

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

IN RE: Petition of Gulf Power) Docket No. 891345-EI
Company for Rate Increase) Date filed: 05-15-90
_____)

PREHEARING STATEMENT OF
GULF POWER COMPANY

Gulf Power Company ("Gulf Power", "Gulf", "the Company"), by and through its undersigned counsel, and pursuant to Order No. 22750 issued March 29, 1990 and Rule 25-22.038(3) F.A.C., files its prehearing statement and sets forth the following:

A. BASIC POSITION:

Gulf Power's basic position is that Gulf's current rates and charges do not provide the Company a reasonable opportunity to earn a fair and reasonable rate of return for 1990 and beyond. The most reasonable period upon which to base permanent rates for Gulf to charge in the future is calendar year 1990.

The Company's adjusted jurisdictional rate base for the 1990 test year is projected to be \$923,562,000; and the jurisdictional net operating income is projected to be \$60,910,000 using the rates currently in effect. The resulting adjusted jurisdictional rate of return on average rate base is projected to be 6.60%, while the return on common equity is

projected to be 7.52% for the 1990 test year. The Company is requesting in this docket that it be allowed an overall rate of return of 8.34% which equals its total cost of capital, assuming a 13.00% rate of return on common equity. The resulting revenue deficiency is \$26,295,000 which is the amount of additional annual gross revenues requested by the Company in this proceeding.

As a provider of retail electric service to the people of Northwest Florida, Gulf has the statutory obligation to provide service to its customers in a "reasonable, sufficient, adequate, and efficient manner." Additionally, Gulf has the obligation to provide its shareholders with a "reasonable and adequate" return on their investment. Without adequate rate relief, Gulf cannot meet either of these obligations in the long run, and both the customers and shareholders will suffer. The customers will suffer from less reliable service and, eventually, higher costs of electricity; the shareholders will suffer from an inadequate and confiscatory return on their investment and consequently will be forced to seek other investment opportunities. For the reasons stated above, Gulf is respectfully requesting an increase in rates in the total sum of \$26,295,000.

B. WITNESSES:

Known witnesses who may be called, the subject matter of their testimony and all known exhibits and the sponsoring witnesses:

Direct

Name	Subject Matter	Issues
1. D. L. McCrary	Introduction & Policy	
2. A. E. Scarbrough	Accounting; Financial Matters	1, 3, 4, 6, 8, 9, 11, 14, 15, 18, 25, 26, 29, 30, 40, 45, 51, 54, 55, 56, 58, 59, 60, 69, 70, 71, 73, 75, 89, 98, 102, 103, 111, 112
3. E. B. Parsons, Jr.	Production, System Planning & Expenses; UPS Concept	15, 22, 23, 24, 25, 26, 33, 76, 78, 89, 94
4. M. W. Howell	Transmission and Interchange	25, 26, 80, 102
5. C. R. Lee	Production Operation & Maintenance Budget; Power Generation	15, 22, 23, 24, 77, 79, 88, 89, 95, 99
6. C. E. Jordan	Distribution Operation and Maintenance Expenses	12, 81, 97
7. E. C. Conner	Corporate Office; Bonifay & Graceville	5, 10, 15
8. D. P. Gilbert	Budgeting & Planning Process	50, 59, 72, 74, 86, 87
9. M. R. Bell	Review of Financial Forecast & Assumptions	

10. R. J. McMillan	1990 Test Year Financial Forecast; Net Operating Income; Unit Power Sales	1, 2, 3, 8, 11, 13, 15, 16, 17, 18, 19, 20, 21, 27, 28, 31, 32, 33, 34, 36, 39, 41, 42, 43, 44, 46, 52, 53, 57, 58, 82, 83, 84, 85, 90, 109, 110, 111
11. W. P. Bowers	Customer Service & Information; Sales; Marketing and Load Management	47, 61, 62, 63, 64, 65, 66, 67, 68, 100, 101, 102, 104, 105, 106, 107, 108
12. R. A. Morin	Cost of Capital	37, 39, 40
13. J. T. Kilgore	Customer, Energy & Demand Forecast & Load Research	49, 115, 116, 117
14. M. T. O'Sheasy	Cost of Service Study	115, 116
15. J. L. Haskins	Rate Design	48, 114, 118-154

Rebuttal*

Name	Subject Matter	Issues
1. R. A. Morin	Cost of Capital	
2. J. T. Kilgore	Customer, Energy and Demand Forecast	49, 113, 116, 117
3. M. T. O'Sheasy	Cost of Service Study	
4. J. L. Haskins	Rate Design	

* Rebuttal Testimony had not been completed as of the date of this filing.

5. E. B. Parsons, Jr. Generation Expansion & Reserves, Plant Held for Future Use, SCS Expenses, EPRI Research, R & D Projects
6. M. W. Howell Generation Expansion, UPS, Transmission Facility Charges
7. C. R. Lee Production O & M Budget, Power Generation
8. C. E. Jordan Distribution O & M Expenses, Greenhead Substation
9. E. C. Conner Corporate Office, Bonifay and Graceville, Navy House, Plant Held for Future Use
10. A. E. Scarbrough Accounting and Finance, Governmental Affairs, Tallahassee Office
11. D. P. Gilbert Budget Process and Budgeted Complement
12. M. R. Bell Review of Financial Forecast and Assumptions
13. R. J. McMillan 1990 Test Year; Financial Forecast
14. R. H. Jackson Employee Benefits
15. W. P. Bowers Customer Service & Information; Sales
16. J. E. Hodges Customer Services
17. G. A. Fell Investigative Matters
18. D. L. McCrary Management and Customer Service

C. EXHIBITS:

1. Testimonial Exhibits

WITNESS	EXHIBIT	DESCRIPTION
McCrary	<u>(DLM-1)</u>	
	Schedule 1:	Summary of actions taken to improve security
	Schedule 2:	RS Rate-Typical Bill History
	Schedule 3:	Residential Rate Comparison
Scarborough	<u>(AES-1)</u>	
	Schedule 1:	O & M Expenses-Comparison of 1989 to 1990 Budget
	Schedule 2:	O & M Expenses- Comparison by Function 1989-1990
	Schedule 3:	O & M Expenses- Benchmark Comparison by Function 1984-1990
	Schedule 4:	O & M Expenses- Benchmark Comparison by Function 1983-1990
	Schedule 5:	Transmission Line Rentals- Adjustment Order No. 14030
	Schedule 6:	Transmission Expenses- Benchmark Comparison 1984-1990
	Schedule 7:	A & G Expenses-Benchmark Comparison 1984-1990
	Schedule 8:	Summary of Benchmark Variance Justification 1984-1990
	Schedule 9:	Salary-Benchmark Comparison 1984-1990
Schedule 10:	O & M Expenses-Comparison of Gulf to SEE Average	

