in the UPS working capital adjustment. In order to not duplicate their exclusion, I have calculated estimates of items already excluded in part in the UPS adjustment. These items include fuel inventories, materials and supplies and prepayments. The amount shown under the current asset column in the amount of $819,000 is to add back to working capital that portion which has been excluded in the UPS adjustment thus eliminating any duplication.

Under the heading of deferred debits, I have excluded the Caryville subsurface study. A portion of this balance has been allocated in the UPS sales adjustment. I have therefore added back that portion related to the Caryville Subsurface Study. Under the last column, entitled Deferred Credits, I have deducted out credits which I have eliminated from the working capital calculation which, in part, have already been allocated out of working capital under the UPS Scherer allocation.

Q. PLEASE EXPLAIN THE AMOUNT SHOWN ON LINE 18 AS UPS WORKING CAPITAL ADJUSTMENT.

A. I have recalculated the working capital requirement to include all of the fuel inventory, other materials and supplies and prepayments associated with Scherer Unit 3. In addition to that recalculation of the Company's working capital allocation, I have increased the total working capital allocated to Scherer Unit 3 by $2,342,000. This increase in the allocation of working capital is to reflect the fact that the actual working capital allocated by the Company to its unit power sales is based on a 1/8 cost of O&M approach. (See response 141 to Public Counsel's Second Set of Interrogatories). This calculation of working capital results in a higher allocation of working capital to unit power sales than the balance sheet approach. I have calculated the $2,342,000 by taking the UPS working capital shown in response 141 in the amount of $6,505,000 and deducted the amount allocated by the Company in the amount of $4,163,000 to arrive at the additional working capital reduction.

Q. WHY IS IT APPROPRIATE TO USE THE 1/8 O&M APPROACH TO THE CALCULATION OF WORKING CAPITAL FOR UNIT POWER SALES?

A. The ratemaking approach used by the Commission is to allocate to retail rates, all costs associated with the Company's units and working capital which are not directly assigned to unit power sales. Therefore, retail ratepayers are always responsible for the total revenue requirement. In other words, if there were no unit power sales, all of the costs of Plant Scherer would be allocated to retail jurisdictional ratepayers. Thus, when the Company recovers from unit power sales, a higher level of working capital, then the ratepayer should receive full credit for that actual investment allocated to unit power sales. Thus, the utility will not recover twice for the same working capital, that is, it will not be allocated to the jurisdictional retail ratepayers and also recovered in unit power sales. This is the only fair approach which the Commission can take in order to ensure that ratepayers receive the appropriate credit against the working capital requirement for unit power sales.

Unit Power Sales

Q. PLEASE DESCRIBE THE ADJUSTMENT FOR UNIT POWER SALES, SHOWN IN COLUMN 10 OF EXHIBIT __(HL-2).

A. Dr. Richard Rosen has submitted testimony recommending that the Commission allocate an additional 63 megawatts of Scherer capacity to unit power sales. Dr. Rosen will discuss the appropriateness of that adjustment. I have calculated the impact on the rate base associated with the exclusion of the entire Scherer Plant from the Company's rate base. The gross plant, accumulated depreciation and acquisition adjustment for Scherer Unit 3 come directly from the Company's workpapers.

The allocation of transmission facilities was made in the same manner as the Company's calculation but is based on a higher allocation factor as a result of more UPS capacity being sold. The working capital calculation has previously been discussed in my testimony and allocates additional working capital to the UPS sales in addition to the additional recovery of working capital based on the 1/8 formula used in UPS sales agreements.

Q. HOW DOES YOUR ADJUSTMENT FOR UNIT POWER SALES AND OPERATING EXPENSES DIFFER FROM THAT OF THE COMPANY?

A. Again, in accordance with Dr. Rosen's recommendation, I have removed all of the operating expenses associated with Scherer Unit 3. The operating expenses are reflected in the Company's workpapers with the exception of the income tax calculation which I calculated by maintaining the same ratio as the Company. In addition, Dr. Rosen has recommended that capacity equalization payments received from other companies in the System also be adjusted to reflect the fact that Scherer Unit 3 will be totally used for capacity sales and therefore would not be available for jurisdictional sales.

<u>Retail Sales</u>

Q. ARE YOU PROPOSING AN ADJUSTMENT TO THE COMPANY'S RETAIL SALES?

A. Yes, I am. Dr. Richard Rosen has examined the Company's sales forecast and he has indicated that he believes that the Company's sales forecast is understated by one percent. I have calculated the increase in base retail revenue based on a 1% increase over the Company's current retail Kwh sales forecast. My calculations are shown on Exhibit ___(HL-9). This exhibit shows that retail sales should be increased by $2,492,819. The adjustment to sales is reflected on line 1, Column (G) of Mr. Schultz's Exhibit ___(HWS-1).

Q. IS IT YOUR UNDERSTANDING THAT DR. ROSEN HAS REMOVED THE COMPANY'S ADJUSTMENT TO ITS PROJECTED SALES FOR SUPPRESSION?

A. It is my understanding Dr. Rosen's adjustment removes the Company's suppression adjustment to its sales forecast. This would be consistent with the Commission's policy of not recognizing accretion or suppression as a result of a change in rates.

Q. WOULD YOU PLEASE EXPLAIN WHAT YOU MEAN BY ACCRETION OR SUPPRESSION AS IT AFFECTS RATES?

A. In a recent Bell Telephone case, the Company proposed an accretion adjustment to reflect the fact that when rates are reduced, consumption of services tend to increase. The Commission did not accept that adjustment and removed the accretion revenues in determining the rate increase. In the current Gulf case, in projecting kilowatt hour sales, the Company included a suppression factor to reflect the fact that when rates are increased, the consumption of energy tends to decrease. Since the Commission has rejected the philosophy of increasing revenue as a result of rate decreases, then the opposite position should also be rejected, i.e., the consumption will decrease as a result of rate increases. It is my understanding that Dr. Rosen has accounted for this in his 1% increase in sales over the Company's projection.

Depreciation and Amortization

Q. HAVE YOU ADJUSTED DEPRECIATION AND AMORTIZATION TO REFLECT THE LOWER PLANT BALANCES THAT YOU HAVE CALCULATED?

A. Yes, I have. That adjustment appears on Exhibit __(HL-10). I have calculated the total depreciation and amortization as it appears on Exhibit __(HL-5), page 1 of 2. The first two amounts for January and February are actually depreciation expense for those months. The remaining balances are based on the projected plant in service balance and the monthly rate I have calculated. The total depreciation and amortization is shown on line 13 of Exhibit __(HL-10) and is $53,908,670. From that balance, I have deducted those items which either flow through a clearing account or should not be charged to ratepayers. I have estimated the automobile depreciation, merchandising and appliance sales depreciation based on the actual amounts through February 1990. I then annualize these amounts to deduct from the depreciation expense I have calculated. The Tallahassee Office amortization and the amortization for the Southern Company Services building abandonment have also been estimated. I have added depreciation for the rebuilds and renovations based on a ten year life for the amount I have added to plant in service.

