

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

In re: Petition of Gulf Power Company)	DOCKET NO. 890324-EI
for approval of "Tax Savings" refund )	ORDER NO. 22941
for 1988. )	ISSUED: 5-15-90
_____)	

Pursuant to Notice, a Prehearing Conference was held on April 30, 1990, in Tallahassee, before Commissioner Betty Easley, Prehearing Officer.

APPEARANCES:

G. Edison Holland, Jr., Esquire and Jeffrey A. Stone, Esquire, of Beggs & Lane, 700 Blount Building, 3 West Garden Street, P.O. Box 12950, Pensacola, Florida 32576-2950

On behalf of Gulf Power Company

Stephen C. Burgess, Esquire, Office of the Public Counsel, c/o The Florida Legislature, 111 West Madison Street, Room 801, Tallahassee, Florida 32399-1400

On behalf of the Citizens of the State of Florida

Marsha E. Rule, Esquire, Florida Public Service Commission, 101 E. Gaines Street, Tallahassee, Florida, 32399-0863

On behalf of the Commission Staff

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Counsel to the Commissioners

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PREHEARING ORDER

Background

On March 2, 1989, pursuant to Rule 14.003, Florida Administrative Code, Gulf Power Company (Gulf) filed a report indicating a revenue deficiency of \$471,268, such that no tax savings refund was due to the utility's ratepayers for 1988. Later, on October 4, 1989, Gulf filed a revised report which showed an increased revenue deficiency of \$1,378,924. The Office of Public Counsel (OPC) intervened in this docket.

On January 18, 1990, Commission Staff issued a recommendation regarding disposition of Gulf's tax savings report. Thereafter, on January 30, 1990, in conformity with its action in Docket No. 890319-EI (Petition of Florida Power & Light Company for Approval of "Tax Savings" Refund for 1988), and due to the number and complexity of the issues, the Commission declined to vote on the substance of the recommendation. With the agreement of the utility, the Commission decided to proceed to hearing on the merits of Gulf's tax savings report.

During the prehearing process, Gulf raised a legal issue regarding the proper assignment of the burden of proof herein, alleging that parties challenging its expenses should bear the burden of proof. The parties agreed that this legal issue would be addressed at hearing, and that, without waiving their positions on this issue, Gulf and OPC would file testimony on the same date, to be followed by any Staff testimony. The parties further agreed that the order of testimony was not intended to imply which party would have the burden of proof.

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Use of Prefiled Testimony

All testimony which has been prefiled in this case will be inserted into the record as though read after the witness has taken the stand and affirmed the correctness of the testimony and exhibits, unless there is a sustainable objection. All testimony remains subject to appropriate objections. Each witness will have the opportunity to orally summarize his or her testimony at the time he or she takes the stand.

Use of Depositions and Interrogatories

If any party seeks to introduce an interrogatory or a deposition, or a portion thereof, the request will be subject to proper objections and the appropriate evidentiary rules will govern. The parties will be free to utilize any exhibits requested at the time of the depositions, subject to the same conditions.

Testimony and Exhibits at Hearing

a. At the hearing each party must supply the court reporter with a "record copy" of each item of testimony and each exhibit which will be entered into the record. The court reporter will no longer be responsible for locating, collating, or correcting testimony or exhibits. It is not necessary to provide other parties with copies at hearing if the record copy merely consolidates testimony or exhibits. However, if the record copy corrects or revises previously filed testimony or exhibits, a copy must also be supplied to all other parties. The witness is still required to testify at hearing to changes or revisions.

b. The record copy of testimony will consist of the final, consolidated version of the witness' testimony, complete with all corrections. The title page of the testimony must clearly identify the witness, sponsoring party and docket, and must further identify each item of prefiled testimony which it replaces, consolidates, or corrects. Revised or corrected pages in the record copy must be identified as revised or corrected.

c. If a witness has filed more than one item of testimony (such as two items of direct testimony, or an initial item of direct testimony with later, supplemental testimony) the record copy must consolidate the items. Only one consolidated, final version of direct testimony and one consolidated, final version of rebuttal testimony may be filed for any witness. Surrebuttal, if used, may be filed separately under the same conditions.

d. The record copy of testimony must be stapled or otherwise securely fastened in the upper left corner. It may not be bound.

e. The record copy of exhibits which accompany the record copy of testimony should not be stapled to the testimony. The record copy of each exhibit should be separately stapled. Exhibits accompanying the record copy of testimony should be clipped to the testimony with a binder clip, or bundled with a rubber band.

f. Parties are encouraged to supply the court reporter, at hearing, with a supplemental exhibit list of all proposed exhibits which were not included in the prehearing order. The list should be similar in format to the exhibit list contained in this order.

Order of Witnesses

The witness schedule is set forth below in order of appearance by the witness' name, subject matter, and the issues which will be covered by his or her testimony.

(Direct)

<u>Witness</u>	<u>Subject Matter</u>	<u>Issues</u>
1. A.E. Scarbrough (Gulf)	Proper scope and application of Rule 25-14.003; Plant Scherer Acquisition Adjustment and Transmission Facility Charges	5, 6, 10, 47, 63, 65, 67

	<u>Witness</u>	<u>Subject Matter</u>	<u>Issues</u>
2.	R.J. McMillan (Gulf)	Plant Scherer Acquisition Adjustment and Transmission Facility Charges; Distribution O&M Expense; Uncollectibles; FERC audit exceptions; Lobbying expenses; Employee discrimination lawsuit	5, 6, 10, 17, 18, 19, 20, 27, 29, 35, 47, 49, 50, 51, 63, 64, 65, 67
3.	C.R. Lee (Gulf)	Support additional personnel and salary increases; Plant Daniel O&M Expenses; Change of fuel at Plant Smith	34, 35, 36, 37, 38, 39, 41
4.	W.P. Bowers (Gulf)	Customer Service and Information and Sales Expense; Purpose of Marketing and Load Management; Specific marketing programs	52, 53, 54, 55, 56, 57
5.	R.C. Smith (OPC)	Specific disallowances to rate base and O&M expenses; reduction to O&M expenses due to Gulf's failure to appropriately justify an excess above the benchmark	10-13, 17, 19-21, 27-31, 34, 35, 37-39, 41-54, 56, 57, 59-62, 64, 65
<u>(Rebuttal)</u>			
6.	R.J. McMillan (Gulf)	Proposed OPC adjustments to Plant Held for Future Use; Bonifay and Graceville offices; depreciation and amortization expense; 1988 rate case expenses; uncollectible expenses; bank fees and lines of credit;	11, 13, 27, 31, 44, 59, 60, 61

		temporary cash invest- ments; steam production benchmark calculation; Scherer production expense; Scherer A&G; employee relocation expenses	
7.	C.R. Lee (Gulf)	Acid rain monitoring; additional personnel expense; Plant Daniel	34,38,39,41,42, 43,44,46
		O&M expenses; SCS direct charges concerning Plant Daniel; Plant Smith O&M expenses; Plant Crist O&M expenses	
8.	C.E. Jordan (Gulf)	Underground line exten- sions expense; DSO clearance; write-off of obsolete distribution material	48,49,50
9.	M.W. Howell (Gulf)	Transmission line facility charges ("line rentals"), default by GSU under UPS contract, EMF research funding	7,44,45,47,51
10.	W.P. Bowers (Gulf)	Expenses for Customer Service and Information and Sales Programs	29,30,52,53,54, 55,56,57,58
11.	A.E. Scarbrough (Gulf)	Scope and intent of Rule 25-14.003; "lobbying" expenses; Tallahassee office; Long-term Disability Insurance Plan; Plant Held for Future Use; Post-Retirement Bene- fits; Scherer Acquisi- tion Adjustment	10,12,13,20,21, 23,24,25,28, 32,33,62,63,65

EXHIBIT LIST

Exhibit Numbers

Exhibit numbers will be assigned at the hearing. Exhibits will be numbered sequentially, beginning with Exhibit No. 1. Separate numerical sequences for individual parties or witnesses will no longer be used.

The proffering attorney must identify each exhibit by title and prehearing identification number, if any, when requesting assignment of an exhibit number at hearing. When requesting an exhibit number for late-filed exhibits, the attorney must supply a short, descriptive title for the exhibit.