- Schedule 11: 1988 Retail Sales Per KWH Sold for Comparison Companies
- Schedule 12: Standard & Poor's Security Rating Report on Gulf Power Company
- Schedule 13: Responsibility for MFRs

Parsons

(EBP-1)

- Schedule 1: Index to Schedules
- Schedule 2: Summary of Daniel and Scherer UPS and Territorial Commitments 1984-1990
- Schedule 3: UPS Unit Capacity Ratings and Commercial Operation Dates
- Schedule 4: March 1979 Generation Expansion Plan-Gulf Percent Reserves With and Without Daniel Capacity
- Schedule 5: Price of U.S. Imported Crude Oil
- Schedule 6: Gulf and Southern Forecasted Reserves in 1990 With and Without UPS
- Schedule 7: Gulf and Southern Planned Reserves With and Without UPS
- Schedule 8: 1990 Coal-Fired Generating Capacity Cost
- Schedule 9: UPS Summary
- Schedule 10: Southern Electric System-Total UPS Allocated to Units
- Schedule 11: O & M Benchmark Comparison
- Schedule 12: EPRI Total 1990 Planned Expenditure Budget
- Schedule 13: Comparison of 1984 Actual Budget Deviation for SCS to the FPSC Adjustment in Order No. 14030

Schedule 14: Coal Inventory Level Policy

Schedule 15: Responsibility for MFRs

Howell

(MWH-1)

Schedule 1: Southern System Off-System
Capacity Sales

Schedule 2: Responsibility for MFRs

Jordan

(CEJ-1)

Schedule 1: Index to Schedules

Schedule 2: Transportation Cost Savings Due
to New Maintenance Program

Schedule 3: Transportation Reliability
Improvements

Schedule 4: General Repair Shop Productivity
Improvements

Schedule 5: Responsibility for MFRs

Lee

(CRL-1)

Schedule 1: Index

Schedule 2: Power Generation Goals

Schedule 3: Turbine Inspections- Schedules

Schedule 4: Responsibility for MFRs

Conner

(ECC-1)

Space Allocations

Gilbert

(DPG-1)

Schedule 1: Gulf Power Planning/
Budgeting Flowchart

- Schedule 2: 1990 Capital Additions Budget
- Schedule 3: 1990 O & M Expense Budget Less Direct Fuel and Purchased Power
- Schedule 4: Gulf Power O & M Budgeting Schematic
- Schedule 5: Example of Gulf Power Budget Deviation Report
- Schedule 6: Gulf Power Financial Model Flowchart
- Schedule 7: Responsibility for MFRs

Bell

(MRB-1)

- Schedule 1: Overview of Financial Forecasting Process
- Schedule 2: AICPA Guidelines for Prospective Financial Statements
- Schedule 3: Prior Year's Forecast to Actual Variance as a Percent of Operating Revenues

McMillan

(RJM-1)

- Schedule 1: Gulf Power Financial Model Flowchart
- Schedule 2: 1989 and 1990 Balance Sheets
- Schedule 3: 1989 and 1990 Income Statements
- Schedule 4: Utility Plant Balances
- Schedule 5: 13 Month Average Rate Base for the Period Ending December 31, 1990
- Schedule 6: Projects Included in Interest Bearing CWIP

- Schedule 7: 13 Month Average Working Capital for the Period Ending December 31, 1990
- Schedule 8: Net Operating Income for the 12 Months Ending December 31, 1990
- Schedule 9: Fuel Revenues and Expenses for the 12 Months Ending December 31, 1990
- Schedule 10: Conservation Revenues and Expenses for the 12 Months Ending December 31, 1990
- Schedule 11: Industry Association Dues Related to Lobbying and Chamber of Commerce for the 12 Months Ending December 31, 1990
- Schedule 12: Institutional Advertising for the 12 Months Ending December 31, 1990
- Schedule 13: Other Taxes Adjustment for the 12 Months Ending December 31, 1990
- Schedule 14: Income Tax Adjustment for the 12 Months Ending December 31, 1990
- Schedule 15: Interest Synchronization Adjustment for the 12 Months Ending December 31, 1990

Bowers

(WPB-1)

- Schedule 1: Air Products Quality Management Process-A Guideline for Utilities
- Schedule 2: Importance of Programs and Services-Residential Customer Survey Summary
- Schedule 3: Impact of FPSC Decision on Benchmark Calculation

Schedule 4: 1990 Sales Expenses by Function

Schedule 5: MFRs

Morin

(RAM-1)

Schedule 1: Resume

Schedule 2: DCF Model Quarterly Timing
Adjustment

Schedule 3: Southern Co. Earnings and
Dividends Per Share

Schedule 4: Electric Utilities Bond Rating,
BETA and Common Equity Ratio

Schedule 5: Required Market Return and
Measures of Risk for High-BETA
Electric Utilities

Schedule 6: Risk Premium Analysis- Southern
Co. 1979-1988

Schedule 7: Risk Premium Analysis- Southern
Co. 1984-1989

Schedule 8: Moody's Electric Utilities Risk
Premium Analysis

Kilgore

(JTK-1)

Schedule 1: Gulf Power Co. 1990 Retail
Customer Forecast

Schedule 2: Gulf Power Co. 1990 Retail Energy
Sales Forecast

Schedule 3: Gulf Power Co. 1990 Retail Base
Revenue Forecast

Schedule 4: Gulf Power Co. Short-Term Retail
Forecast Accuracy

Schedule 5: Rate and Other Classifications
Summary

Schedule 6: Responsibility for MFRs

O'Sheasy

(MTO-1)