The adjusted net utility depreciation and amortization as shown on line 22 of Exhibit ___(HL-10) is $52,622,703. The Company's total depreciation and amortization as it appears on Schedule C-2, Column (7) is $53,590,000. This amount includes the amortization of the acquisition adjustment. By comparing this amount to the calculation that I have made, I have calculated a reduction in depreciation expense of $967,297. This adjustment removes the amortization for the acquisition adjustment from the expenses charged to ratepayers, since it is my position that these acquisition adjustments should not be included in rate base nor charged to ratepayers.

Interest Synchronization

Q. PLEASE DESCRIBE YOUR ADJUSTMENT FOR INTEREST SYNCHRONIZATION.

A. Exhibit ___(HL-11) shows my adjustment for interest synchronization. Line 1 reflects the adjusted jurisdictional rate base as shown in Exhibit ___(HL-1). Line 2 is the weighted cost of debt calculated from the capital structure and cost rates used by Public counsel witness Rothschild. Line 3 is the interest deduction which should be used for ratemaking purposes utilizing the rate base I am recommending.

Line 4 is the interest deduction reflected in the company's calculation according to MFR Schedule C-44. Since the Company's interest deduction is higher than the synchronized interest deduction utilizing my rate base, then income tax expense will increase. The loss of interest deduction is $1,560,000. This results in an increase in income taxes of $587,000.

Income Tax Expense

Q. DESCRIBE THE INCOME TAX CALCULATION WHICH YOU SHOW ON EXHIBIT ___(HL-12).

A. This adjustment is composed of essentially two components. The first component is the additional revenue which I am recommending be added to the jurisdictional revenue based on Dr. Rosen's analysis. The second line is the additional adjustments to the Company's operating expenses and the reduction in depreciation and amortization that I am recommending. The addition of these two numbers is the additional taxable income for ratemaking purposes and is $22,600,000. Multiplying these numbers by the effective tax rates for State and Federal income taxes, results in an additional income tax expense of $1,243,000 for state income taxes and $7,261,000 for Federal income taxes.

Summary

Q. WOULD YOU PLEASE SUMMARIZE YOUR CONCLUSIONS.

A. The Company's revenues ought to be reduced by $11,791,000. This recommendation is based on the overstatement of the rate base and operating expenses which have been discussed in my testimony and that of Mr. Schultz. Additionally, Dr. Rosen's recommendations and that of Mr. Rothschild, are incorporated within the revenue requirement that we are recommending.

Q. DOES THAT CONCLUDE YOUR TESTIMONY?

A. Yes, it does.

APPENDIX I

QUALIFICATIONS OF HUGH LARKIN, JR.

Q. WHAT IS YOUR OCCUPATION?

A. I am a certified public accountant and a partner in the firm of Larkin & Associates, Certified Public Accountants, with offices at 15728 Farmington Road, Livonia, Michigan.

Q. PLEASE DESCRIBE YOUR EDUCATION AND EXPERIENCE.

A. I graduated from Michigan State University in 1960. During 1961 and 1962, I fulfilled my military obligations as an officer in the United States Army.

In 1963 I was employed by the certified public accounting firm of Peat, Marwick, Mitchell & Co., as a junior accountant. I became a certified public accountant in 1966.

In 1968 I was promoted to the supervisory level at Peat, Marwick, Mitchell & Co. As such, my duties included the direction and review of audits of various types of business organizations, including manufacturing, service, sales and regulated companies.

Through my education and auditing experience of manufacturing operations, I obtained an extensive background of theoretical and practical cost accounting.

I have audited companies having job cost systems and those having process cost systems, utilizing both historical and standard costs.

I have a working knowledge of cost control, budgets and reports, the accumulation of overheads and the application of same to products on the various recognized methods.

Additionally, I designed and installed a job cost system for an automotive parts manufacturer.

I gained experience in the audit of regulated companies as the supervisor in charge of all railroad audits for the Detroit office of Peat, Marwick, including audits of the Detroit, Toledo and Ironton Railroad, the Ann Arbor Railroad, and portions of the Penn Central Railroad Company. In 1967, I was the supervisory senior accountant in charge of the audit of the Michigan State Highway Department, for which Peat, Marwick was employed by the State Auditor General and the Attorney General.

In October of 1969, I left Peat, Marwick to become a partner in the public accounting firm of Tischler & Lipson of Detroit. In April of 1970, I left the latter firm to form the certified public accounting firm of Larkin, Chapski & Company. In September 1982 I re-organized the firm into Larkin & Associates, a certified public accounting firm. The firm of Larkin & Associates performs a wide variety of auditing and accounting services, but concentrates in the area of utility regulation and ratemaking. I am a member of the Michigan Association of Certified Public Accountants and the American Institute of Certified Public Accountants. I testified before the Michigan Public Service Commission and in other states in the following cases:

U-3749	Consumers Power Company - Electric Michigan Public Service Commission
U-3910	Detroit Edison Company Michigan Public Service Commission
U-4331	Consumers Power Company - Gas Michigan Public Service Commission
U-4332	Consumers Power Company - Electric Michigan Public Service Commission
U-4293	Michigan Bell Telephone Company Michigan Public Service Commission
U-4498	Michigan Consolidated Gas sale to Consumers Power Company Michigan Public Service Commission
U-4576	Consumers Power Company - Electric Michigan Public Service Commission
U-4575	Michigan Bell Telephone Company Michigan Public Service Commission

U-4331R	Consumers Power Company - Gas - Rehearing Michigan Public Service Commission
6813	Chesapeake and Potomac Telephone Company of Maryland, Public Service Commission, State of Maryland
Formal Case No. 2090	New England Telephone and Telegraph Co. State of Maine Public Utilities Commission
Dockets 574, 575, 576	Sierra Pacific Power Company, Public Service Commission, State of Nevada
U-5131	Michigan Power Company Michigan Public Service Commission
U-5125	Michigan Bell Telephone Company Michigan Public Service Commission
R-4840 & U-4621	Consumers Power Company Michigan Public Service Commission
U-4835	Hickory Telephone Company Michigan Public Service Commission
36626	Sierra Pacific Power Company v. Public Service Commission, et al, First Judicial District Court of the State of Nevada
American Arbitration Assoc.	City of Wyoming v. General Electric Cable TV
760842-TP	Southern Bell Telephone and Telegraph Company, Florida Public Service Commission
U-5331	Consumers Power Company Michigan Public Service Commission
U-5125R	Michigan Bell Telephone Company Michigan Public Service Commission
770491-TP	Winter Park Telephone Company, Florida Public Service Commission
77-554-EL-AIR	Ohio Edison Co., Public Utility Commission of Ohio