<u>Exhibit</u>	<u>Witness</u>	<u>Description</u>
<u>(AES-1)</u>	Scarborough (Gulf)	Total O&M Expense Excluding Fuel and Purchased Power
<u>(RJM-1)</u>	McMillan (Gulf)	Analysis of Transmission Facility Alternatives
<u>(RJM-2)</u>	McMillan (Gulf)	Transmission Expense Analysis
<u>(RJM-3)</u>	McMillan (Gulf)	O&M Benchmark Variance Production Related A&G
<u>(RJM-4)</u>	McMillan (Gulf)	O&M Benchmark Variance Salary Increases
<u>(RJM-5)</u>	McMillan (Gulf)	Adjusted 1988 Rate Base
<u>(RJM-6)</u>	McMillan (Gulf)	Adjusted NOI for 1988
<u>(RJM-7)</u>	McMillan (Gulf)	Jurisdictional Adjusted Capital Structure and Cost of Capital for 1988

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<u>Exhibit</u>	<u>Witness</u>	<u>Description</u>
<u>(RJM-8)</u>	McMillan (Gulf)	Revised 1988 Tax Savings (Deficiency)
<u>(CRL-1)</u>	Lee (Gulf)	O&M Benchmark Variance by Function
<u>(CRL-2)</u>	Lee (Gulf)	Gulf's response to Staff interrogatory no. 3, Docket No. 890324-EI; schematic diagram of ash hauling operation at Plant Smith; justification for ash hauling expenses at Plant Smith; justification for maintenance painting expenses at Plant Smith
<u>(WPB-1)</u>	Bowers (Gulf)	Residential Customer Survey Summary; Air Products Quality Management Process; Impact of FERC Decision on Benchmark Calculation; ECCR Base Rates and Sales; Overview of CS&I and Sales Activities
<u>(MWH-1)</u>	Howell (Gulf)	Plant Daniel and Plant Scherer transmission cost comparisons
<u>(RCS-1)</u>	Smith (OPC)	Schedules 1 through 11
<u>(RCS-2)</u>	Smith (OPC)	Gulf Power's answer to OPC's Seventh Set of Production of Documents, Docket No. 881167-EI, No. 71, Post Retirement Benefits
<u>(RCS-3)</u>	Smith (OPC)	Copies of Advertisements Recommended for Disallowance
<u>(RCS-4)</u>	Smith (OPC)	Copy of EPRI's Research & Development Programs Plan 1988-1990



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<u>Exhibit</u>	<u>Witness</u>	<u>Description</u>
<u>(RCS-5)</u>	Smith (OPC)	Gulf's answer to Staff's Fourth Set of Interrogatories, Docket No. 881167-EI, No. 101, Florida Acid Deposition Study
<u>(RCS-6)</u>	Smith (OPC)	Gulf's answer to OPC's Production of Documents, Docket No. 881167-EI, Planning Unit Resource Summary

PARTIES' STATEMENTS OF BASIC POSITION

Staff:

Gulf should make a refund of the amount of its tax savings which drives earnings above its authorized midpoint. The amount of the refund results from a mechanical calculation which is dependent upon a resolution of the issues developed herein.

Gulf Power Company:

It is the basic position of Gulf Power Company that there should be no tax savings refund for 1988, as the Company's 1988 Tax Savings Filing demonstrates no tax savings in excess of the midpoint rate of return on equity, pursuant to Rule 25-14.003, Florida Administrative Code. Gulf's filing reflects the amounts recorded on the Company's books, adjusted consistent with specific regulatory adjustments made in the Company's last rate case, Docket No. 840086-EI, and reveals a revenue deficiency. Gulf's books document expenses actually incurred by the Company in accordance with its statutory service obligation, and Gulf's filing accurately reflects those per book figures, excluding items recovered through a distinct recovery mechanism (such as the fuel clause and energy conservation cost recovery) and other specific expenses specifically excluded in the last rate case. The Company's accounting books and records are maintained in accordance with generally accepted accounting principles, and

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have been audited by Gulf's independent accounting firm, Arthur Andersen & Company, who have determined that they fairly and accurately reflect the Company's actual operations for 1988.

Gulf maintains that additional proforma adjustments recommended by Staff and Public Counsel in this docket, over and above those which are reflected in the Company's filing or which are stipulated to below, are not appropriate in this proceeding. Such issues are not proper for the Commission's consideration within the scope and intent of Rule 25-14.003, F.A.C. For these reasons, the Company objects to the inclusion of Issues 7, 11-13, 20-21, 23-25, 27-28, and 30-63. Such issues should be excluded in this docket and any testimony regarding them should be stricken on basis that it is irrelevant and immaterial.

Office of Public Counsel:

In determining the tax savings refund, the first step is the calculation of the amount of money that Gulf saved in 1988 as a result of its Federal income tax rate being reduced from 45% to 34%. Gulf has collected rates which were set to recover a tax rate of 46%. Since Gulf actually paid taxes at only a 34% rate, it enjoyed a tax savings which equated to revenues of \$12,283,414.

The second step in the process is to determine the amount of this \$12,282,414 tax savings that Gulf is going to be allowed to keep. Under the rule, (and subsequent stipulation) Gulf is allowed to retain that portion of the tax savings which will keep its return on equity above 15% (the 13.75% "nominal" ROE stipulated plus approximately 1.3% of ITC earnings ignored in the computation).

In order to assure that Gulf's ROE does not fall below 15%, of course, the Commission must calculate Gulf's earnings. In calculating Gulf's earnings, the Commission should apply the same regulatory principles applied in Gulf's last rate case. These principles include the O&M benchmark test for reasonableness of growth in expenses. Since that test resulted in a disallowance of \$4,397,000 in Gulf's last rate case, it is a very significant regulatory principle applied in Gulf's last rate case. If this same reasonableness test is now ignored in calculating Gulf's earnings for the tax savings refund, the earnings calculation would be inconsistent with the principles applied in the last rate case.

Besides the O&M benchmark test which was applied in Gulf's last rate case, a number of other specific adjustments must be made which were not contemplated in the last rate case. Gulf's last rate case was based on a projected test year, while this tax savings refund is based on a historical year. Thus a particular 1988 expense could be clearly improper, but it may not have been projected as an expense in 1984. For any expense that was not projected in the last rate case, the Commission did not have the opportunity to address the propriety of that expense. Nevertheless, merely because a particular expense was not subject to review in the last case does not make it proper for ratemaking purposes. In this tax savings refund docket, the Commission should make several adjustments in areas not specifically addressed in the last rate case. Upon applying the principles espoused in Gulf's last rate case, the Citizens have determined that Gulf's customers are entitled to an additional refund of at least \$9,692,843.

ISSUES AND POSITIONS

Legal Issues

1. ISSUE: Would adjustments to Gulf's actual per book figures, over and above those specific regulatory adjustments from the utility's 1984 rate case and those stipulated to herein, constitute impermissible retroactive ratemaking?

STAFF: No. Not only may the Commission may make such adjustments as are consistent with current Commission policy, but the Commission may also adjust for expenses which it finds to be imprudently incurred or unreasonable in amount.

GULF: Yes. Rule 25-14.003 contemplates identification and isolation of the difference between the actual achieved return and the authorized midpoint return for the historical 1988 tax year. By making additional pro forma adjustments to the Company's books, the Commission would exceed the scope of Rule 25-14.003 and require refund of an amount in excess of the calculated difference between the achieved and authorized returns, thus retroactively reducing the utility's rate of return for the year 1988.

OPC: No. Gulf's tax savings refund should be calculated consistent with the regulatory principles applied by the Commission in Gulf's last rate case. In Gulf's last rate case the Commission employed the O&M benchmark test as an analytical tool. Due to Gulf's failure to justify the excess of certain functional expenses above the benchmark, the Commission disallowed \$4,397,000 of expenses sought by Gulf in its last rate case. For 1988, Gulf's expenses have again grown at a rate higher than that which Gulf failed to justify in the last rate case. In order to be consistent with the regulatory treatment applied in the last rate case, then, Gulf's earnings must be calculated using the O&M benchmark as an analytical tool. In other words, to the extent that the growth of expenses in a given function exceeds the benchmark growth, then, Gulf should be required to justify the excess or refund it. To allow Gulf to keep all of these excessive expenses without justification would be directly contrary to the regulatory principles applied in Gulf's last rate case.

In Gulf's previous tax savings refund case, the Citizens argued that the O&M benchmark should be applied without any opportunity for Gulf to present justification beyond that offered in the last rate case. The Citizens still strongly believe that approach is the proper treatment for a tax savings refund calculation. In an attempt to meet the Commission's objection in the last tax savings refund case, however, the Citizens have modified their approach for this case.

2. ISSUE: Is it improper for adjustments which would be appropriate in a rate case to be made in this docket?

STAFF: No. The Commission may examine the reasonableness and prudence of a utility's expenditures. If expenses are found to be unreasonable in amount or imprudently incurred, the Commission may make corrective adjustments.

GULF: Yes. A rate case prospectively sets electric rates based upon a test year which must be fairly representative of future utility operations. In that context, pro forma adjustments are required to remove expenses which are not typical of future operations. In contrast, this docket is not concerned with prospective utility rates but rather with

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the actual effect of changes in the corporate income tax rates on earnings for a historical period, with the focus being to determine whether the tax rate changes cause the utility to earn in excess of the authorized midpoint return during the historical period.

OPC: No. The Commission should look to the last rate case as a guide in determining the regulatory principals which should be applied in this tax savings refund docket.

- 3. ISSUE: Should Rule 25-14.003 be construed to require the utility to justify its actual, per books expenses prior to calculating the utility's tax savings or tax deficiency?

STAFF: Yes. The utility bears the burden of proving that its per books expenses are reasonable in amount and prudently incurred, and can therefore be required to justify its expenses, if necessary.

GULF: No. The Rule contemplates a relatively simple proceeding, and does not provide for the type of detailed justification and policy decisions which would be required in a full revenue requirements rate case.

OPC: Yes.

- 4. ISSUE: Which party has the burden of proof on the issues in controversy in this proceeding?

STAFF: Gulf has the burden of proof.

GULF: The party or parties challenging certain expenses are properly subjected to the burden of proof and have the responsibility for establishing the expense or investment was unnecessary, unreasonable, or imprudent.