- Schedule 1: Present Rate Summary for 12 Months Ending December 31, 1990
- Schedule 2: Analysis of Investment for 12 Months Ending December 31, 1990
- Schedule 3: Analysis of Revenues for 12 Months Ending December 31, 1990
- Schedule 4: Analysis of Expenses for 12 Months Ending December 31, 1990
- Schedule 5: Table of Line Allocators and Percentages for 12 Months Ending December 31, 1990
- Schedule 6: Responsibility for MFRs
- Schedule 7: Levelization Definition
- Schedule 8: Summary and Unit Cost for Revised 12 Months Ending December 31, 1990

Haskins

(JLH-1)

- Schedule 1: Analysis of Proposed Revenue by Rate-12 Months Ending December 1990
- Schedule 2: Rate of Return by Rate Class
- Schedule 3: Proposed Tariffs
- Schedule 4: Bill Frequency Summary for 12 Months Ending September 1989
- Schedule 5: Average Cost of Localized Investment
- Schedule 6: 1987 and 1988 Peak Hours Distribution
- Schedule 7: Annual Hours-Use Comparison
- Schedule 8: Responsibility for MFRs

Fell

(GAF-1)

Schedule 1: Warehouse Audit and Alleged
\$2,000,000 Shortage

Schedule 2: Misappropriations by Kyle Croft

Kilgore

(JTK-2)

Schedule 7: 1990 Retail Customer
Forecast

Schedule 8: 1990 Retail Energy Sales Forecast

Schedule 9: 1990 Retail Base Revenue Forecast

Schedule 10: MFR E-14

Schedule 11: MFR E-18a

Schedule 12: MFR E-18b

Schedule 13: MFR E-18c

Schedule 14: Southeastern U.S. Annual Net
Energy for Load 1984-1985 Actual
vs. Forecast

Schedule 15: Historical Growth Rate Forecast

Schedule 16: Comparison of Forecast
Accuracy-1989 Test Year Growth in
Retail Base Rate Revenue

Schedule 17: Short-Term Retail Forecast
Accuracy

Schedule 18: Graphs-Rosen/Larkin vs. Gulf
Power Accuracy Comparison

2. Miscellaneous Exhibits

- a. Gulf's response to Items 4, 6, 13, 18,
27, 30, 32, 35-38, 40 of Staff's First Set of
Interrogatories, Docket No. 891345-EI

- _____ b. Gulf's response to Items 47, 48, 52, 54, 64-67, 73 of Staff's Third Set of Interrogatories, Docket No. 891345-EI
- _____ c. Gulf's response to Item 88 of Staff's Sixth Set of Interrogatories, Docket No. 891345-EI
- _____ d. Gulf's response to Items 100, 102-103, 105-106, 109 of Staff's Seventh Set of Interrogatories, Docket No. 891345-EI
- _____ e. Gulf's response to Items 110-113, 120-121, 124, 126, 141, 144-146 of Staff's Eighth Set of Interrogatories, Docket No. 891345-EI
- _____ f. Gulf's response to Item 5, Staff's Second Request for Production of Documents, Docket No. 891345-EI
- _____ g. Gulf's response to Items 51-53 of Public Counsel's First Set of Interrogatories, Docket No. 891345-EI
- _____ h. Gulf's response to Items 61, 70, 72, 74-75, 89, 92-93, 96-97, 132, 139 of Public Counsel's Second Set of Interrogatories, Docket No. 891345-EI
- _____ i. Gulf's response to Items 180, 200, 203(g), 224, 242-243, 245, 248-250, 256, 259, 274 of Public Counsel's Fourth Set of Interrogatories, Docket No. 891345-EI
- _____ j. Gulf's response to Items 277, 285-287 of Public Counsel's Fifth Set of Interrogatories, Docket No. 891345-EI
- _____ k. Gulf's response to Items 23, 31(pp. 1-10), 33(pp. 1-3), 35(p. 1), 38(pp. 1-2), 41(p. 1), 55, 56, 58 of Public Counsel's Second Request for Production of Documents, Docket No. 891345-EI
- _____ l. Gulf's response to Item 7 of Monsanto's First Set of Interrogatories, Docket No. 891345-EI

- _____ m. Gulf's response to Item 24 of Monsanto's First Request for Production of Documents, Docket No. 891345-EI
- _____ n. Gulf's response to Items 12-13, Industrial Intervenor's Second Set of Interrogatories, Docket No. 891345-EI
- _____ o. Gulf's response to Item 27, Industrial Intervenor's Second Request for Production of Documents, Docket No. 891345-EI
- _____ p. Gulf's response to Item 11 of FEA's First Set of Interrogatories, Docket No. 891345-EI
- _____ q. Late Filed Deposition Exhibit No. 1 of Public Counsel's Deposition of M. W. Howell, Docket No. 891345-EI
- _____ r. Late Filed Deposition Exhibit Nos. 6-7, 15, 16, 20 of Staff's Deposition of J. L. Haskins, Docket No. 891345-EI
- _____ s. Late Filed Deposition Exhibit No. 2 of Public Counsel's Deposition of E. B. Parsons, Jr., Docket No. 891345-EI
- _____ t. Gulf's response to Rate Case Audit Report, Docket No. 881167-EI

D. STATEMENT OF ISSUES AND POSITIONS

Rate Base

1. ISSUE: Gulf Power has proposed a rate base of \$923,562,000 (\$946,840,000 System) for the test year. What is the appropriate level of rate base for 1990?

GULF: The appropriate level of rate base for 1990 is \$923,562,000 (\$1,192,516,000 System). (Scarborough, McMillan)

2. ISSUE: The company has included \$1,275,624,000 (\$1,307,579,000 System) of plant in service in rate base. Is this appropriate?

GULF: Yes. (McMillan)

3. ISSUE: Gulf capitalized \$1,964,394 (\$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?

GULF: In 1989, subsequent to preparation of the test year budget, Georgia agreed to refund to Gulf a portion of the purchase price related to the tax adder for AFUDC equity and certain deferred taxes related to Unit 3. As a result of the renegotiated price, the following adjustments to our forecast are required:
(Scarborough, McMillan)

	<u>System</u>	<u>Jurisdictional</u>
	\$	\$
Plant in Service	(5,279,291)	(1,520,119)
Accumulated Depreciation	(619,573)	(178,403)
Depreciation Expense	(169,116)	(48,691)
Deferred Income Taxes	1,333,211	384,237

4. ISSUE: As a result of its purchase of a portion of the common facilities at Plant Scherer, Gulf recorded an acquisition adjustment of \$2,458,067 (\$8,680,507 System). Is this appropriate?