78-284-EL-AEM	Dayton Power and Light Co., Public Utility Commission of Ohio
0R78-1	Trans Alaska Pipeline, Federal Energy Regulatory Commission (FERC)
78-622-EL-FAC	Ohio Edison Co., Public Utility Commission of Ohio
U-5732	Consumers Power Company - Gas, Michigan Public Service Commission
77-1249-EL-AIR, et al	Ohio Edison Co., Public Utility Commission of Ohio
78-677-EL-AIR	Cleveland Electric Illuminating Co., Public Utility Commission of Ohio
U-5979	Consumers Power Company, Michigan Public Service Commission
790084-TP	General Telephone Company of Florida, Florida Public Service Commission
79-11-EL-AIR	Cincinnati Gas and Electric Co., Public Utilities Commission of Ohio
790316-WS	Jacksonville Suburban Utilities Corp., Florida Public Service Commission
790317-WS	Southern Utility Company, Florida Public Service Commission
U-1345	Arizona Public Service Company, Arizona Corporation Commission
79-537-EL-AIR	Cleveland Electric Illuminating Co., Public Utilities Commission of Ohio
800011-EU	Tampa Electric Company, Florida Public Service Commission
800001-EU	Gulf Power Company, Florida Public Service Commission

U-5979-R	Consumers Power Company, Michigan Public Service Commission
800119-EU	Florida Power Corporation, Florida Public Service Commission
810035-TP	Southern Bell Telephone and Telegraph Company, Florida Public Service Commission
800367-WS	General Development Utilities, Inc., Port Malabar, Florida Public Service Commission
TR-81-208**	Southwestern Bell Telephone Company, Missouri Public Service Commission **Issues Stipulated
810095-TP	General Telephone Company of Florida, Florida Public Service Commission
U-6794	Michigan Consolidated Gas Company, 16 refunds Michigan Public Service Commission
U-6798	Cogeneration and Small Power Production - PURPA, Michigan Public Service Commission
810136-EU	Gulf Power Company, Florida Public Service Commission
E-002/GR-81-342	Northern State Power Company Minnesota Public Utilities Commission
820001-EU	General Investigation of Fuel Cost Recovery Clauses, Florida Public Service Commission
810210-TP	Florida Telephone Corporation, Florida Public Service Commission
810211-TP	United Telephone Co. of Florida, Florida Public Service Commission
810251-TP	Quincy Telephone Company, Florida Public Service Commission
810252-TP	Orange City Telephone Company, Florida Public Service Commission

8400	East Kentucky Power Cooperative, Inc., Kentucky Public Service Commission
U-6949	Detroit Edison Company - Partial and Immediate Rate Increase Michigan Public Service Commission
18328	Alabama Gas Corporation, Alabama Public Service Commission
U-6949	Detroit Edison Company - Final Rate Recommendation Michigan Public Service Commission
820007-EU	Tampa Electric Company, Florida Public Service Commission
820097-EU	Florida Power & Light Company, Florida Public Service Commission
820150-EU	Gulf Power Company, Florida Public Service Commission
18416	Alabama Power Company, Public Service Commission of Alabama
820100-EU	Florida Power Corporation, Florida Public Service Commission
U-7236	Detroit Edison-Burlington Northern Refund - Michigan Public Service Commission
U-6633-R	Detroit Edison - MRCS Program, Michigan Public Service Commission
U-6797-R	Consumers Power Company - MRCS Program, Michigan Public Service Commission
82-267-EFC	Dayton Power & Light Company, Public Utility Commission of Ohio
U-5510-R	Consumers Power Company - Energy Conservation Finance Program, Michigan Public Service Commission
82-240-E	South Carolina Electric & Gas Company, South Carolina Public Service Commission

8624	Kentucky Utilities, Kentucky Public Service Commission
8648	East Kentucky Power Cooperative, Inc., Kentucky Public Service Commission
U-7065	The Detroit Edison Company (Fermi II), Michigan Public Service Commission
U-7350	Generic Working Capital Requirements, Michigan Public Service Commission
820294-TP	Southern Bell Telephone Company, Florida Public Service Commission
Order RH-1-83	Westcoast Gas Transmission Company, Ltd., Canadian National Energy Board
8738	Columbia Gas of Kentucky, Inc., Kentucky Public Service Commission
82-168-EL-EFC	Cleveland Electric Illuminating Company, Public Utility Commission of Ohio
6714	Michigan Consolidated Gas Company Phase II, Michigan Public Service Commission
82-165-EL-EFC	Toledo Edison Company, Public Utility Commission of Ohio
830012-EU	Tampa Electric Company, Florida Public Service Commission
ER-83-206**	Arkansas Power & Light Company, Missouri Public Service Commission **Issues Stipulated
U-4758	The Detroit Edison Company - (Refunds), Michigan Public Service Commission
8836	Kentucky American Water Company, Kentucky Public Service Commission

8839	Western Kentucky Gas Company, Kentucky Public Service Commission
83-07-15	Connecticut Light & Power Company, Department of Utility Control State of Connecticut
81-0485-WS	Palm Coast Utility Corporation, Florida Public Service Commission
U-7650	Consumers Power Company - (Partial and Immediate), Michigan Public Service Commission
83-662**	Continental Telephone Company, Nevada Public Service Commission **Issues Stipulated
U-7650	Consumers Power Company - Final Michigan Public Service Commission
U-6488-R	Detroit Edison Co. (FAC & PIPAC Reconciliation), Michigan Public Service Commission
Docket No. 15684	Louisiana Power & Light Company, Public Service Commission of the State of Louisiana
U-7650 Reopened	Consumers Power Company (Reopened Hearings) Michigan Public Service Commission
38-1039**	CP National Telephone Corporation Nevada Public Service Commission **Issues Stipulated
83-1226	Sierra Pacific Power Company (Re application to form holding company), Nevada Public Service Commission
U-7395 & U-7397	Campaign Ballot Proposals Michigan Public Service Commission
820013-WS	Seacoast Utilities Florida Public Service Commission
U-7660	Detroit Edison Company Michigan Public Service Commission
U-7802	Michigan Gas Utilities Company Michigan Public Service Commission

830465-EI	Florida Power & Light Company Florida Public Service Commission
U-7777	Michigan Consolidated Gas Company Michigan Public Service Commission
U-7779	Consumers Power Company Michigan Public Service Commission
U-7480-R	Michigan Consolidated Gas Company Michigan Public Service Commission
U-7488-R	Consumers Power Company - Gas Michigan Public Service Commission
U-7484-R	Michigan Gas Utilities Company Michigan Public Service Commission
U-7550-R	Detroit Edison Company Michigan Public Service Commission
U-7477-R	Indiana & Michigan Electric Company Michigan Public Service Commission
U-7512-R	Consumers Power Company - Electric Michigan Public Service Commission
18978	Continental Telephone Company of the South - Alabama, Alabama Public Service Commission
9003	Columbia Gas of Kentucky, Inc. Kentucky Public Service Commission
R-842583	Duquesne Light Company Pennsylvania Public Utility Commission
9006*	Big Rivers Electric Corporation Kentucky Public Service Commission *Company withdrew filing
U-7830	Consumers Power Company - Electric (Partial and Immediate) Michigan Public Service Commission
7675	Consumers Power Company - Customer Refunds Michigan Public Service Commission