OPC: In 1988, Gulf collected through its rates taxes calculated at a 46% level, but paid taxes to the IRS at only a 34% level. Gulf is attempting to keep the entire \$12,283,414 differential which was collected from the customers but not paid to the IRS. In its effort to justify why it should keep all of the revenues to cover an "expense" that it is not actually incurring, Gulf should be required to carry the burden of proof.

Factual Issues

5. ISSUE: Is Gulf Power Company's 1988 Tax Savings Filing calculated properly in accordance with Rule 25-14.003, Florida Administrative Code?

STAFF: Gulf calculated its refund in a manner consistent with the rule, but Staff does not agree with all accounting data and amounts used to complete the form. Further, the mere completion of a form and calculation does not preclude this Commission from reviewing and adjusting the calculations.

GULF: Yes. (Scarborough, McMillan)

OPC: No. As explained in response to Issue 1 and the Citizens' Basic Position, Gulf has not applied the regulatory principles applied in this last rate case. Thus, Gulf's tax refund calculation is not in accordance with Rule 25-14.003.

6. ISSUE: Are the company's adjustments made in the revised schedules filed by Gulf Power Company (Gulf) on October 4, 1989 appropriate and consistent with the ratemaking treatment in the utility's 1984 rate case?

STAFF: Yes. The two adjustments made in the revised schedule are appropriate.

GULF: Yes. Agree with Staff. (Scarborough, McMillan)

OPC: A number of additional adjustments must be made.

7. ISSUE: Should Gulf's investment in Plant Scherer be removed?

STAFF: Yes. The Commission has not included this investment in rate base. Further, this plant is not necessary for the provision of electric service to retail customers because Gulf had planned to sell this plant's capacity off-system.

GULF: No. Gulf's partial ownership in Plant Scherer provides energy and capacity to Gulf's customers at a fraction of the cost of building a new unit. The Commission has recognized that Gulf's participation in Plant Scherer represented substantial savings over construction of a new plant at Caryville. This investment was actually in place in 1988 and this capacity was actually available to serve Gulf's retail ratepayers for whom it was purchased. The monetary amounts involved in this issue were reasonable, prudent and necessary, and should not be disallowed. (Howell)

OPC: Yes. Since Plant Scherer's inception virtually all of its capacity has been dedicated to off-system sales and a significant amount became available for retail sales only when Gulf States Utilities reneged on its agreement to purchase Scherer's capacity. The agreement with Gulf States was to continue through 1992. Southern Company has already signed an agreement which will again sell virtually all of the Scherer capacity off-system from 1993 until 2010. Thus, Gulf has intended to sell virtually all of capacity of off-system from the plant's inception through the year 2010. To cover the risk of its capital investment in off-system capacity, Gulf collects an ROE from its off-system customers. The only reason any significant Scherer capacity was available for retail sales in 1988 is that an off-system purchaser (Gulf States) chose not to honor its agreement to buy the capacity originally dedicated to that purpose. The retail customers should not be guarantors of an investment dedicated to off-system customers.

\*8. STIPULATED ISSUE: Gulf capitalized \$1,272,301 (\$6,937,131 System) in excess of the original cost capitalized by Georgia Power Company for its 25% share of Plant Scherer, Unit No. 3. Is this appropriate?

No. Plant in Service should be reduced by \$1,272,301 (\$6,937,131 System), Accumulated Depreciation should be reduced by \$97,630 (\$532,772 System) and Depreciation Expense should be reduced by \$50,947 (\$277,485 System).

- \*9. STIPULATED ISSUE: Should rate base be reduced \$338,262 (\$346,447 System) to remove the capitalized cost of a Southern Company Services building, cancelled prior to construction?

Yes. Gulf agrees with Staff and has stipulated to this adjustment.

10. ISSUE: As a result of its purchase of a portion of the common facilities at Plant Scherer, Gulf recorded an acquisition adjustment of \$1,592,045 (\$8,680,507 System). Is this appropriate?

STAFF: No. Plant should be reduced by \$1,592,045 (\$8,680,507 System), Accumulated Depreciation and Amortization should be reduced by \$23,428 (\$127,605 System) and Amortization Expenses should be reduced by \$46,857 (\$255,211 System).

GULF: Yes. The acquisition adjustment amount was actually incurred in connection with this transaction and was properly recorded on Gulf's books in accordance with the Uniform System of Accounts promulgated by FERC and adopted by the Commission. No profit was made by the selling utilities due to this transaction. (Scarborough, McMillan)

OPC: No. Pursuant to longstanding Commission policy on acquisition adjustments, this should be removed from Gulf's rate base. (Smith)

11. ISSUE: Should rate base be reduced for a portion of the construction costs of the office buildings in Bonifay and Graceville?

STAFF: Yes. Rate base should be reduced by \$38,000 (\$41,000 System).

GULF: No. The reduction in rate base in the Company's last rate case for these buildings was not due to imprudence but was due to the Commission's finding that the Company had failed to prove that the total cost of the office buildings was justified and necessary for the provision of reliable electric service to Gulf's ratepayers. These expenditures



were actually and prudently incurred, and the Commission specifically left recovery of these expenditures open for consideration in Gulf's next rate case. These expenditures therefore are inappropriate for removal from rate base in these proceedings. Gulf continues to incur the costs associated with the construction of these buildings. They are used and useful in the provision of electric service to Gulf's customers. (McMillan)

OPC: Yes. In Gulf's last rate base, the Commission specifically removed these excess construction costs because Gulf failed to justify the expenditures. Gulf has not presented any new evidence which justifies the Commission's disallowance in the last rate case. Rate base should be reduced by \$38,000. (Smith)

- 12. ISSUE: Should Gulf's rate base be adjusted to remove the investment in the Tallahassee office?

STAFF: Yes. Twenty-five percent of the investment in the Tallahassee office should be treated as non-utility property or the same percentage used in allocating the lease payments below-the-line.

GULF: This property is used and useful and the costs associated with this facility were included in the Company's 1984 rate case. The Tallahassee office is used frequently by Gulf employees and representatives while on official Company business in Tallahassee. The investment was actually in place in 1988, was reasonable, necessary and prudently incurred and should not be disallowed. In an effort to remove unnecessary controversy from these proceedings, the Company agrees to remove from rate base, for purposes of the tax savings rule calculation, 25% of the net investment in the Tallahassee office (\$7906 jurisdictional) as well as the net investment associated with the vehicle assigned to Mr. Henderson's use (\$11,524 jurisdictional). Removal of these amounts and the related depreciation is reflected in the Company's position on Issues 17, 64 and 65. (Scarborough)

OPC: Yes. This office supports the activities of Mr. Henderson and Mr. Connell. Because the expenses for these two employees should not be borne by the ratepayers (see Issue 20), their office likewise should be removed from rate base. (Smith)

13. ISSUE: Should Gulf's rate base be reduced to remove certain property which Gulf has included as property held for future use?

STAFF: No. For the purposes of the 1988 tax savings docket all property held for future use should be allowed in rate base.

GULF: Gulf will address each item contested by the Public Counsel individually:

(1) Caryville land site. No. This land is used and useful. The Caryville property has been approved for inclusion in rate base since it was purchased. The land is being held for use as the site for Gulf's next generating plant, and is necessary to meet future long range needs at reasonable costs. The investment and expenses associated with this property were actually in place or incurred in 1988, were reasonable, prudent and necessary, and should not be disallowed. (Scarborough, McMillan)

(2) Daniel land site. No. This land is used and useful. The fact that this land is now classified as property held for future use represents an accounting change necessitated by FERC audit of Mississippi Power Company. The Florida Public Service Commission has previously approved this land for inclusion in Gulf's rate base. The investment and related expense were actually in place or incurred in 1988, were reasonable, prudent and necessary and should not be disallowed. (McMillan)

(3) Valparaiso land site. This land was never purchased. Since no expenditures were actually incurred for this item in 1988, no adjustment is necessary. (McMillan)

(4) Bayfront office site. No. This land is used and useful. The Bayfront site includes property which, under applicable zoning ordinances, is required for parking as additional personnel are located in the building. The investment and related expenses were actually in place or incurred in 1988, were reasonable, prudent and necessary, and should not be disallowed. (McMillan)

(5) General repair facility land site. No. This land is used and useful. As it became available, this property was

purchased and is held to support Gulf's Pace Boulevard site. A portion of the land is currently in service as Gulf's Electric Operations Facility. This investment and related expenses were actually in place or incurred in 1988, were reasonable, prudent and necessary and should not be disallowed. (McMillan)

OPC: Yes. Customers should pay for property which is necessary to provide utility service. They should not bear the cost of property which is planned for some vague purpose at some indefinite point in time. The Commission should remove five specific items which Gulf has included in Plant held for future use:

(1) Gulf claims an expected in-service date of 1995 and 2001 for the Caryville land site, but does not plan to build a generating unit there. In 1988, however, Gulf had no definite plan for construction of any type for this site.

(2) The Daniel land purchased between 1983 and 1988 has no site and construction drawings to substantiate the imminent use of this land.

(3) The Valparasio land site should be removed because Gulf has cancelled the transmission line project for which this land was purchased.

(4) The Bayfront Office site is scheduled for utilization between 1994 and 2010, but imminent use is unlikely because the current office space is not being utilized to capacity.