GULF: Yes. The acquisition adjustment reflects the actual cost incurred in connection with the purchase of these facilities, and is properly accounted for in accordance with the Uniform System of Accounts promulgated by FERC and adopted by the Commission. These facilities were purchased from Olgethorpe and the City of Dalton at their original cost, plus a carrying charge in accordance with our Scherer Purchase Agreement, and the transaction resulted in no profit to the selling utilities. These costs are properly included in rate base. (Scarborough)

5. ISSUE: Is the \$31,645,000 total cost for the new corporate headquarters land, building, and furnishings reasonable?

GULF: Yes, the total cost for the Corporate Headquarters is reasonable. (Conner)

6. ISSUE: Is the company's Caryville "sod farm" operation being properly accounted for by Gulf Power Company?

GULF: Yes. (Scarborough)

7. ISSUE: Should the investment and expenses associated with the "Navy House" be allowed?

GULF: Yes. (Conner)

8. ISSUE: Has Gulf properly allocated all of the appropriate investment and expenses to its appliance division?

GULF: Yes. (Scarborough, McMillan)

9. ISSUE: Should Gulf's investment in the Tallahassee office be included in rate base?

GULF: Yes. The Company's office in Tallahassee is leased space. This property is used and useful and the costs associated with this facility were included in the

Company's 1984 rate case. The investment and expenses associated with this office should be included in base rates. Gulf being a regulated industry, its employees must constantly appear in hearings, workshops and other meetings before the FPSC and other regulatory agencies which are based in Tallahassee. The Company's office in Tallahassee fulfills a vital need in terms of coordinating and preparing for appearances at these meetings. (Scarborough)

10. ISSUE: Should the total cost of the Bonifay and Graceville offices be allowed in rate base?

GULF: Yes. (Conner)

11. ISSUE: Gulf Power has proposed \$454,964,000 (\$466,642,000 System) as the proper level of accumulated depreciation to be used in this case. Is this appropriate?

GULF: The appropriate amounts are \$454,964,000 (\$1,451,703,000 System). (Scarborough, McMillan)

12. ISSUE: Should the plant investment made by Gulf to serve the Leisure Lakes subdivision be included in rate base?

GULF: Yes. This issue is misleading as worded. Gulf's investment in the Greenhead Substation should be included in rate base. This investment was originally intended in part to serve the Leisure Lakes Subdivision and represents part of the Company's investment to serve that load. By action of the Commission, Gulf was prohibited from serving Leisure Lakes; consequently, Gulf sold a portion of the facilities constructed for that purpose to the rural electric cooperative to whom the territory was awarded. The remaining investment constitutes Greenhead Substation which is used and useful serving Gulf's customers. (Jordan)

13. ISSUE: The company has included \$14,949,000 (\$15,308,000 System) of construction work in progress in rate base. Is this appropriate?

GULF: Yes. The correct System amount is \$15,739,000. (McMillan)

14. ISSUE: Is the company's method of handling non-interest bearing CWIP consistent with the prescribed system of accounting?
- GULF: Yes. (Scarborough)
15. ISSUE: Gulf has included in its jurisdictional rate base \$3,925,000 (\$4,025,000 System) of plant held for future use. Is this appropriate?
- GULF: Yes. This amount represents the original cost of land held for future use in the provision of electric service and is properly included in rate base. (Scarborough, Parsons, Lee, McMillan, Conner)
16. ISSUE: Has Gulf allocated the appropriate amount of working capital to Unit Power Sales (UPS)?
- GULF: Yes. The retail, wholesale, and UPS working capital amounts have been calculated based on the Florida Public Service Commission's requirement to use the balance sheet approach for determining working capital. (McMillan)
17. ISSUE: The company has included \$81,711,000 (\$84,174,000 System) of working capital in rate base. What is the appropriate level of working capital?
- GULF: The appropriate amounts are \$81,711,000 (\$200,266,000 System). (McMillan)
18. ISSUE: Gulf has included \$1,358,278 (\$1,485,221 System) prepaid pension expense in its calculation of working capital. Is this appropriate?
- GULF: Yes. Prepaid pension expense of \$1,358,278 (\$1,485,221 System) is appropriate. The Company prepaid certain pension benefits in accordance with IRS rules in order to maximize its income tax deduction. The customer receives the benefit of the deferred taxes in the capital structure at zero cost. This was a prudent decision by the Company and is appropriately included in rate base. (Scarborough, McMillan)

19. ISSUE: Should unamortized rate case expense be included in working capital?

GULF: Yes. The expenses incurred in preparing, filing, and completing a rate case are necessary and legitimate costs of doing business for a regulated company. Since, these costs are to be recovered over a future period, the unamortized balance is properly included in working capital. (McMillan)

20. ISSUE: Should the net over recoveries of fuel and conservation expenses be included in the calculation of working capital?

GULF: No. All fuel and conservation expenses, including the over-recoveries and under-recoveries are properly handled in separate recovery mechanisms as determined by this Commission. In Order No. 9273, (Docket No. 74680-EI), the Commission established that interest would be paid on over- and under-recoveries within the fuel conservation dockets, to counter any possible incentive to bias the projections in either direction. Therefore, since the customers already receive a return on over-recoveries through a reduction in the fuel component of their electric bill, it is inappropriate to reduce working capital and hence base rates for the same over-recovery amount. (McMillan)

21. ISSUE: Should \$6,045,000 of temporary cash investments have been in working capital? Is this appropriate?

GULF: Yes. The appropriate amounts are \$6,045,000 (\$6,399,000 System). These funds constitute essentially all of Gulf's available working funds, and are required and necessary for the provision of electric service to our customers. (McMillan)

22. ISSUE: Gulf has included \$1,042,000 for heavy oil inventory. Is this appropriate?

GULF: Yes. The heavy oil at Crist Plant is the backup fuel for Units 1,2, and 3. The primary fuel for these units is natural gas, which is subject to interruption or curtailment. Without sufficient standby fuel on site, Crist Units 1,2, and 3 cannot be considered firm generating capacity. (Parsons, Lee)

23. ISSUE: Gulf has included \$359,000 for light oil inventory. Is this appropriate?

GULF: Yes. The amount of lighter oil and combustion turbine oil inventory requested is nominal. The Company carries the minimum inventory necessary to account for plant consumption, allowances for procurement time, market volatility and potential supply disruptions. The company is requesting \$359,000 system for light and combustion turbine inventory at all five plants. (Parsons)