5779	Houston Lighting & Power Company Texas Public Utility Commission
U-7830	Consumers Power Company - Electric - "Financial Stabilization" Michigan Public Service Commission
U-4620	Mississippi Power & Light Company (Interim) Mississippi Public Service Commission
U-16091	Louisiana Power & Light Company Louisiana Public Service Commission
9163	Big Rivers Electric Corporation Kentucky Public Service Commission
U-7830	Consumers Power Company - Electric - (Final) Michigan Public Service Commission
U-4620	Mississippi Power & Light Company - (Final) Mississippi Public Service Commission
76-18788AA & 76-18793AA	Detroit Edison (Refund - Appeal of U-4807) Ingham County Circuit Court Michigan Public Service Commission
U-6633-R	Detroit Edison (MRCS Program Reconciliation) Michigan Public Service Commission
19297	Continental Telephone Company of the South - Alabama, Alabama Public Service Commission
9283	Kentucky American Water Company Kentucky Public Service Commission
850050-EI	Tampa Electric Company Florida Public Service Commission
R-850021	Duquesne Light Company Pennsylvania Public Service Commission
TR-85-179**	United Telephone Company of Missouri Missouri Public Service Commission
6350	El Paso Electric Company The Public Utility Board of the City of El Paso

6350	El Paso Electric Company Public Utility Commission of Texas
85-53476AA & 85-534855AA	Detroit Edison-refund-Appeal of U-4758 Ingham County Circuit Court Michigan Public Service Commission
U-8091/ U-8239	Consumers Power Company-Gas Michigan Public Service Commission
9230	Leslie County Telephone Company, Inc. Kentucky Public Service Commission
85-212	Central Maine Power Company Maine Public Service Commission
850782-EI & 850783-EI	Florida Power & Light Company Florida Public Service Commission
ER-85646001 & ER-85647001	New England Power Company Federal Energy Regulatory Commission
Civil Action * No. 2:85-0652	Allegheny & Western Energy Corporation, Plaintiff, - against - The Columbia Gas System, Inc., Defendant
Docket No. 850031-WS	Orange Osceola Utilities, Inc. Before the Florida Public Service Commission
Docket No. 840419-SU	Florida Cities Water Company South Ft. Myers Sewer Operations Before the Florida Public Service Commission
R-860378	Duquesne Light Company Pennsylvania Public Service Commission
R-850267	Pennsylvania Power Company Pennsylvania Public Service Commission
R-860378	Duquesne Light Company - Surrebuttal Testimony - OCA Statement No. 2D Pennsylvania Public Service Commission
Docket No. 850151	Marco Island Utility Company Before the Florida Public Service Commission

Docket No. 7195 (Interim)	Gulf States Utilities Company Public Utility Commission of Texas
R-850267 Reopened	Pennsylvania Power Company Pennsylvania Public Service Commission
Docket No. 87-01-03	Connecticut Natural Gas Corporation Connecticut Department of Public Utility Control
Docket No. 5740	Hawaiian Electric Company Hawaii Public Utilities Commission
1345-85-367	Arizona Public Service Company Arizona Corporation Commission
Docket 011 No. 86-11-019	Tax Reform Act of 1986 - California Generic California Public Utilities Commission
Case No. 29484	Long Island Lighting Company New York Department of Public Service
Docket No. 7460	El Paso Electric Company Public Utility Commission of Texas
Docket No. 870092-WS*	Citrus Springs Utilities Before the Florida Public Service Commission
Case No. 9892	Dickerson Lumber EP Company - Complainant vs. Farmers Rural Electric Cooperative and East Kentucky Power Cooperative - Defendants Before the Kentucky Public Service Commission
Docket No. 3673-U	Georgia Power Company Before the Georgia Public Service Commission
Docket No. U-8747	Anchorage Water and Wastewater Utility Report on Management Audit
Docket No. 861564-WS	Century Utilities Before the Florida Public Service Commission
Docket No. FA86-19-001	Systems Energy Resources, Inc. Federal Energy Regulatory Commission

Docket No. 870347-TI	AT&T Communications of the Southern States, Inc. Florida Public Service Commission
Docket No. 870980-WS	St. Augustine Shores Utilities Inc. Florida Public Service Commission
Docket No. 870654-WS*	North Naples Utilities, Inc. Florida Public Service Commission
Docket No. 870853	Pennsylvania Gas & Water Company Pennsylvania Public Utility Commission
Civil Action* No. 87-0446-R	Reynolds Metals Company, Plaintiff, v. The Columbia Gas System, Inc., Commonwealth Gas Services, Inc., Commonwealth Gas Pipeline Corporation, Columbia Gas Transmission Corporation, Columbia Gulf Transmission Company, Defendants - In the United States District Court for the Eastern District of Virginia Richmond Division
Docket No. E-2, Sub 537	Carolina Power & Light Company North Carolina Utilities Commission
Case No. U-7830	Consumers Power Company - Step 2 Reopened Michigan Public Service Commission
Docket No. 880069-TL	Southern Bell Telephone & Telegraph Florida Public Service Commission
Case No. U-7830	Consumers Power Company - Step 3B Michigan Public Service Commission
Docket No. 880355-EI	Florida Power & Light Company Florida Public Service Commission
Docket No. 880360-EI	Gulf Power Company Florida Public Service Commission
Docket No. FA86-19-002	System Energy Resources, Inc. Federal Energy Regulatory Commission
Docket Nos. 83-0537-Remand & 84-0555-Remand	Commonwealth Edison Company Illinois Commerce Commission

Docket Nos. 83-0537-Remand & 84-0555-Remand	Commonwealth Edison Company - Surrebuttal Illinois Commerce Commission
Docket No. 880537-SU	Key Haven Utility Corporation Florida Public Service Commission
Docket No. 881167-EI***	Gulf Power Company Florida Public Service Commission
Docket No. 881503-WS	Poinciana Utilities, Inc. Florida Public Service Commission
Cause No. U-89-2688-T	Puget Sound Power & Light Company Washington Utilities & Transportation Committee
Docket No. 89-68	Central Maine Power Company Maine Public Utilities Commission
Docket No. 861190-PU	Proposal to Amend Rule 25-14.003, F.A.C. Florida Public Service Commission
Docket No. 89-08-11	The United Illuminating Company State of Connecticut, Department of Public Utility Control
Docket No. R-891364	The Philadelphia Electric Company Pennsylvania Public Utility Commission
Formal Case No. 889	Potomac Electric Power Company Public Service Company of the District of Columbia
Case No. 88/546	Niagara Mohawk Power Corporation, et al Plaintiffs, v. Gulf+Western, Inc. et al, defendants (In the Supreme Court County of Onondaga, State of New York)
Case No. 87-11628	Duquesne Light Company, et al, plaintiffs, against Gulf + Western, Inc. et al, defendants (In the Court of the Common Pleas of Allegheny County, Pennsylvania Civil Division)
Case No. 89-640-G-42T*	Mountaineer Gas Company West Virginia Public Service Commission

Docket No. 890319-EI	Florida Power & Light Company Florida Public Service Commission
Docket No. EM89110888	Jersey Central Power & Light Company Board of Public Utilities Commissioners

*Case Settled
**Issues Stipulated
***Company withdrew case

Additionally, I performed an investigation and analysis of Michigan Consolidated Gas Company and participated in the discussion which led to the settlement of Michigan Consolidated rate case which was culminated in Rate Order U-4166.