(5) The General Repair Facility land should be excluded for reasons similar to those for excluding the Daniel land.

\*14. STIPULATED ISSUE: Should Accumulated Depreciation be increased by \$67,760 (\$69,374 System) to correct errors in depreciation prior to 1988?

Yes. Accumulated Depreciation should be increased by \$67,760. (\$69,374 System)

\*15. STIPULATED ISSUE: Should Plant in Service be reduced by \$56,250 (\$57,611 System) to reverse AFUDC improperly

capitalized beyond the in-service date of the Crist Warehouse and Naval Air Station substation upgrade?

Yes. Plant in Service should be reduced by \$56,250 (\$57,611 System).

- \*16. STIPULATED ISSUE: The company has included in working capital \$26,000 (\$32,000 System) related to Acid Rain Legislation. Is this appropriate?

No. Working Capital should be reduced by \$26,000. (\$32,000 System)

17. ISSUE: What is the appropriate level of rate base for 1988?

STAFF: This calculation is mechanical in nature and dependent upon a resolution of the preceding issues.

GULF: The appropriate rate base is \$709,806,000. This amount is net after the adjustments for the stipulated issues and the adjustments made by the Company as noted in its position on Issues 12 and 31. (McMillan)

OPC: \$705,662,867.

18. ISSUE: Is \$126,958,919 the appropriate reconciled balance of Accumulated Deferred Income Taxes for 1988?

STAFF: No. The balance should be adjusted for change in rate base.

GULF: No. The correct amount is \$126,505,000. (McMillan)

OPC: Any non-utility or improper investments removed from rate base should be taken from equity, and deferred taxes should not be reduced thereby.

19. ISSUE: Should Gulf's depreciation and amortization expense be reduced to reflect any adjustments to plant in service? (OPC)

STAFF: Yes. Depreciation and amortization should be reduced to reflect any adjustments to plant-in-service.

GULF: Only the adjustments necessary to reflect the adjustments to plant to which Gulf has stipulated should be made. Most adjustments to plant in service necessitate corresponding adjustments to depreciation and amortization expense. (McMillan)

OPC: Yes.

20. ISSUE: Should expenses be reduced by \$227,146 (\$238,930 System) to remove lobbying expenses?

STAFF: Yes. Expenses should be reduced by a minimum of \$227,146 (\$238,930 System) to remove lobbying expenses.

GULF: In an effort to minimize controversial issues which tend to distract the Commission from the significant monetary issues to be considered in this docket, Gulf stipulates to reduce expenses by \$227,146 (\$238,930 System) for purposes of this docket. This amount represents all expenses associated with Earl Henderson's activities, even though many of his activities are not, strictly speaking, "lobbying". Also included in this amount is \$9,731 for the portion of the rent for the Tallahassee office associated with Mr. Henderson. Other expenses associated with Mr. Henderson have been adjusted in the Company's position on Issue 12.

In addition to the dollars identified above, in a further effort to remove unnecessary controversy from these proceedings, the Company agrees to reduce expenses for the purposes of this docket by \$11,406 (system) which are those expenses of Jack Connell associated with his participation in golf, tennis, NARUC and SEARUC. This adjustment is reflected in the Company's position on Issues 64 and 65. The Company maintains that the remainder of Mr. Connell's expenses were related to his official Company duties, were actually incurred in 1988, and were reasonable, prudent, and necessary. No further adjustment should be made. (Scarborough)

OPC: Expenses should be reduced by more than \$227,146, which the Citizens understand to represent expenses for

the activities of Mr. Earl Henderson. In addition to Mr. Henderson, Mr. Jack Connell's expenses should also be removed. Mr. Connell is a member of a country club (expensed to ratepayers) and spends a good deal of time golfing, playing tennis, entertaining and dining in an effort to "maintain business contacts and gather information." Also, Mr. Connell appears to attend NARUC conventions, spending substantial time and money for meals and drinks with personnel of other utilities and the PSC. Regardless of whether Gulf has chosen to label this activity as "lobbying" it has no right to expect ratepayers to fund these efforts. (Smith)

21. ISSUE: Should Gulf's expenses be reduced to remove those expenses incurred for certain employees' and executives' spouses to attend out-of-town functions? (OPC)

STAFF: Yes. Expenses should be reduced to remove those expenses incurred for certain employees' and executives' spouses to attend out-of-town functions.

GULF: No. On such occasions, spouses act as hostesses or otherwise perform official functions for the Company. The expenses were actually incurred in 1988, were reasonable and prudent, and should not be disallowed. (Scarborough)

OPC: Yes. A number of Gulf employees and executives are accompanied by their spouses when attending out-of-town functions at ratepayers' expense. The ratepayers should not be charged for these perquisites. (Smith)

- \*22. STIPULATED ISSUE: Should Account 923 - Outside Services be reduced for expenses related to non-utility items?

Yes, Account 923 should be reduced \$56,442 (\$59,370 System) for legal expenses improperly charged to Account 923.

23. ISSUE: Should Gulf's O&M expenses be adjusted to exclude a percentage of executive and corporate expenses related to time spent on grand jury investigation matters?

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STAFF: Yes. Any identifiable expenses for which Gulf was not reimbursed should be disallowed.

GULF: No. Gulf maintains that this issue is not appropriate for consideration in this docket. The executives spending any time on grand jury investigation matters are salaried and therefore did not receive overtime or any other form of additional compensation for the extra work created by the grand jury investigation. Likewise, the Company did not incur any material amount of additional expense as a result of said investigation beyond that for Outside Services adjusted out through the stipulation to Issue 22. No further adjustment is appropriate or necessary. (Scarborough, McMillan)

OPC: Yes. Gulf executives and employees have spent a substantial amount of time strategizing and planning for the grand jury investigations. This is time that was not for providing service to the customers and should not be charged to the customers. A portion of the salaries should be allocated to these activities and removed from O&M expenses.

24. ISSUE: Should Gulf's O&M expenses be adjusted to exclude travel and other expenses related to grand jury investigation matters?

STAFF: Yes. Any identifiable expenses for which Gulf was not reimbursed should be disallowed.

GULF: No. Nevertheless, in an effort to remove unnecessary controversy from these proceedings, the Company agrees to remove, for purposes of the tax savings rule calculation, \$3346 (\$3413 system) for travel and miscellaneous copying expense. Gulf maintains that this issue is not appropriate for consideration in this docket. See Gulf's position on Issue No. 23, above. Any travel expense or miscellaneous copying expense beyond that adjusted out by the stipulation to Issue 22 that was directly related to the Grand Jury and not reimbursed by the Government in accordance with witness attendance laws is included in the adjustment made by the Company as stated above. This adjustment is reflected in the Company's position on issues 64 and 65. (Scarborough)

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OPC: Yes. Gulf's activities in response to the grand jury investigation should not be borne by the ratepayers. All expenses incurred by Gulf for these activities should be removed. Gulf should be required to identify the amount of travel and other expenses and remove those expenses from O&M.

25. ISSUE: Should Gulf's O&M expenses be adjusted to exclude any bonuses paid to the Levin, Warfield Law Firm in 1988 and related to any grand jury investigation/Croft litigation matter?

STAFF: Yes. Any bonuses paid to the Levin, Warfield Law Firm in 1988 related to the grand jury investigation/Croft litigation should be disallowed.

GULF: No. Gulf maintains that this issue is not appropriate for consideration in this docket. See Gulf's position on Issue No. 23, above. Fees paid to this law firm in connection with the cited investigative/litigation matter were adjusted out through the stipulation to Issue 22. (Scarborough)

OPC: Any bonuses for outside services above the contracted amount should be borne by the shareholders, rather than the ratepayers.

- \*26. STIPULATED ISSUE: Should expenses associated with an employee discrimination lawsuit be removed from operating expenses?

Yes. Expenses should be reduced \$176,510 (\$185,668 System).

27. ISSUE: Should Bad Debt Expense be reduced by \$216,091 (\$216,091 System)?

STAFF: No. The 1988 accrual of \$661,662 is reasonable when tested by comparing this amount to the three year accrual average write-off experience as a percentage of sales. (Reference Orders No. 16195 and 22224 in Dockets No. 850192-EI and 881056-EI, respectively.



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GULF: No. This adjustment to Gulf's actual accrued uncollectible expenses is improper. Gulf properly estimated its 1988 uncollectible expense in accordance with accrual accounting requirements and no adjustment is necessary or appropriate. (McMillan)

OPC: In Gulf's last rate case, the Commission found the utility's accrual for uncollectibles to be excessive and based the expense on actual net write-offs. In a recent filing Gulf stated that it has changed its method of accrual to more closely match it to actual write-offs, yet in 1988 Gulf's accrual again substantially exceeded its actual net write-offs. In order to reflect a more reasonable level and to implement the decision in Gulf's last rate case, the Commission should limit Gulf's uncollectible expense to the actual write-offs. The disallowance should be \$216,091. (Smith)

- 28. ISSUE: Should Gulf's NOI be adjusted to remove the utility's change in accounting treatment for post-retirement benefits? (OPC)

STAFF: The Commission has no policy on the treatment of post-retirement benefits. Staff takes no position at this time.