24. ISSUE: Gulf has included \$57,426,000 for coal inventory. Is this appropriate?

GULF: Yes. The Company's request for coal inventory is based on a policy established by using the EPRI Utility Fuel Inventory Model. This model is widely recognized as an industry standard and the assumptions the Company uses are prudent and conservative. (Parsons, Lee)

25. ISSUE: Should 515 MW of Plant Daniel be included in Gulf Power's rate base?

GULF: Yes. The Commission has recognized the prudence of Gulf's partial ownership in Plant Daniel. Plant Daniel capacity was obtained for the long-term benefit of Gulf's territorial customers. This capacity is no longer dedicated to Unit Power Sales (UPS) customers, and provides capacity to Gulf's service area. (Parsons, Howell, Scarbrough)

26. ISSUE: Should 63 MW of Plant Scherer 3 be included in Gulf Power's rate base?

GULF: Yes. The Commission has recognized the prudence of Gulf's partial ownership of Plant Scherer, Unit 3. Plant Scherer capacity was obtained for the long-term benefit of Gulf's territorial customers. This capacity is not currently dedicated to UPS customers, and provides capacity to Gulf's service area. (Parsons, Howell, Scarbrough)

27. ISSUE: If Plant Scherer 3 is not included in rate base, what are the appropriate rate base and NOI adjustments to exclude it?

GULF: No position at this time. (McMillan)

28. ISSUE: What adjustment is proper to remove the 1984 cancelled Southern Company Services' building from rate base?

GULF: Agree with Staff's Position on this issue as set forth in Staff's Prehearing Statement in this docket. (1) (McMillan)

29. ISSUE: What adjustment to rate base is necessary to reflect the proper treatment for rebuilds and renovations which were expensed by the Company?

GULF: No adjustment is necessary. Gulf properly accounts for rebuilds and renovations. (Scarborough)

30. ISSUE: What adjustment to rate base is necessary to remove the network protectors from expense to rate base?

GULF: No adjustment is necessary. Gulf properly accounts for maintenance of network protectors in O&M expenses. (Scarborough)

31. ISSUE: Should the remaining balance in Other Investment be included in working capital?

GULF: Yes. These insurance reserves of deposits were required to obtain reasonable prices and terms of coverage and are properly included in rate base. (McMillan)

32. ISSUE: Should the working capital item titled "other accounts receivable" be removed?

GULF: No. These receivables represent amounts due the Company upon open accounts. The majority of these billings are for pole attachment rentals for which the revenues have been included in other operating revenues. The remaining accounts are related pole and line damage claims and other miscellaneous receivables of the Company. These amounts are properly included in working capital. (McMillan)

- (1) References to Staff's Prehearing Statement herein refer to the draft document provided to the Company on May 11, 1990, by Ms. Brownless at the Division of Legal Services.

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33. ISSUE: Has the Company overstated the materials and supply level?

GULF: No. These are utility related and properly included in working capital. (McMillan)

34. ISSUE: Should the amounts shown as "other current assets" and "other miscellaneous" deferred debits be removed from working capital?

GULF: No. (McMillan)

35. ISSUES: Should the Caryville Subsurface Study be removed from rate base?

GULF: No. The subsurface investigation of the Caryville site is still valid and will be utilized in conjunction with the addition of generation at Caryville. (Parsons)

36. ISSUE: What additional working capital adjustments are needed to reflect OPC's expense exclusions?

GULF: OPC's expense exclusions are inappropriate; therefore, no additional working capital adjustments are necessary. (McMillan)

Cost of Capital Issues

37. ISSUE: What is the appropriate cost of common equity capital for Gulf Power?

GULF: 13.00 % (Morin)

38. ISSUE: Should the newly authorized return on common equity be reduced if it is determined that Gulf has been mismanaged?

GULF: No. (McCrory)

39. ISSUE: Should the preferred stock balance appearing in the capital structure be net of discounts, premiums and issuance expenses?

GULF: If the preferred stock balance is reported net of discounts, premiums, and issuance expenses, a corresponding amount must be removed from the common equity balance Gulf has reported. (McMillan, Morin)

40. ISSUE: Should Gulf Power's non-utility investment be removed directly from equity when reconciling the capital structure to rate base?

GULF: No. Gulf's non-utility activities have no effect on the Company's cost of capital, and to remove these investments directly from equity would unjustly penalize the Company's stockholders. Recognizing that some of the items in the capital structure, such as customer deposits, are not related to non-utility activities, the Company has adjusted the non-utility investments from the capital structure using long-term debt, preferred stock, and common equity sources of capital as a reasonable proxy for the cost of capital. (Morin, Scarbrough)

41. ISSUE: Should Gulf Power's temporary cash investments be removed directly from equity when reconciling the capital structure to rate base?

GULF: No. These funds are essentially all of Gulf's available working funds, and are required and necessary for the provision of electric service. (McMillan)

42. ISSUE: What is the appropriate balance of accumulated deferred investment tax credits?

GULF: The appropriate balance is \$41,747,000 (\$48,926,000 System). (McMillan)

43. ISSUE: What is the appropriate balance of accumulated deferred income taxes?

GULF: The appropriate balance is \$182,959,000 (\$203,823,000 System). (McMillan)

44. ISSUE: What is the appropriate weighted average cost of capital including the proper components, amounts and cost rates associated with the capital structure for the projected test year ending December 31, 1990?

GULF: 8.34%. (McMillan)

<u>Item</u>	<u>Jurisdictional Amount (\$000's)</u>	<u>Ratio %</u>	<u>Cost Rate %</u>	<u>Weighted Component %</u>
Long-Term Debt	329,936	35.73	8.72	3.12
Short-Term Debt	4,290	0.46	8.00	0.04
Preferred Stock	55,316	5.99	7.75	0.46
Common Equity	293,655	31.79	13.00	4.13
Customer Deposits	15,659	1.70	7.65	0.13
Deferred Taxes	182,959	19.81		0.00
Investment Credit				
- Zero Cost	831	0.09		0.00
- Weighted Cost	40,916	4.43	10.49	0.46
Total	<u>923,562</u>	<u>100.00</u>		<u>8.34</u>

45. ISSUE: Should an adjustment be made to negate the effect of the Company's corporate goal to increase its equity ratio?