From April 28, 1975, to March 15, 1976, I was under contract to the Michigan House of Representatives as Technical Staff Director of a Special House Committee to study and evaluate the effectiveness of the Michigan Public Service Commission and the rates and service of public utilities. As Technical Staff Director, I supervised personnel loaned to the Committee from the State Auditor General's Office. The reports to that Committee prepared by myself and Allen Briggs, an attorney, to revise utility regulation, were adopted in virtually all material respects in its final report and recommendations and served as a basis of numerous bills introduced in the 1976 and 1977 sessions of the legislature. The Staff of the Committee, under my direction, investigated and reported to the Committee on numerous regulatory issues, including ratepayer participation in utility regulation, fuel cost adjustment clauses, purchased gas adjustment clauses, comparative electric, gas and telephone rates, treatment of subsidiaries of utilities in ratemaking, research and planning capabilities of the Michigan Public Service Commission, utility advertising, regulatory oversight of utility management, deferred taxes in ratemaking and the organizational structure and functions of the Michigan Public Service Commission.

In the course of my work as a certified public accountant, I advise clients concerning the obtaining of capital funds, and have worked with banking institutions in obtaining loans. I have participated in negotiating the sale and purchase of businesses for clients, in connection with which I have valued the physical assets of various business firms, and also determined the value of present and future earnings measured by market rates of return. I have participated in acquisition audits on behalf of large national companies interested in acquiring smaller companies.

My testimony in utility rate cases has been sponsored by state Attorney Generals, groups of municipalities, a district attorney, Peoples' Counsel, Public Counsel, a ratepayers' committee, and I have also worked as a Staff Consultant to the Arizona Corporation Commission.

In November, 1985, with two members of the firm, I presented a seminar on utility accounting for the Legal Services Regional Utilities Task Force in Atlanta, Georgia.

In September, 1988, with two members of the firm, I presented a seminar on utility accounting for the Office of Consumer Advocate, Attorney General's Office, State of Pennsylvania. Individuals from that division as well as Commission Staff members attended.

INDEX TO EXHIBITS ACCOMPANYING

DIRECT TESTIMONY OF HUGH LARKIN, JR.

Exhibit No.	Description
(HL-1)	Revenue Requirements Calculation
(HL-2)	13 Month Average Rate Base as Adjusted
(HL-3)	13 Month Average Plant Balance
(HL-4)	Depreciation Reserve Balance by Month
(HL-5)	Provision for Depreciation
(HL-5)Page 2	12-Month Average Depreciation Rate-1989
(HL-6)	Adjustment to Remove Plant Held for Future Use from Ratebase
(HL-7)	Adjustments to Working Capital
(HL-8)	New and Revised Adjustments to Rate Base for 13 Months
(HL-9)	1990 Retail Energy Sales Forecast
(HL-10)	Depreciation and Amortization Expense Adjustment
(HL-11)	Interest Synchronization Adjustment
(HL-12)	Adjustment to Income Tax Expense for Proposed Changes to Operating Income Revenues and Expenses

Gulf Power Company

Revenue Requirements Calculation
Test Year Ended December 31, 1990
(Thousands of Dollars)

Docket No. 891345-EI
Exhibit___(HL-1)
Witness: Hugh Larkin, Jr.

Line No.	Description	Per Company Request	Public Counsel Adjustments	Public Counsel Requirements
1	Jurisdictional adjusted rate base	923,562	81,292	842,270
2	Rate of return on rate base	8.34%	0.42%	7.92%
3	Jurisdictional income required	77,025	10,317	66,708
4	Jurisdictional adjusted net operating income	60,910	(13,024)	73,934
5	Income deficiency (excess)	16,115	23,341	(7,226)
6	Earned rate of return	6.60%		
7	Net operating income multiplier	1.631699		1.631699
8	Revenue deficiency (excess)	$26,295		($11,791)

Gulf Power Company

13 Month Average Rate Base as Adjusted
for the Test Year Ended December 31, 1990
(Thousands of Dollars)

Docket No. 891345-EI
Exhibit___(HL-2)
Witness: Hugh Larkin, Jr.

Line No.	Rate Base Components	(1) Total Company Per Books	(2) Non-Electric Utility	(3) Net Electric Utility	(4) Commission Adjustments Made in Last Case	(5) Electric Utility Per Commission	(6) Company Adjustments	(7) Total Utility w/Commission and Company Adjustments
1	Plant in Service	$1,451,703	(2,472)	1,449,231	(183)	1,449,048	0	1,449,048
2	Accumulated Provision for Depreciation & Amortization	487,260	(715)	486,545		486,545	(48)	486,497
3	Net Plant in Service	964,443	(1,757)	962,686	(183)	962,503	(48)	962,551
4	Plant Held for Future Use	4,025		4,025		4,025		4,025
5	Construction Work in Progress	15,739		15,739	(431)	15,308		15,308
6	Plant Acquisition Adjustment	8,043		8,043		8,043		8,043
7	Net Utility Plant	992,250	(1,757)	990,493	(614)	989,879	(48)	989,927
8	Working Capital Allowance	200,266	(10,228)	190,038	(12,299)	177,739	(89,402)	88,337
9	Total Rate Base	$1,192,516	($11,985)	$1,180,531	($12,913)	$1,167,618	($89,450)	$1,078,264

Note: Columns (1) through (13) are taken directly from Schedule B-3.

Gulf Power Company

13 Month Average Rate Base as Adjusted
for the Test Year Ended December 31, 1990
(Thousands of Dollars)

Docket No. 891345-EI
Exhibit ___(HL-2)
Witness: Hugh Larkin, Jr.

Line No.	Rate Base Components	(8) Public Counsel Adjustments	(9) Total Utility w/Commission Company and Public Counsel Adjustments	(10) Unit Power Sales Rate Base	(11) Total Utility Adjusted for UPS	(12) Jurisdictional Rate Base Factor	(13) Jurisdictional Utility Adjusted
1	Plant in Service	(11,388)	1,437,660	(197,855)	1,239,805	0.975561	1,209,506
2	Accumulated Provision for Depreciation & Amortization	(3,553)	490,050	27,098	462,952	0.974974	451,366
3	Net Plant in Service	(14,941)	947,610	(170,757)	776,853		758,140
4	Plant Held for Future Use	(3,854)	171		171	0.975155	167
5	Construction Work in Progress		15,308		15308	0.976548	14,949
6	Plant Acquisition Adjustment		8,043	(8,043)		0.967028	
7	Net Utility Plant	(18,795)	971,132	(178,800)	792,332		773,256
8	Working Capital Allowance	(8,983)	79,354	(8,260)	71,094	0.970739	69,014
9	Total Rate Base	($27,778)	$1,050,486	($187,060)	$863,426		$842,270

Gulf Power Company

13 Month Average Plant Balance
Test Year Ended December 31, 1990
(Thousands of Dollars)

Docket No. 891345-EI
Exhibit___(HL-3)
Witness: Hugh Larkin, Jr
Page 1 of 1

Line No.	Description	Amount
1	December 1989 (actual)	$1,424,266
2	January 1990 (actual)	1,424,412
3	February 1990 (actual)	1,424,801
4	March 1990 (projected)	1,427,365
5	April 1990 (projected)	1,431,277
6	May 1990 (projected)	1,435,190
7	June 1990 (projected)	1,439,102
8	July 1990 (projected)	1,443,015
9	August 1990 (projected)	1,446,927
10	September 1990 (projected)	1,450,840
11	October 1990 (projected)	1,454,752
12	Novemeber 1990 (projected)	1,458,665
13	December 1990 (projected)	1,462,577
14	Total	$18,723,189
15	13-Month Average	$1,440,245
16	Company 13-Month Average	1,451,703
17	Adjustment	$11,458

Notes:
Actual monthly balances are per Gulf's Operating Reports.
Projected amounts are per testimony.