GULF: No. Post-retirement benefits, consisting of medical and life insurance coverage provided to company employees after retirement, are properly accounted for and recognize that present benefits associated with attracting and retaining qualified employees are appropriately charged to present ratepayers. These expenses were actually accrued in 1988, were reasonable, necessary and prudent, and should not be disallowed. (Scarborough)

OPC: Since its last rate case, Gulf has changed its method of accounting for post-retirement medical and life insurance benefits. The method which was used by Gulf and approved by the Commission in the last rate case was proper in 1988. Accounting standards did not mandate the change in accounting methods. The voluntary change, however, resulted in an increase of \$1,105,518 in post-retirement benefits expense. That increase should

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not be permitted in the calculation of the tax savings refund, and O&M expenses should be reduced by \$1,105,518. (Smith)

29. ISSUE: Should Gulf's advertising expense be reduced to reflect the removal of advertising recorded in account 930.1? (OPC)

STAFF: Yes. These expenses should be removed if Gulf has not already done so.

GULF: No further adjustment is necessary or appropriate. All image-enhancing advertising, including the expenses recorded in account 930.1, have already been adjusted from the expenses set forth in the Company's revised filing of October 4, 1989. (Bowers, McMillan)

OPC: This amount should be removed. Gulf has stated that it was excluded from the filing, but the Citizens have not been able to confirm this. If the amount has not been excluded, then it should be removed from O&M expenses. (Smith)

30. ISSUE: Should Gulf's advertising expenses be reduced to remove inappropriate advertisements? (OPC)

STAFF: These expenses are associated with the Customer Service and Information function and the Sales function. Specific disallowances are addressed by staff in Issues 52 through 58. Expenses associated with Area Development have been removed by the company and accepted by staff.

GULF: No. All adjustments necessary to remove image-building and promotional advertisements have already been made. See position on Issue 29. The remaining expenses for advertising were actually incurred in 1988, were reasonable, necessary and prudent, and no further adjustments should be made. (Bowers)

OPC: Yes. Gulf has included the expenses for a number of advertisements which are improper for a wide variety of reasons. Mr. Smith provided a list of the advertisements which should be disallowed (RCS-1; Sch. 4)

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and a copy of each advertisement (RCS-3; 40 pages). To reflect the removal of these advertisements, Gulf's O&M expenses should be reduced by \$415,859. (Smith)

31. ISSUE: Should Gulf's expenses be reduced to remove the costs incurred for Docket No. 881167-EI? (OPC)

STAFF: Yes. Expenses should be reduced to remove the costs incurred for Docket No. 881167-EI.

GULF: No. None of the costs associated with the 1989 rate case (Docket No. 881167-EI) were actually expensed in 1988. However, rate base is affected by the deferred debit amount of \$69,401 (\$85,631 system). In an effort to remove unnecessary controversy from these proceedings, the Company agrees to remove this amount from rate base for purposes of the tax savings rule calculation. This adjustment is reflected in the Company's position on issues 17 and 65. (McMillan)

OPC: Yes. In Docket No. 881167-EI, Gulf initially filed for a rate increase and subsequently withdrew its case. All expenses associated with that filing should be removed for the calculation of the tax savings refund. From the data available, however, the Citizens are unable to determine exactly how much expense was incurred in 1988. In Docket No. 881167-EI, Gulf estimated its total rate case expense to be \$1,000,000. The case was filed in November, 1988, so a significant portion of the preparation took place in 1988. For the tax savings calculation, the Citizens recommend the removal of one-half, or \$500,000, of the total estimated rate case expense. (Smith)

32. ISSUE: Should Gulf's O&M expenses be adjusted to exclude additional pension expense, in excess of tax law cap, of \$308,000?

STAFF: Yes. If pension expense is not recorded in accordance with FASB 87, it should be disallowed.

GULF: No. Gulf maintains that this issue is not appropriate for consideration in this docket. These

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expenses were actually incurred in 1988, were reasonable, prudent and necessary, and should be allowed. (Scarborough)

OPC: Yes. Over and above the maximum allowed for tax purposes, Gulf has charged its customers \$308,000 as additional pension expense. Gulf itself describes this addition as "Gratuitous pension expense." The customers should not be charged with this gratuitous expense.

33. ISSUE: Should Gulf's O&M expenses be adjusted to exclude the corporate component of PIP (incentive payment) accruals of \$238,480?

STAFF: No adjustment should be made since this plan and related expenses were allowed in Gulf's last rate case.

GULF: No. Gulf maintains that this issue is not appropriate for consideration in this docket. These expenses were actually incurred in 1988, were reasonable, prudent and necessary, and should be allowed. (Scarborough)

OPC: Yes. Gulf has accrued for specified personnel certain incentive payments of \$238,480 which are contingent upon the achieved earnings of Southern Company. Since the performance standard reflects a direct benefit to the shareholders (and possible detriment to the ratepayers), the incentive should be borne by the shareholders, rather than the ratepayers.

34. ISSUE: [Steam Production; Additional Personnel and Salary Increases] Should the benchmark excess of \$1,208,000 be recognized in calculating Gulf's 1988 tax savings refund, if any?

STAFF: Additional personnel accounted for \$474,000 (\$829,173 System) and salary increases accounted for \$461,000 jurisdictional (\$511,712 System) in expenses above the 1988 benchmark. Of the 33 "New" positions, only 1/2 have been justified on a conservative basis and therefore \$373,500 (\$414,586 System) should be disallowed for tax savings refund purposes.

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GULF: Yes, the expenses should be "allowed". Gulf maintains that the benchmark should not be an issue in this docket. These expenses were due to the filling of positions which were vacant in 1984, at the time of Gulf's last rate case. The revenue requirements for these positions were not included in base rates resulting from the 1984 rate case only because the positions were not filled. There was not a determination that the positions were not justified. Since these expenses were actually incurred in 1988, and were reasonable, prudent and necessary, they should be allowed. (Lee)

OPC: In its effort to justify its benchmark excess, Gulf cited increases in personnel in response to a 1983 Staff audit. The increase in employees in the area analyzed by the audit, however, accounts for only 24 of the 33 total increased positions cited as the cause for \$747,000 excess over the benchmark. The nine remaining positions, therefore, have not been justified. Thus, the O&M expenses should be reduced by 9/33, or \$203,707, of the benchmark excess. (Smith)

35. ISSUE: [Steam Production; Southern Company Services] Should the benchmark excess of \$310,000 be recognized in the O&M expenses used in calculating Gulf's 1988 tax savings refund, if any?

STAFF: Yes. The benchmark excess of \$310,000 jurisdictional (\$344,101 System) should be used in calculating Gulf's tax savings.

GULF: Yes, the expenses should be "allowed". Gulf maintains that the benchmark should not be an issue in this docket. Since these expenses were actually incurred in 1988 and were reasonable, prudent, and necessary, they should be allowed. (Lee, McMillan)

OPC: Gulf has exceeded the benchmark by \$310,000 for "research projects" and "studies" performed by SCS; it has exceeded the benchmark by \$233,000 for Electric Power Research Institute; it has exceeded the benchmark by \$170,000 for research and development. It would seem that this justification has been used (and allowed) elsewhere. the \$310,000 benchmark excess for this activity should be removed from O&M expenses. (Smith)

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36. ISSUE: [Steam Production; Additional Personnel - Plant Daniel] Should the benchmark excess of \$127,000 be recognized in the O&M expenses used in calculating Gulf's 1988 tax savings refund, if any?

STAFF: Yes. The additional personnel at Plant Daniel seem to have been justified and the expenses associated with them should be used in calculating Gulf's tax savings.

GULF: Yes, the expenses should be "allowed". Gulf maintains that the benchmark should not be an issue in this docket. Since these expenses were actually incurred in 1988, and were reasonable, prudent and necessary, they should be allowed. (Lee)

OPC: No. It should be removed.

37. ISSUE: [Steam Production; Other O&M - Plant Daniel] Should the benchmark excess of \$506,000 be recognized in the O&M expenses used in calculating Gulf's 1988 tax savings refund, if any?

STAFF: The increased expense of \$506,000 jurisdictional (\$561,662 System) has only been partially justified. Therefore, only 1/2 or \$253,000 should be used in calculating Gulf's tax savings.

GULF: Yes, the expenses should be "allowed". Gulf maintains that the benchmark should not be an issue in this docket. Generating costs associated with Plant Daniel have increased due to inflation and also due to the increased generation at the Plant. Since these expenses were actually incurred in 1988, and were reasonable, prudent and necessary, they should be allowed. (Lee)

OPC: Gulf cites additional usage at Plant Daniel as "justification" for \$506,000 benchmark excess. As Staff points out, however, the Plant's increased generation resulted in the plant's being cycled less and actually serves to reduce expenses. The OPC agrees with Staff that one-half, or \$253,000, of the benchmark excess should be removed from O&M expenses. (Smith)

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38. ISSUE: [Steam Production; Plant Daniel Turbine and Boiler] Should the benchmark excess of \$168,000 be recognized in the O&M expenses used in calculating Gulf's 1988 tax savings refund, if any? (OPC)

STAFF: Yes. The benchmark excess of \$168,000 jurisdictional (\$186,481 System) should be used in calculating Gulf's tax savings.