GULF: No. The common equity corporate goal is a long-term goal which reflects a desire to maintain a strong 'A' bond rating, which is in the long-term best interest of the Company and its ratepayers as well as the stockholders. (Scarborough)

Net Operating Income

46. ISSUE: The company has proposed a net operating income of \$60,910,000 (\$62,802,000 System) for 1990. What is the appropriate net operating income for 1990?

GULF: The appropriate amounts are \$60,910,000 (\$78,848,000 System). (McMillan)

47. ISSUE: Should revenues be imputed to Gulf for the benefit derived by the appliance division from the use of Gulf's logo and name?

GULF: No. (Bowers)

48. ISSUE: Should revenues be imputed at applicable standby rates for 1990 for the PXT customer who experienced an outage of his generation capacity and took back-up power from Gulf but was not billed on the standby power rate?

GULF: No. The 7959 KW was not reported as standby service by the customer. This KW is Gulf's current best estimate of what we now believe should have been reported by the customer as standby in September of 1989. The customer presently has a contract for 7500 KW standby, and we believe the customer will limit their standby to no more than 7500 KW in the future. (Haskins)

49. ISSUE: The company has projected total operating revenues for 1990 of \$255,580,000 (\$262,013,000 System). Is this appropriate?

GULF: Yes. (Kilgore, McMillan)

50. ISSUE: Has Gulf budgeted a reasonable level for salaries and employee benefits?

GULF: Yes. (Gilbert, Jackson)

51. ISSUE: Is Gulf Power's projected \$510,524 (\$510,852 System) bad debt expense for 1990 appropriate?
- GULF: Yes. Gulf's approved accrual method of calculating Bad Debt expense is appropriate. (Scarborough)
52. ISSUE: Should fuel revenues and related expenses, recoverable through the fuel adjustment clause, be removed from NOI and if so, what amount?
- GULF: Yes. The fuel revenues are \$198,128,000 and fuel related expenses are \$198,132,000. (McMillan)
53. ISSUE: Should conservation revenues and related expenses, recoverable through the conservation cost recovery clause, be removed from NOI and if so, what amount?
- GULF: Yes. The conservation revenues are \$1,878,000 and the conservation related expenses are \$1,877,000. (McMillan)
54. ISSUE: Should the 1990 projected test year be adjusted for any out-of-period non-recurring, non-utility items or errors found in 1989?
- GULF: No. No such items have been included in the 1990 Test Year. (Scarborough)
55. ISSUE: Are Gulf's budgeted industry association dues in the amount of \$199,343 during 1990 reasonable and prudent?
- GULF: Yes. Gulf's Industry Association dues are reasonable and prudent. EEI dues spent on lobbying are nominal, approximately 1% of the total, according to EEI. (Scarborough)
56. ISSUE: What is the appropriate amount of rate case expense to be allowed in operating expenses?
- GULF: The appropriate amount of rate case expense amortization for the test year is \$500,000. The total cost of the case is budgeted at \$1,000,000. The amortization period of 2 years is appropriate. (Scarborough)

57. ISSUE: Should Gulf be allowed to recover any costs associated with Docket No. 881167-EI, the withdrawn rate case?
- GULF: Gulf has no O&M expenses budgeted in the 1990 test year for the withdrawn rate case, Docket No. 881167-EI. (McMillan)
58. ISSUE: Should Bank Fees and Line of Credit charges be included in operating expenses?
- GULF: Yes. These bank fees are for our utility banking services and are properly included in electric operating expenses. (Scarborough, McMillan)
59. ISSUE: Gulf budgeted \$8,963,407 (\$9,459,943 System) for Outside Services expenses for 1990. Is this amount reasonable?
- GULF: Yes. The amount is reasonable for A&G Outside Services charged to Account 923. (Scarborough)
60. ISSUE: Gulf has projected \$7,775,000 (\$7,780,000 System) in Customer Accounts expenses for 1990. Is this amount reasonable?
- GULF: Yes. (Scarborough)
61. ISSUE: Should the expenses related to the Industrial Customer Activities and Cogeneration Program be allowed in base rates?
- GULF: Yes. Gulf should be allowed to include the expenses for this program in rate base. The activities contained in this program contribute to our on-going goal to reduce the average cost of electric service to our customers. Gulf is required, as a result of changes in FEECA, to address cogeneration as part of its plan to reduce the growth rate in peak demand. It is only logical that the Commission allow Gulf to continue a program that is now required by statute. (Bowers)

62. ISSUE: Are the expenses related to Good Cents Incentive appropriate?

GULF: Yes. This program has contributed to the increase in the number of energy efficient homes being built or remodeled and has resulted in improvements in efficiency of heating and air conditioning systems installed in all dwellings. The incentive is source neutral and available to all builders, HVAC dealers and contractors who wishes to participate. (Bowers)

63. ISSUE: Should the expenses related to the Good Cents Program be allowed in base rates?

GULF: Yes. Gulf has demonstrated that this program is cost-effective, has a high participation rate and that the services provided as part of the program fulfill the demands of our customers for a source of unbiased information concerning energy efficient residential dwellings. (Bowers)

64. ISSUE: Should the expenses related to the Essential Customer Service Program be allowed in base rates?

GULF: Yes. The energy services provided as part of this program are not provided by any other private party or public agency and are provided by Gulf in response to our customers' needs. Our customers expect these services and they are entitled to receive them. (Bowers)

65. ISSUE: Should the expenses related to the Energy Education Program be allowed in base rates?

GULF: Yes. The energy education program is a vehicle Gulf uses to inform our customers of the conservation and energy management programs and services available to them and to receive feedback from them on how to continue to meet their needs for new products and services. (Bowers)

66. ISSUE: Should Presentations/Seminars Program be allowed in base rates?

GULF: Yes. These presentations are customized for the needs of our commercial and industrial customers and are used to educate them regarding advanced end-use

technologies and the services the Company makes available to them. (Bowers)

67. ISSUE: Should the expenses related to the Shine Against Crime Program be allowed in base rates?

GULF: Yes. This program provides direct benefits to the participating customers by reducing the energy consumed for street lighting. This program benefits all customers through the better utilization of electrical plant and the significant societal benefits from a lower crime rate. (Bowers)

68. ISSUE: Gulf has projected \$687,000 (\$687,000 System) for economic development expense in the sales function for 1990. Is this amount reasonable?