GULF POWER COMPANY

Depreciation Reserve Balance by Month
for the Test Year Ended December 31, 1990
(Thousands of Dollars)

Docket No. 891345-EI
Exhibit____(HL-4)
Witness: Hugh Larkin Jr.

Line No.		Beginning of Month Balance (1) Col. (a)	Provision for Depreciation Col. (b)	Retirements Col. (c)	Cost of Removal/ Net of Salvage Col. (d)	End of Month Balance Col. (e)	JDITC Balance Added as Required by 1984 Case Col (f)	End of Month Balance (2) Col. (g)
1	December 31, 1989 Actual					464,654	5,848	470,502
2	January 31, 1990 Actual	464,654	4,433	1,127	278	467,682	5,889	473,571
3	February 28, 1990 Actual	467,682	4,480	1,364	250	470,548	5,930	476,478
4	March 31, 1990 Projected	470,548	4,444	783	151	474,058	5,971	480,029
5	April 30, 1990 Projected	474,058	4,457	783	151	477,581	6,012	483,593
6	May 31, 1990 Projected	477,581	4,469	783	151	481,116	6,053	487,169
7	June 30, 1990 Projected	481,116	4,481	783	151	484,663	6,094	490,757
8	July 31, 1990 Projected	484,663	4,493	783	151	488,222	6,135	494,357
9	August 31, 1990 Projected	488,222	4,506	783	151	491,794	6,176	497,970
10	September 30, 1990 Projected	491,794	4,518	783	151	495,378	6,217	501,595
11	October 31, 1990 Projected	495,378	4,530	783	151	498,974	6,258	505,232
12	November 30, 1990 Projected	498,974	4,543	783	151	502,583	6,299	508,882
13	December 31, 1990 Projected	502,583	4,555	783	151	506,204	6,340	512,544
14	Total 13 Months							$6,382,679
15	13 Month Average							$490,975
16	Company 13-Month Average							487,260
17	Adjustment to Reserve for Depreciation							$3,715

(1) Excluding JDITC balance.
(2) Includes JDITC balance as required in 1984 case.
(3) Includes Adjustment

Gulf Power Company

Provision for Depreciation
Test Year Ended December 31, 1990

Docket No. 891345-EI
Exhibit___(HL-5)
Witness: Hugh Larkin, Jr

Line No.	Description	(1) Depreciable Plant Balance	(2) Monthly Rate Used	(3) Depreciation and Amortization Provision
1	January 1990 Actual	$1,411,984,681	actual	$4,432,842
2	February 1990 Actual	1,412,373,897	actual	4,479,639
3	March 1990 Projected	1,414,937,242	0.003141	4,444,318
4	April 1990 Projected	1,418,849,729	0.003141	4,456,607
5	May 1990 Projected	1,422,762,216	0.003141	4,468,896
6	June 1990 Projected	1,426,674,702	0.003141	4,481,185
7	July 1990 Projected	1,430,587,189	0.003141	4,493,474
8	August 1990 Projected	1,434,499,675	0.003141	4,505,763
9	September 1990 Projected	1,438,412,162	0.003141	4,518,053
10	October 1990 Projected	1,442,324,648	0.003141	4,530,342
11	November 1990 Projected	1,446,237,134	0.003141	4,542,631
12	December 1990 Projected	1,450,149,621	0.003141	4,554,920

Notes:

Column 1: Actual depreciable plant amounts are per Gulf's Operating Reports, Schedule 71, computed as follows: Total Electric Plant less land and intangibles. Projected amounts are per MFR, Schedule B-9a computed as follows: Total Plant in Service less Non-Depreciable Plant & Merchandise.

Column 3: Actual depreciation amounts are per Gulf's Operating Reports, Schedule 75, computed as follows: Provisions Total less JDIC 1984 Rate Case. Projected amounts are column 1 x column 2.

Gulf Power Company
12-Month Average Depreciation Rate-1989

Docket No. 891345-EI
Exhibit__(HL-5)
Witness: Hugh Larkin, Jr.

Line No.	Month	(1) Depreciable Plant	(2) Depreciation Expense	(3) Monthly Rate
1	January 1989	1,348,085,409	4,256,082	0.003157
2	February 1989	1,348,977,693	4,282,595	0.003174
3	March 1989	1,354,428,327	4,227,860	0.003121
4	April 1989	1,367,541,497	4,287,630	0.003135
5	May 1989	1,374,015,436	4,312,809	0.003138
6	June 1989	1,382,289,293	4,295,264	0.003107
7	July 1989	1,384,479,714	4,401,328	0.003179
8	August 1989	1,387,589,510	4,366,527	0.003146
9	September 198	1,396,873,380	4,375,329	0.003132
10	October 1989	1,402,094,433	4,389,954	0.003130
11	November 198	1,406,553,267	4,406,745	0.003133
12	December 1989	1,411,856,892	4,418,779	0.003129
13	Total			0.037686
14	12 Month Average Depreciation Rate			0.003141

Notes:
Column 1: Amounts are per Gulf's Operating Reports, Schedule 71 computed as: Total Electric Plant less Land, intangibles and Coal Cars.
Column 2: Amounts are per Gulf's Operating Reports, Schedule 75, Provision Total less previous month's total, less JDIC and Coal Cars.

Gulf Power Company

Adjustment to Remove Plant Held
For Future Use From Ratebase

Docket No. 891345-EI
Exhibit____(HL-6)
Witness: Hugh Larkin, Jr.

Line No.	Description of Item	13 Month Average
1	Caryville Land	$1,398,000
2	Bayfront Office	1,844,000
3	Pace Blvd - Land Acqusition	612,000
4	Total Adjustment to Plant Held for Future Use	$3,854,000

Gulf Power Company

Adjustments to Working Capital
Test Year Ended December 31, 1990

Docket No. 891345-EI
Exhibit ___ (HL-7)
Witness: Hugh Larkin, Jr.