GULF: Yes, the expenses should be "allowed". Gulf maintains that the benchmark should not be an issue in this docket. This expense was not included in the \$4,121 million allowed for turbine and boiler inspections at Gulf's territorial plants in the 1984 rate case, as Plant Daniel is not a territorial plant. This expense was actually incurred in 1988, was reasonable, prudent and necessary, and should not be disallowed. (Lee)

OPC: Gulf claims that \$168,000 benchmark excess is justified because it inspected turbines at Unit 2 of Plant Daniel in 1988, but that unit did not have a specific turbine inspection in 1984. This explanation fails to consider the true nature of these inspections, which follows a cyclical pattern over all units. In the last rate case, the Commission allowed \$3,686,000 for turbine and boiler inspections at all units, and did not specify which units were being covered. Additionally, the \$3,684,000 was \$835,000 higher than the amount incurred in 1984. Thus, the benchmark provides a very generous starting point. Gulf has failed to justify the excess, and its O&M expenses should be reduced by \$168,000. (Smith)

39. ISSUE: [Steam Production; Southern Company Services - Plant Daniel] Should the benchmark excess of \$202,000 be recognized in the O&M expenses used in calculating Gulf's 1988 tax savings refund, if any? (OPC)

STAFF: Yes. The benchmark excess of \$202,000 jurisdictional (\$224,221 System) should be used in calculating Gulf's tax savings.

GULF: Yes, the expenses should be "allowed". Gulf maintains that the benchmark should not be an issue in

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this docket. These expenses consist of items billed directly to Mississippi Power for Plant Daniel, 50% of which are then billed to Gulf by Mississippi Power pursuant to the operating agreement. The charges are not duplicative of the services that are directly billed by SCS to GULF for its territorial plants. The expenses identified in this issue were actually incurred in 1988, were reasonable, prudent and necessary, and should not be disallowed. (Lee)

OPC: Gulf explains this \$202,000 excess as arising from three sources:

- (1) support for the PPMIS;
- (2) Plant Daniel Unit 2 turbine testing and
- (3) Plant Daniel ash storage engineering

Each of these three activities is used as justification elsewhere and should not be double-counted. The O&M expenses should be reduced by \$202,000. (Smith)

40. ISSUE: [Steam Production; Additional Usage and Aging - Plant Daniel] Should the benchmark excess of \$506,000 be recognized in the O&M expenses used in calculating Gulf's 1988 tax savings refund, if any? (OPC)

STAFF: Yes. The benchmark excess of \$506,000 jurisdictional (\$561,662 System) should be used in calculating Gulf's tax savings.

GULF: This issue duplicates Issue 37. This issue addresses the same O&M expenses identified and addressed in Issue 37. This issue should be deleted. (Lee)

OPC: See Issue number 37.

41. ISSUE: [Steam Production; Ash Hauling - Plant Daniel] Should the benchmark excess of \$111,000 be recognized in the O&M expenses used in calculating Gulf's 1988 tax savings refund, if any? (OPC)



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STAFF: Yes. The benchmark excess of \$111,000 jurisdictional (\$123,210 System) should be used in calculating Gulf's tax savings.

GULF: Yes, the expenses should be "allowed". Gulf maintains that the benchmark should not be an issue in this docket. These expenses were not included in Gulf's last rate case, since ash hauling was not performed at Plant Daniel in 1984. The expenses were actually incurred in 1988, were reasonable, prudent and necessary maintenance expenses. This item should not be disallowed. (Lee)

OPC: Because similar ash hauling activities at Plant Daniel were budgeted and allowed in the last rate case, the mere identification of this activity does not provide justification. O&M expenses should be reduced by \$111,000. (Smith)

42. ISSUE: [Steam Production; Ash Hauling and Storage-Dry Land Fill-Smith] Should the benchmark excess of \$752,000 be recognized in the O&M expenses used in calculating Gulf's 1988 tax savings refund, if any?

STAFF: Yes. The benchmark excess of \$752,000 jurisdictional (\$834,723 System) should be used in calculating Gulf's tax savings.

GULF: Yes, the expenses should be "allowed". Gulf maintains that the benchmark should not be an issue in this docket. These expenses were not included in Gulf's last rate case since ash hauling was not performed at Plant Smith in 1984. Since these expenses were actually incurred in 1988 and were reasonable, prudent and necessary, they should be allowed. (Lee)

OPC: In the last rate case, the Commission authorized an expense for dry ash handling. The authorized amount, however, did not specify which plants it was directed toward. Thus, Gulf's claim that no amount was allowed for removing ash from Plant Smith is inaccurate. A general amount was allowed for all plants. Simply identifying which specific plants incurred ash handling costs in 1988 provides no justification. The \$752,000 benchmark excess should be disallowed. (Smith)

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43. ISSUE: [Steam Production; Crist Plant-Painting] Should the benchmark excess of \$953,000 be recognized in the O&M expenses used in calculating Gulf's 1988 tax savings refund, if any?

STAFF: Yes. The benchmark excess of \$953,000 jurisdictional (\$835,833 System) should be used in calculating Gulf's tax savings.

GULF: Yes, the expenses should be "allowed". Gulf maintains that the benchmark should not be an issue in this docket. Since these expenses were actually incurred in 1988 and were reasonable, prudent and necessary, they should be allowed. (Lee)

OPC: Again, this involves an activity which is performed cyclically on all plants owned by Gulf, and mere identification of the specific activity at a particular plant does not provide justification of the excess. The Citizens recommend the removal of one-half, or \$276,000, of the excess above the benchmark. (Smith)

44. ISSUE: [Steam Production; Plant Scherer] Should the benchmark excess of \$1,191,000 be recognized in the O&M expenses used in calculating Gulf's 1988 tax savings refund, if any? (OPC)

STAFF: No. The benchmark excess of \$1,191,000 jurisdictional (\$1,322,015 System) should not be used in calculating Gulf's tax savings because the company has not justified the inclusion of this plant and associated facilities in its rate base.

GULF: Yes, the expenses should be "allowed". Gulf maintains that the benchmark should not be an issue in this docket. The expenses associated with Plant Scherer were actually incurred in 1988, and were reasonable, prudent and necessary to provide capacity to Gulf's customers. (McMillan, Howell, Lee)

OPC: No. The amount should be removed because, as explained in Issue 7, the costs associated with Plant Scherer should be charged to off-system sales, rather than in retail rates. Even if Plant Scherer is allowed in rate base, Gulf should be required to provide a

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justification for this expense rather than automatically increasing its O&M. The O&M expenses should be reduced by the \$1,191,000 benchmark excess. (Smith)

45. ISSUE: [Steam Production; Electromagnetic Field Research] Should the benchmark excess of \$8,000 be recognized in the O&M expenses used in calculating Gulf's 1988 tax savings refund, if any? (OPC)

STAFF: Yes. The benchmark excess of \$8,000 jurisdictional (\$8,880 System) should be used in calculating Gulf's tax savings.

GULF: Yes, the expenses should be "allowed". Gulf maintains that the benchmark should not be an issue in this docket. This expense reflects a new research project added since 1984, and which, in coordination with the Florida Electric Coordinating Group (FCG), assisted the Florida Department of Environmental Regulation in fulfilling its legislative mandate to develop EMF standards for transmission and distribution systems in the State of Florida. The expenses were actually incurred in 1988, were reasonable, prudent and necessary, and should not be disallowed. (Howell)

OPC: The Commission allowed Gulf research expenses in its last rate case. The base period, therefore, is not zero. Gulf has merely identified a specific research project included in 1988. This does not amount to a justification, and the \$8,000 should be removed from O&M expenses. (Smith)

46. ISSUE: [Steam Production; Acid Rain Monitoring] Should the benchmark excess of \$13,000 be recognized in the O&M expenses used in calculating Gulf's 1988 tax savings refund, if any? (OPC)

STAFF: Yes. The benchmark excess of \$13,000 jurisdictional (14,430 System) should be used in calculating Gulf's tax savings.

GULF: Yes, the expenses should be "allowed". Gulf maintains that the benchmark should not be an issue in

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this docket. These expenses are required to comply with a request from DER to continue gathering data on acid rain, were actually incurred in 1988, were reasonable, prudent and necessary, and should not be disallowed. (Lee)

OPC: Gulf claims that \$13,000 of its excess can be explained because no acid raid monitoring expense was allowed in the last rate case, but cost \$13,000 in 1988. Information produced in Docket No. 881167-EI, however, shows that Gulf contributed \$47,452 for acid rain monitoring in 1984, but only \$13,000 in 1988. Obviously, then, this expense does not explain any of the excess above the benchmark. O&M expenses should be reduced by \$13,000. (Smith)

47. ISSUE: [Steam Production; Transmission Rentals] Are the benchmark adjustments made for transmission rentals appropriate for calculating the variance from the 1988 benchmark amount? (OPC)

STAFF: No. The adjustments are not proper because the initial 1984 starting amount was inaccurate and previously disallowed costs were added.