GULF: Yes. Gulf's service area is going to continue to grow. Our economic development activities are for the purpose of influencing the type of growth. We recognize that some growth is going to occur. Gulf wants to be in a position to assist in the management of growth so that our communities and ratepayers will receive lasting benefits. (Bowers)

69. ISSUE: Gulf has projected \$5,358,179 (\$5,655,000 System) in Production-Related A&G expenses for 1990. Is this amount reasonable?

GULF: Yes. (Scarborough)

70. ISSUE: Gulf has projected \$31,070,804 (\$32,792,000 System) in Other A&G expenses for 1990. Is this amount reasonable?

GULF: Yes. The correct amounts are \$32,037,266 (\$33,812,000 System). The Other A&G level of expenses is reasonable. (Scarborough)

71. ISSUE: Has Gulf included any lobbying and other related expenses in the 1990 test year which should be removed from Operating expenses?

GULF: Yes. Gulf inadvertently included \$101,977 System lobbying expenses in the 1990 test year which should be removed. Also, Gulf included other expenses of its registered lobbyists for Information Gathering and Administrative activities which Gulf has agreed to remove in the interest of conservatism. These other expenses amount to \$151,288 System. (Scarborough)

72. ISSUE: What is the appropriate C.P.I. factor to use in determining test year expenses?

GULF: The inflation (C.P.I.) factors used in MFR C-56 are appropriate:

	%
1985	3.552
1986	1.920
1987	3.662
1988	4.082
1989	4.910
1990	4.369

The most recently projected 1990 C.P.I. from Data Resources Institute would also be consistent with the methodology used by the Commission in Order No. 14030. (Gilbert)

73. ISSUE: For each functional category of expenses, what is the appropriate level of expenses for services provided by the Southern Company?

GULF: The appropriate levels of SCS Operation and Maintenance expense are as follows: (Scarborough)

	Total <u>System</u>
Production	\$3,496,551
Transmission	584,945
Distribution	108,471
Customer Accounts	2,173,025
Cust. Serv. & Info	199,774
Administrative & Gen.	8,392,165

Total	\$ 14,954,931
	=====

74. ISSUE: Has the company properly removed from 1990 expenses all costs related to I.R.S., grand jury and other similar investigations?

GULF: The Company has made a committed effort to identify and adjust from this case all costs associated with these investigations. Since filing this case the Company has discovered an additional \$5,000 associated with outside auditing related to the investigation and stipulates to that amount at this time. (Gilbert)

75. ISSUE: What is the appropriate amount of Pension expense for 1990?

GULF: Gulf has budgeted \$ 0 dollars for pension expense accrual in the test year. (Scarborough)

76. ISSUE: Are the projected O&M expenses for R&D projects reasonable?

GULF: Yes. Gulf has justified each of these projects as reasonable and in the best interest of the ratepayers. (Parsons)

77. ISSUE: Are the projected O&M expenses for additional personnel reasonable in the steam production function?
- GULF: Yes. These expenses are justified and necessary and are beneficial to the customer. (Lee)
78. ISSUE: Has there been any "double counting" of expenses for services rendered by Southern Company Services or EPRI?
- GULF: No. There has been no double counting of expenses for services rendered by SCS or EPRI. The projects undertaken by these groups are complimentary to one another. (Parsons)
79. ISSUE: Are the projected expenses for ash hauling at Plant Daniel reasonable?
- GULF: Yes. These expenses are justified as this activity is now required by new environmental regulations. (Lee)
80. ISSUE: Is the amount included in O&M for transmission rental for Plant Daniel and Scherer reasonable?
- GULF: Yes. These amounts result from agreements which secured the least expensive alternative available to provide necessary transmission service to Gulf's service territory from Plant Daniel and Plant Scherer. (Howell)
81. ISSUE: Are the projected O&M expenses for Public Safety Inspection and Maintenance reasonable?
- GULF: Yes. (Jordan)
82. ISSUE: Gulf has budgeted \$47,701,000 (\$48,844,000 System) for Depreciation and Amortization expense. Is this amount appropriate?
- GULF: The appropriate amount is \$47,701,000 (\$54,079,000 System). (McMillan)

83. ISSUE: Gulf has budgeted \$13,185,000 (\$13,549,000 System) for Taxes Other. Is this amount appropriate?
- GULF: The appropriate amount is \$20,822,000 (\$31,106,000 System). (McMillan)
84. ISSUE: What is the appropriate amount of income tax expense for the test year?
- GULF: \$12,765,000 (\$18,999,000 System) including the amortization of investment tax credits. (McMillan)
85. ISSUES: What is the proper interest synchronization adjustment in this case?
- GULF: The jurisdictional interest synchronization adjustment results in a reduction in income taxes of \$442,000. (McMillan)
86. ISSUE: Should an adjustment be made to the test year reference level for the Employee Relations Planning Unit?
- GULF: No. The Employee Relations reference level is appropriate. The reference level as used in Gulf's budgeting process only affects the amount of documentation provided by the planning units. The budget, however, is developed independently of the reference level. (Gilbert)
87. ISSUE: Has the Company made the proper adjustment to remove the labor complement?
- GULF: Yes. The Company assumes that this issue refers to the adjustment of the complement for vacancies, not the entire "labor complement". The Company has already budgeted a credit of \$378,000 to the O&M labor budget based on the average approved vacancy rate for an eight month period, January through August, 1989. The Company based the salary dollars for this adjustment on the average of the new hires for that period. This adjustment is reasonable, and should be approved by the Commission. (Gilbert)

88. ISSUE: The Company has included \$5,340,000 in Turbine and Boiler inspections, is further adjustment necessary?

GULF: No. This is a reasonable and justified expense which is necessary and beneficial to the customer. (Lee)

89. ISSUE: What adjustments should be made to the level of expenses for Plant Daniel?

GULF: None. Expenses for Plant Daniel are necessary, reasonable and prudent. (Lee, Parsons, Scarbrough)

90. ISSUE: Would it be proper to amortize the 1989 credit to uncollectibles, which arose due to an accounting change, above the line?