Line No.	Description	Reference	Other Investments 124 - 128	Current Assets 134 - 174	Deferred Debits 183 - 188	Non-Current Liabilities 228	Current Liabilities 232 - 242 Less 235, 238 - 100	Deferred Credits 252-253	Total
1	Total Company Adjusted Working Capital Net of UPS		$122	$138,948	$4,384	($6,830)	($46,861)	($5,588)	$84,175
2	Additional Amounts Excluded in UPS Adjustment								
	Fuel Stock			2,030					2,030
	Other Material & Supplies			221					221
	Prepayments			10					10
	Others		9	722	192	(340)	(684)	(405)	(506)
3	Balance After Additional UPS Exclusion		113	135,965	4,192	(6,490)	(46,177)	(5,183)	82,420
4	Remove Remaining Reserves	Testimony	(113)						(113)
5	Other Accounts Receivable	Testimony		(1,230)					(1,230)
6	Fuel Inventory	Testimony		(6,355)					(6,355)
7	Material and Supplies	Testimony		(2,307)					(2,307)
8	Prepaid Pensions	Testimony		(1,485)					(1,485)
9	Other Prepaid	Testimony		(136)					(136)
10	Other Miscellaneous	Testimony			(30)				(30)
11	Caryville Subsurface Study	Testimony			(692)				(692)
12	Rate Case Deferral	Testimony			(765)				(765)
13	Supplemental Pension & Benefits Reserve	Testimony						985	985
14	Post Retirement Life and Medical	Testimony						2,935	2,935
15	Deferred School Plan Applicances	Testimony						12	12
16	Productivity Improvement Plan	Testimony						59	59
17	Effect of UPS Exclusion	Testimony		819	180			(860)	139
18	Adjustment to Working Capital		(113)	(10,694)	(1,307)	0	0	3,131	(8,983)
19	UPS Working Capital Adjustment								(2,342)
20	Working Capital								$71,095

Gulf Power Company

New and Revised Adjustments to Rate Base
for 13 Months Ended December 31, 1990
(Thousands of Dollars)

Docket No. 891345-EI
Exhibit ___ (HL-8)

Line No.	Non-Electric Adjustments:	Reason for Adjustment	Adjusted Amount (000)
1	Plant-in-Service - Appliance Sales & Service	Adjustment is the same as Company. The reason is the same.	(2,472)
2	Depreciation Reserve - Appliance Sales & Service	Adjustment is the same as Company. The reason is the same.	715
3	Working capital adjustment	To exclude from working capital the non-utility investments proposed by the Company.	(10,228)
4	Total non-electric adjustments		$11,985
	Commission Adjustments:		
5	Net Plant-in-Service - Bonifay and Graceville Offices	Excess cost of buildings excluded by Commission in last rate case.	(40)
6	Net Plant-in-Service - Lesiure Lake	Substation and distribution lines imprudently constructed	(143)
7	Construction Work-in-Progress	To exclude from rate base estimated CWIP eligible for AFUDC	(431)
8	Working capital adjustments	To exclude from working capital Commission excluded items from prior case.	(12,299)
9	Total Commission adjustments		$12,913
	Company Proposed Adjustments:		
10	Depreciation Reserve - Investigation	Amount associated with investigation.	(48)
11	Working capital adjustments	Same as Company.	(89,402)
12	Total Company proposed adjustments		$89,450
	Public Counsel Adjustments:		
13	Plant-in-Service	Projection of plant in service overstated.	(11,458)
14	Depreciation Reserve Understated	Projections of reserve understated because of JDITC 1984 balance.	(3,715)
15	Plant-in-Service - Tallahassee Office	To remove the plant cost associated with the Tallahassee office which is used for lobbying purposes.	(43)

Gulf Power Company

New and Revised Adjustments to Rate Base
for 13 Months Ended December 31, 1990
(Thousands of Dollars)

Line No.	Non-Electric Adjustments:	Reason for Adjustment	Adjusted Amount (000)
16	Depreciation Reserve - Tallahassee Office	To remove the estimated reserve balance associated with the Tallahassee office which is used for lobbying purposes.	26
17	Plant-in-Service - cancelled Southern Company Services bldg.	To remove cancelled Southern Company Services building capitalized.	(346)
18	Depreciation Reserve - cancelled Southern Company Services bldg.	Removed estimated reserve associated with cancelled building.	159
19	Plant-in-Service - rebuilds & renovations	Rebuilds and renovations of heavy equipment which should be capitalized.	369
20	Depreciation Reserve - rebuilds and renovations	Additional depreciation expense resulting from additional capitalized cost.	(18)
21	Plant-in-Service - Network Protectors	Item should be capitalized instead of expense.	90
22	Depreciation Reserve - Network Protectors	Additional depreciation expense resulting from additional capitalized cost.	(5)
23	Plant held for future use	To remove from PHFU those items which have no current definite in-service date.	(3,854)
24	Working capital	To remove excessive working capital.	(8,983)
25	Total Public Counsel proposed adjustments		($27,778)

Gulf Power Company

1990 Retail Energy Sales Forecast

Docket No. 891345-EI
Exhibit ____ (HL-9)
Page 1 of 2

Line No.	Class	Revenue Code	KWH Sales Col. (a)	Recommended Sales Level 1.010 of Col. (a) Col. (b)	Difference Col.(b) - Col.(a) Col. (c)	Average Base Revenue Per KWH (Page 2 of 2) Col. (d)	Base Rate Revenue Increase Col. (e)
	Residential						
1	RS	02-09	3,322,084,505	3,355,305,350	33,220,845	$0.039598	$1,315,487
2	RST	10	289,195	292,087	2,892	0.036740	106
3	OS-II	50	14,207,934	14,350,013	142,079	0.091337	12,977
4	Unbilled		8,320,319	8,403,522	83,203	0.036804	3,062
5	Total Residential		3,344,901,953	3,378,350,973	33,449,020	0.039811	1,331,632
	Commercial						
6	GS	201-203	210,286,546	212,389,411	2,102,865	0.071235	149,798
7	GSD	204	1,620,803,290	1,637,011,323	16,208,033	0.029835	483,559
8	GST	206	94,441	95,385	944	0.060270	57
9	GSDT	208	12,765,367	12,893,021	127,654	0.061204	7,813
10	LP	216	254,190,876	256,732,785	2,541,909	0.025014	63,583
11	LPT	217	86,640,467	87,506,872	866,405	0.018905	16,380
12	SS	218	300,000	303,000	3,000	0.163127	489
13	OS-II	220/222	16,842,559	17,010,985	168,426	0.070989	11,956
14	OS-III	221	7,329,177	7,402,469	73,292	0.045810	3,358
15	Unbilled		4,916,294	4,965,457	49,163	0.036162	1,778
16	Total Commercial		2,214,169,017	2,236,310,707	22,141,690	0.033366	738,771
	Industrial						
17	GSD	250	84,441,422	85,285,836	844,414	0.030388	25,660
18	GSDT	251	9,873,407	9,972,141	98,734	0.018485	1,825
19	LP	254	117,350,952	118,524,462	1,173,510	0.025542	29,974
20	LPT	255	1,027,155,136	1,037,426,687	10,271,551	0.019530	200,608
21	PXT	261	879,877,333	888,676,106	8,798,773	0.016547	145,589
22	SS	265	2,613,508	2,639,643	26,135	0.203455	5,317
23	Unbilled		2,845,524	2,873,979	28,455	0.028364	807
24	Total Industrial		2,124,157,282	2,145,398,855	21,241,573	0.019291	409,782
	Street Lighting						
25	OS-I	408	15,437,851	15,592,230	154,379	0.080825	12,478
26	OS-I	411	823,990	832,230	8,240	0.018926	156
27	Total Street Lighting		16,261,841	16,424,459	162,618	0.077688	12,634
28	Total Retail		7,699,490,093	7,776,484,994	76,994,901	$0.032376	$2,492,819