GULF: Yes, Gulf's calculations are in accordance with the Commission's guidelines for this expense, and the transmission facility charges (line rentals) themselves are the most economical method of delivering energy and capacity from Gulf's jointly owned plants in Mississippi and Georgia into its service territory. Gulf's investment in these transmission facilities represents a prudent and necessary expense for the provision of electric service and these expenses should not be disallowed. These charges were actually incurred, and are properly recorded on the Company's books. Although it is true that a portion of the transmission facility charges relating to Plant Daniel were not included in base rates in Gulf's 1984 rate case, the Commission did not find the expenses unreasonable or imprudent but only that Gulf had inappropriately included customer growth in the justification of the 1984 transmission expenses. Thus, this is not a specific regulatory adjustment appropriate for inclusion in this docket. (McMillan, Scarbrough, Howell)

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OPC: Gulf's reported benchmark variance is understated because it improperly made three adjustments to the benchmark for transmission line rentals:

(1) Gulf inaccurately reported the amount allowed in the 1984 base year;

(2) Without any justification, Gulf deliberately added back \$425,000 which the Commission specifically disallowed in the last rate case; and

(3) Gulf added \$1,500,000 in Scherer line rentals without even mentioning them in the justification. Thus, the \$1,620,000 should be removed from O&M. If Plant Scherer is removed (see Issue 7), the \$1,500,000 should be removed regardless of the benchmark results.

48. ISSUE: [Distribution; Underground Line Extensions] Should the benchmark excess of \$289,000 be recognized in the O&M expenses used in calculating Gulf's 1988 tax savings refund, if any?

STAFF: Yes. The benchmark excess of \$289,000 jurisdictional (\$290,116 System) should be used in calculating Gulf's tax savings.

GULF: Yes, the expenses should be "allowed". Gulf maintains that the benchmark should not be an issue in this docket. Since these expenses were actually incurred in 1988 and were reasonable, prudent and necessary, they should be allowed. (Jordan)

OPC: No. Gulf claims the benchmark excess results from higher maintenance costs due to a higher proportion of underground distribution lines. In fact, however, the maintenance for underground facilities should actually be lower than the overhead lines. In addition, the accrual for liability exposure should be considerably less as a result of these safer lines. Thus, Gulf has provided no justification, and O&M expenses should be reduced by \$289,000. (Smith)

49. ISSUE: [Distribution; Distribution System Work Order (DSO) Clearance] Should the benchmark excess of

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\$1,057,000 be recognized in the O&M expenses used in calculating Gulf's 1988 tax savings refund, if any?

STAFF: The benchmark excess of \$1,057,000 jurisdictional (\$1,061,082 System) should be adjusted to reflect allowed amounts for 1984 expenses in calculating a new 1988 benchmark.

GULF: Yes, the expenses should be "allowed". Gulf maintains that the benchmark should not be an issue in this docket. These expenses were reasonable, prudent and necessary, and should not be disallowed. (McMillan, Jordan)

OPC: Not entirely. Gulf stated that while "the relative amount of dollars to do the work did not increase," the percentage allocated to O&M (as opposed to being capitalized) rose from 8.0% to 12.9% (in 1987). Applying Gulf's own percentages, however, explains an increase of only \$346,000 in this expense. The remaining \$711,000 of the total \$1,057,000 benchmark excess, therefore, has not been justified. The O&M expenses should be reduced by \$711,000. (Smith)

50. ISSUE: [Distribution; Obsolete Distribution Material] Should the benchmark excess of \$458,000 be recognized in the O&M expenses used in calculating Gulf's 1988 tax savings refund, if any?

STAFF: No. The benchmark excess of \$458,000 jurisdictional (\$459,769 System) has not been fully justified and should not be used in calculating Gulf's tax savings.

GULF: Yes, the expenses should be "allowed". Gulf maintains that the benchmark should not be an issue in this docket. Expenses associated with this item were actually incurred in 1988, were reasonable, prudent and necessary, and should not be disallowed. (McMillan, Jordan)

OPC: Gulf explains this excess as resulting from an inventory control system (COPIC), which more aggressively removed obsolete material from inventory. Gulf claims

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that although the system was implemented in 1984, the excessive write-offs in 1988 took place after gathering enough historical turnover data. Gulf has failed to recognize that the inventory obsolescence developed over a number of historical years and the charge should not be "stacked" into 1988. The \$458,000 excess should be removed from O&M expenses.

51. ISSUE: [Distribution; Electric Power Research Institute (EPRI)] Should the benchmark excess of \$54,000 be recognized in the O&M expenses used in calculating Gulf's 1988 tax savings refund, if any?

STAFF: No. The benchmark excess of \$54,000 jurisdictional (\$54,208 System) has not been fully justified and should not be used in calculating Gulf's tax savings.

GULF: Yes, the expenses should be "allowed". Gulf maintains that the benchmark should not be an issue in this docket. Gulf receives significant benefits from its EPRI membership and EPRI research does not duplicate research performed by Gulf Power Company. These expenses were actually incurred in 1988, were reasonable, prudent and necessary, and should not be disallowed. (McMillan, Howell)

OPC: No. Gulf's explanation amounts to an effort to double count a justification offered which was offered for EPRI dues generally. O&M expenses should be reduced by \$54,000. (Smith)

52. ISSUE: [Customer Service and Information; Good Cents Programs] Should the benchmark excess of \$447,057 be recognized in the O&M expenses used in calculating Gulf's 1988 tax savings refund, if any? (OPC)

STAFF: No. None of the expenses associated with the Good Cents Program should be used in calculating Gulf's tax savings.

GULF: Yes, the expenses should be allowed". Gulf maintains that the benchmark should not be an issue in

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this docket. Gulf's Good Cents Home (New) program was removed from ECCR pursuant to a stipulation between Gulf and the Commission staff. Gulf is seeking to recover these expenses in base rates in Docket No. 891345-EI. These expenses were actually incurred in 1988, were reasonable, prudent and necessary and should not be disallowed. (Bowers)

OPC: No. This area includes such activities as the "Centsable Contractor Weekends" which were held at the San Destin Hilton where Gulf entertained contractors. These activities should not be borne by the ratepayers, so O&M expenses should be reduced by \$447,057. (Smith)

53. ISSUE: [Customer Service and Information; "Essential" Customer Services] Should the benchmark excess of \$62,325 be recognized in the O&M expenses used in calculating Gulf's 1988 tax savings refund, if any? (OPC)

STAFF: No. None of the expenses associated with the Essential Customer Services program should be used in calculating Gulf's tax savings.

GULF: Yes, the expenses should be "allowed". Gulf maintains that the benchmark should not be an issue in this docket. These programs provide services which Gulf's customers expect, and which they are entitled to receive. These expenses were actually incurred in 1988, were reasonable, prudent and necessary, and should not be disallowed. (Bowers)

OPC: No. These "essential" customer services include such activities as "appliance use and selection", "electric system design", residential interior lighting", and lifestyle information". These "essential" activities are not necessary for the provision of electric service and appear designed to encourage electric usage. The \$63,325 excess should be removed from O&M expenses. (Smith)

54. ISSUE: [Customer Service and Information; Industrial Customer Activities and Cogeneration] Should the benchmark excess of \$248,990 be recognized in the O&M



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expenses used in calculating Gulf's 1988 tax savings refund, if any? (OPC)

STAFF: No. None of the expenses associated with the Industrial Customer Activities and Cogeneration Program should be used in calculating Gulf's tax savings.

GULF: Yes, the expenses should be "allowed". Gulf maintains that the benchmark should not be an issue in this docket. These activities are necessary to comply with a number of statutes and regulations, including FEECA and the recently enacted cogeneration rules. These expenses were actually incurred in 1988, were reasonable, prudent and necessary, and should not be disallowed. (Bowers)

OPC: No. Gulf describes this area as "investing resources to build a meaningful business relationship built on mutual respect and trust and a process for providing information concerning rates, economics, engineering analysis, and state and national legislative initiatives". Gulf's claim that this program has allowed it to retain its large customers is unsubstantiated. Thus, this largely image-building activity, some of which involves legislative initiatives, should not be borne by ratepayers. O&M expenses should be reduced by the \$248,990 excess. (Smith)

55. ISSUE: [Sales; Training] Should the benchmark excess of \$83,000 be recognized in the O&M expenses used in calculating Gulf's 1988 tax savings refund, if any?

STAFF: No. The \$83,000 (\$83,000 System) in expenses for training should not be used in calculating Gulf's tax savings.

GULF: Yes, the expenses should be "allowed". Gulf maintains that the benchmark should not be an issue in this docket. Since these expenses were actually incurred in 1988 and were reasonable, prudent and necessary, they should be allowed. (Bowers)'

OPC: Agree with Staff.

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56. ISSUE: [Sales; Heat Pump Program] Should the benchmark excess of \$665,000 be recognized in the O&M expenses used in calculating Gulf's 1988 tax savings refund, if any? (OPC)

STAFF: No. The \$665,000 (\$665,000 System) in expenses for the Heat Pump Program should not be used in calculating Gulf's tax savings.

GULF: Yes, the expenses should be "allowed". Gulf maintains that the benchmark should not be an issue in this docket. The focus of this program is to provide assistance to our customers in order to enable them to use energy more efficiently. These expenses were actually incurred in 1988, were reasonable, prudent and necessary, and should not be disallowed. (Bowers)

OPC: No. Because Gulf's "heat pump program" promotes the use of electricity and electric appliances, it should not be borne by the ratepayers. O&M expenses should be reduced by the \$665,000 benchmark excess for this time. (Smith)

57. ISSUE: [Customer Service and Information; Ally Information and Education] Should the benchmark excess of \$256,000 be recognized in the O&M expenses used in calculating Gulf's 1988 tax savings refund, if any? (OPC)

STAFF: No. The \$256,000 (\$256,000 System) in expenses for Ally Information and Education should not be used in calculating Gulf's tax savings refund.