Source:
Column (a): Kilogore Schedule 2
Column (d): See page 2 of 2
1 percent increase per Dr. Richard A. Rosen

Gulf Power Company

1990 Retail Base Revenue Forecast

Line No.	Class	Revenue Code	KWH Sales Col. (a)	Base Revenue Col. (b)	Average Base Revenue Per KWH Col. (b) / Col. (a) Col. (c)
	Residential				
1	RS	02-09	3,322,084,505	$131,548,665	$0.039598
2	RST	10	289,195	10,625	0.036740
3	OS-II	50	14,207,934	1,297,714	0.091337
4	Unbilled		8,320,319	306,223	0.036804
5	Total Residential		3,344,901,953	133,163,227	0.039811
	Commercial				
6	GS	201-203	210,286,546	14,979,797	0.071235
7	GSD	204	1,620,803,290	48,355,924	0.029835
8	GST	206	94,441	5,692	0.060270
9	GSDT	208	12,765,367	781,291	0.061204
10	LP	216	254,190,876	6,358,343	0.025014
11	LPT	217	86,640,467	1,637,973	0.018905
12	SS	218	300,000	48,938	0.163127
13	OS-II	220/222	16,842,559	1,195,633	0.070989
14	OS-III	221	7,329,177	335,751	0.045810
15	Unbilled		4,916,294	177,783	0.036162
16	Total Commercial		2,214,169,017	73,877,125	0.033366
	Industrial				
17	GSD	250	84,441,422	2,566,006	0.030388
18	GSDT	251	9,873,407	182,513	0.018485
19	LP	254	117,350,952	2,997,403	0.025542
20	LPT	255	1,027,155,136	20,060,843	0.019530
21	PXT	261	879,877,333	14,558,948	0.016547
22	SS	265	2,613,508	531,730	0.203455
23	Unbilled		2,845,524	80,710	0.028364
24	Total Industrial		2,124,157,282	40,978,153	0.019291
	Street Lighting				
25	OS-I	408	15,437,851	1,247,759	0.080825
26	OS-I	411	823,990	15,595	0.018926
27	Total Street Lighting		16,261,841	1,263,354	0.077688
28	Total Retail		7,699,490,093	$249,281,859	$0.032376

Source:
Column (a): Kilgore Schedule 2
Column (b): Kilgore Schedule 3

Gulf Power Company

Depreciation and Amortization Expense Adjustment
Test Year Ended December 31, 1990

Docket No. 891345-EI
Exhibit____(HL-10)
Witness: Hugh Larkin, Jr.

Line No.	Description	Total Company Depreciation and Amortization Expense
1	January, 1990 actual	$4,432,842
2	February, 1990 actual	4,479,639
3	March, 1990 projected	4,444,318
4	April, 1990 projected	4,456,607
5	May, 1990 projected	4,468,896
6	June, 1990 projected	4,481,185
7	July, 1990 projected	4,493,474
8	August, 1990 projected	4,505,763
9	September, 1990 projected	4,518,053
10	October, 1990 projected	4,530,342
11	November, 1990 projected	4,542,631
12	December, 1990 projected	4,554,920
13	Total Depreciation and Amortization	53,908,670
	Less:	
14	Automobile	(1,213,751)
15	Merchandise	(62,625)
16	Appliance Service	(21,591)
17	Tallahassee Office	(8,000)
18	Cancelled Southen Company Service Building	(26,000)
	Add:	
19	Remanufacture of Network Protectors	9,000
20	Rebuild and Renovations	37,000
21	Net utility depreciation and amortization	52,622,703
22	Total Company	53,590,000
23	Adjustment	($967,297)

Gulf Power Company

Interest Synchronization Adjustment
Test Year Ended December 31, 1990

Docket No. 891345-EI
Exhibit___(HL-11)
Witness: Hugh Larkin, Jr.

Line No.	Description	Amount	Source
1	Adjusted jurisdictional rate base	$842,270	Exhibit___(HL-1)
2	Weighted cost of debt	3.48%	Workpaper
3	Synchronized interest deduction for ratemaking	29,311	Line 1 x line 2
4	Interest deduction per Company	30,871	MFR Sch. C-44
6	Adjustment for synchronized interest	($1,560)	Line 3 - Line 4
6	State income tax 5.5%	(86)	Line 5 x 5.5%
7	Federal income tax at 34%	(501)	(Line 5 - Line 6) x34%
8	Adjustment to income taxes for interest synchronization	($587)	Line 6 + Line 7

Gulf Power Company

Adjustment to Income Tax Expense for Proposed Changes to Operating Revenues and Expenses
Test Year Ended December 31, 1990

Docket No. 891345-EI
Exhibit____(HL-12)
Witness: Hugh Larkin, Jr.

Line No.	Description	Amount	Source
1	OPC proposed adjustments to operating revenue	$2,493	Exhibit___(HWS-1)
2	OPC proposed adjustments to operating expenses	20,107	Exhibit___(HWS-1)
3	Total OPC adjustments to operating income items	$22,600	Line 1 + Line 2
4	State income tax impact	1,243	Line 3 x 5.5%
5	Federal income tax impact	7,261	(Line 3 - Line 4) x 34%
6	Adjustment to income tax expense	$8,504	Line 4 + Line 5

CERTIFICATE OF SERVICE
Docket No. 891345-EI

I **HEREBY CERTIFY** that a true copy of the foregoing has been furnished by U.S. Mail*, hand-delivery**, or by facsimile*** to the following parties on this 1st day of May, 1990.

*G. EDISON HOLLAND, JR., ESQ.
JEFFREY A. STONE, ESQ.
Beggs & Lane
P.O. Box 12950
Pensacola, FL 32576

**SUZANNE BROWNLESS, ESQ.
Division of Legal Services
Florida Public Service Commission
101 E. Gaines Street
Tallahassee, FL 32399-0872

*MR. JACK HASKINS
Gulf Power Company
Corporate Headquarters
500 Bayfront Parkway
Pensacola, FL 32501

*JOSEPH A. MCGLOTHLIN, ESQ.
Lawson, McWhirter, Grandoff & Reeves
522 E. Park Ave., Suite 200
Tallahassee, FL 32301

*MAJOR GARY A. ENDERS, ESQ.
HQ USAF/ULT
Stop 21
Tyndall AFB, FL 32403-6081

*C.J. GREIMEL
American Cyanamid Company
One Cyanamid Plaza
Wayne, NJ 07470

*JOHN DELPEZZO
Air Products & Chemicals
Post Office Box 538
Allentown, PA 18105

*TOM KISLA
Stone Container Corporation
2150 Parklade Drive, Suite 400
Atlanta, GA 30345

Stephen C. Burgess
Deputy Public Counsel