GULF: Yes, the expenses should be "allowed". Gulf maintains that the benchmark should not be an issue in this docket. This program is required to educate and provide information to architects and engineers regarding energy-efficient building practices and equipment. These expenses were actually incurred in 1988, were reasonable, prudent and necessary, and should not be disallowed. (Bowers)

OPC: No. The customers should not be required to bear these expenses so that Gulf can "take a leadership role with trade professional organizations". To the extent

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that these costs involve membership in professional organizations, the O&M benchmark has already allowed for reasonable growth for these types of expenses. This benchmark excess of \$256,000 should be removed from O&M expenses. (Smith)

58. ISSUE: [Sales; Shine Against Crime] Should the benchmark excess of \$104,000 be recognized in the O&M expenses used in calculating Gulf's 1988 tax savings refund, if any?

STAFF: Yes. The \$104,000 (\$104,000 System) in expenses for Shine Against Crime should be used in calculating Gulf's tax savings refund.

GULF: Yes, the expenses should be "allowed". Gulf maintains that the benchmark should not be an issue in this docket. This program provides direct benefits to participating customers and society through reduced exposure to crime and also encourages the more efficient use of electricity by increased usage of electrical plant that would otherwise be underutilized during the off peak hours covered by this program. Increasing the efficient use of electricity is consistent with the statutory mandate of FEECA. These expenses were actually incurred in 1988, were reasonable, prudent and necessary, and should not be disallowed. (Bowers)

OPC: Section 366.82, Florida Statutes, requires, in part, the Commission to adopt the goal of "reduc[ing] and controll[ing] the growth rates of electric consumption." It would appear that the expenses associated with the "shine against crime" program are contrary to the language of FEECA. The Citizens, however, are not contesting the expenses for this activity.

59. ISSUE: [Production Related Administrative & General (A&G) Expenses] Gulf claims to be under the O&M benchmark by (\$28,000) system, while Public Counsel claims Gulf is over the benchmark by \$418,000. Is it appropriate to make adjustments to disallow any Production Related A&G expenses?

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STAFF: No adjustments should be made to production related A&G expenses.

GULF: No. Gulf maintains that the benchmark should not be an issue in this docket. In any event, Gulf has correctly calculated the benchmark for this item under FPSC Order No. 14030, which recognized that production expenses are not afforded customer growth in the benchmark. Since these expenses were actually incurred in 1988 and were reasonable, prudent and necessary, they should be "allowed". (McMillan)

OPC: Yes. Gulf calculated a benchmark level of \$5,647,000, but then added \$446,000 without justification. This addition produced a skewed benchmark comparison which inaccurately showed Gulf below the benchmark by \$28,000, rather than the \$418,000 by which Gulf actually exceeds the benchmark. Gulf should be required to justify the net excess of \$418,000 in excess of the benchmark. (Smith)

60. ISSUE: [Administrative & General; Employee Relocation Expenses] Should the benchmark excess of \$140,000 be recognized in the O&M expenses used in calculating Gulf's 1988 tax savings refund, if any? (OPC)

STAFF: Yes. These expenses should be used in calculating Gulf's tax savings.

GULF: Yes, the expenses should be "allowed". Gulf maintains that the benchmark should not be an issue in this docket. These expenses are required to ensure that the most qualified employee is placed into a vacant position. The expenses were actually incurred in 1988, were reasonable, prudent and necessary, and should not be disallowed. (McMillan)

OPC: No. Gulf claims that only \$50,0000 was allowed for relocation expenses in the last rate case, and that amount was unreasonably low. In other words, Gulf is disputing the reasonableness of the base year amount, rather than justifying an amount of growth. In a previous rate case, the Commission refused to allow the Citizens to "re-open" the base year amount. For

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consistency, the Commission should not allow a utility to do what the Citizens could not. The \$140,000 benchmark excess should be removed from O&M expenses. Alternatively, O&M expenses could be lowered by \$8,000 to reflect an average level in this expense. (Smith)

61. ISSUE: [Administrative & General; Bank Fees and Line of Credit Charges] Should the benchmark excess of \$89,000 be recognized in the O&M expenses used in calculating Gulf's 1988 tax savings refund, if any? (OPC)

STAFF: Yes. These expenses should be used in calculating Gulf's tax savings.

GULF: Yes, the expenses should be "allowed". Gulf maintains that the benchmark should not be an issue in this docket. These expenses have allowed Gulf to manage its cash more efficiently and has resulted in a reduction in overall costs. The expenses were actually incurred in 19088, were reasonable, prudent and necessary, and should not be disallowed. (McMillan)

OPC: No. Gulf claims that the \$89,000 for higher bank service fees are justified because it can now make money by investing the cash that previously remained idle. Since the customers are not receiving the income from this source, they should not pay the associated costs. (Smith)

62. ISSUE: [Administrative & General; Employee Long Term Disability Plan] Should the benchmark excess of \$78,000 be recognized in the O&M expenses used in calculating Gulf's 1988 tax savings refund, if any? (OPC)

STAFF: Yes. These expenses should be used in calculating Gulf's tax savings.

GULF: Yes, the expenses should be "allowed". Gulf maintains that the benchmark should not be an issue in this docket. This item protects Gulf's employees and allows Gulf to standardize its employed disability practices and thus reduce its potential liability

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exposure. These expenses were actually incurred in 1988, were reasonable, prudent and necessary, and should not be disallowed. (Scarborough)

OPC: No. Because Gulf has not demonstrated the cost effectiveness of this plan, it should not be used as justification of the benchmark excess. O&M expenses should be reduced by \$78,000.

63. ISSUE: Should income tax expense be adjusted as a result of adjustments to expenses?

STAFF: Yes.

GULF: No adjustments other than those reflected in Gulf's filing and those to which Gulf has stipulated in the responses noted above should be made to operating expenses or to income tax expense. Nevertheless, if adjustments are made to other expenses, corresponding adjustments must also be made to income tax expense. (McMillan, Scarborough)

OPC: Yes.

64. ISSUE: What is the appropriate amount of Net Operating Income (N.O.I.) for 1988 for purposes of calculating Gulf's 1988 tax savings refund, if any?

STAFF: This calculation is mechanical in nature and depends upon resolution of the preceding issues.

GULF: The appropriate amount of N.O.I. for 1988 is \$59,947,000. This amount is net after the adjustments for the stipulated issues and the adjustments made by the Company as noted in its position on Issues 12, 20 and 24. (McMillan)

OPC: \$65,919,770.

65. ISSUE: What is Gulf's total 1988 tax savings refund, if any, resulting from the resolution of the preceding issues?

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STAFF: This calculation is mechanical in nature and dependent upon a resolution of the preceeding issues.

GULF: Even after making the stipulated adjustments, Gulf's filing reflects a tax deficiency, not tax savings; therefore, no refund should be made. (McMillan, Scarbrough)

OPC: \$9,692,843 plus interest.

66. ISSUE: How should a refund, if any, be implemented?

STAFF: The tax refund should be refunded to customers on an equal cents per KWH basis and identified as such on the bill. If the additional refund is over \$5.8 million (1.5% of Gulf's 1988 total operating revenues), it should be refunded over a six-month period to reflect more accurately how the revenues were collected. A six-month refund should be implemented beginning with the September billing cycle. If the refund is less than \$5.8 million, a one-month refund based on September is acceptable.

GULF: No refund should be required. If a refund were appropriate, Gulf would agree with the Staff's proposal for implementation.

OPC: As a one-time credit to customer bills, specifically identified as such.

67. ISSUE: Should rates be reduced on a prospective basis to offset tax savings?

STAFF: No.

GULF: No. (McMillan, Scarbrough)

OPC: Yes.

Stipulated Issues:

Issue Nos. 8, 9, 14, 15, 16, 22, 26 have been stipulated by the parties.

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Pending Motions

GULF: The company has made its objection to including Issues 7, 11-13, 20-21, 23-25, 27-28, and 30-63 for the Commission's consideration in this Docket. The basis for this objection is that these issues are outside the proper scope of these proceedings arising under Rule 25-14.003 F.A.C. and are also beyond the intent behind said rule. Inasmuch as these issues should therefore be excluded from consideration in this docket, so should any testimony regarding said issues. Gulf request that its objection be noted in the record as a standing and continuing objection to these issues and any testimony related thereto. In the event the Commission sustains Gulf's objection, Gulf would further move that any testimony regarding any issue excluded as a result of Gulf's objection also be stricken and excluded from consideration by the Commission in this docket.

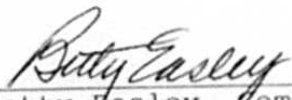
Other Matters

None at this time.

Based on the foregoing, it is

ORDERED by the Florida Public Service Commission that these proceedings shall be governed by this order unless modified by the Commission.

By ORDER of Commissioner Betty Easley, Prehearing Officer, this 15th day of MAY, 1990.

  
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Betty Easley, Commissioner  
and Prehearing Officer

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