GULF: No. The change in the method of accruing for uncollectibles occurred in 1989, and the adjustment to restate the reserve balance was properly recorded in the year the accounting change was made. (McMillan)

91. ISSUE: Should an adjustment be made to remove part or all of the costs associated with the employee savings plan?

GULF: No. The Employee Savings Plan is a reasonable and integral component of Gulf's overall salary and benefits program designed to enable the Company to attract and retain well qualified, highly motivated and talented employees. (Jackson)

92. ISSUE: Should the Commission remove all or part of the costs of the Productivity Improvement Plan (PIP)?

GULF: Yes. Gulf has changed its PIP program. Expenses should be reduced \$339,407 (\$358,209 System). The PIP program is a reasonable and integral component of Gulf's overall salary and benefits program designed to enable the Company to attract and retain well qualified, highly motivated employees. (Jackson)

93. ISSUE: What amount of the Performance Pay Plan should be approved for retail recovery?
- GULF: All expenses associated with PPP should be allowed. It is reasonable to put part of an employee's pay at risk and it increases management's control of overall salary expense. The PIP program is a reasonable and integral component of Gulf's overall salary and benefits program designed to enable the Company to attract and retain well qualified, highly motivated employees. (Jackson)
94. ISSUE: What amount of the \$326,808 for EPRI nuclear research should be included for setting retail rates?
- GULF: All of the \$326,808 for EPRI nuclear research is reasonable and prudent and should be included in rate base. (Parsons)
95. ISSUE: Should an adjustment be made to the Plant Smith ash hauling expenses?
- GULF: No. This is a justified expense which is necessary and beneficial to the customer. (Lee)
96. ISSUE: What adjustment should be made to the Company's Employee Relations budget associated with the relocation and development programs?
- GULF: No employee relocation expense adjustment is warranted. The Company budgets a reasonable amount of funds in order to allow management to put the most qualified person in vacant positions. (Jackson)
97. ISSUE: Should an adjustment be made to reduce the level of obsolete material to be written off in the test year?
- GULF: No. (Jordan)

98. ISSUE: How much of the officer and management "perks" for tax services and fitness programs should be borne by the ratepayers?

GULF: The Life Fitness Program is necessary to ensure management employees' health will not adversely affect the Company. This program as well as the tax services are reasonable and integral components of Gulf's overall salary and benefits program and are designed to enable the Company to attract and retain well qualified, highly motivated and talented employees. Both of these programs are beneficial to the ratepayers and thus are appropriate for recovery through base rates. (Scarborough, Jackson)

99. ISSUE: The Company has projected \$1,109,000 for duct and fan repairs for the test year. Should an adjustment be made to this level?

GULF: No. This is a justified expense which is necessary and beneficial to the customer. (Lee)

100. ISSUE: Should an adjustment be made to the Customer Services and Information benchmark?

GULF: No. Gulf's customer services and information programs are cost-effective and are highly valued by our customers since they fulfill needs that they have identified. Disallowance of these expenses would conflict with and frustrate the needs and desires of our customers. (Bowers, Hodges)

101. ISSUE: The Company has included expenses for marketing in the test year. Should an adjustment be made to remove this cost?

GULF: No. Gulf's marketing programs are cost-effective and are highly valued by our customers since they fulfill needs that they have identified. Disallowance of the expenses would conflict with and frustrate the needs and desires of our customers. (Bowers, Hodges)

102. ISSUE: What adjustments are necessary to reflect a proper benchmark test of expense levels?

GULF: No adjustments other than those made by the Company are necessary. (Scarborough, Bowers, Howell)

103. ISSUE: Gulf has budgeted \$ 129,712,291 for O&M expenses in the test year. Is this amount appropriate?

GULF: Yes. The appropriate amount is \$ 129,712,291 (System). (Scarborough)

Miscellaneous

104. ISSUE: Was the production and promotion of the appliance video known as "Top Gun" contrary to the Commission's policy regarding fuel neutrality?

GULF: No. First, there are no dollars associated with any activity of this kind included in the 1990 test year expenses. Therefore, this issue is irrelevant. Second, it was Gulf's understanding at the time that the fuel source neutrality policy, as espoused by the Commission, was applicable to incentives (rebates) recovered through the conservation cost recovery mechanism. This event occurred in 1987. The controversial position of the video constituted approximately 10 seconds. The remaining almost seven minutes was dedicated to the promotion of energy efficient homes. Gulf's intent with respect to the video, as with all of our promotional efforts, is to provide information and technical expertise to customers on the most energy efficient application for their particular circumstance. Ours and the Commission's philosophies are identical--the best interest of the customers. The video was intended to be shown only one time, at a seminar to less than 200 people. Since that time, Gulf's management has on a number of occasions acknowledged that the controversial portion of the video was an inappropriate response to the promotional efforts of other energy suppliers. (Bowers, Hodges)

105. ISSUE: Was the production and distribution of tee-shirts with the "Gas Busters" symbol contrary to the Commission's policy regarding full neutrality?

GULF: No. First, there are no dollars associated with any activity of this kind included in the 1990 test year expenses. Therefore, this issue is irrelevant. Second, it was Gulf's understanding at the time that the fuel source neutrality policy, as espoused by the Commission, was applicable to incentives (rebates) recovered through the conservation cost recovery mechanism. This event

occurred in 1985. Since that time, Gulf's management has on a number of occasions acknowledged that, in hindsight, the shirts were an inappropriate response to the promotional efforts of other energy suppliers. (Bowers, Hodges)

106. ISSUE: Was the incentive program known as "Good Cents Incentive" which utilized electropoints that were redeemable for trips, awards, and merchandise contrary to the Commission's policy regarding fuel neutrality?

GULF: No. This issue duplicates Issue No. 62. This promotional tool is source neutral as it is available to any contractor who wishes to participate and has resulted in increased numbers of energy efficient homes in Northwest Florida. (Bowers)

107. ISSUE: In 1987, a commercial building received energy awards from both the U.S. Department of Energy and the Governor's Energy Office yet did not receive Good Cents certification because of a small amount of back up gas power. Was this practice contrary to the Commission's policy regarding fuel neutrality?

GULF: No. The Commission's fuel source neutrality policy only applies to incentives paid through the conservation cost recovery mechanism. Gulf's program, as originally approved by the Commission, required a building to be all electric in order to receive Good Cents certification. The building referred to was built in 1984; Gulf's standards were revised in 1986, and now allow certification of buildings utilizing natural gas. (Bowers)

108. ISSUE: Has Gulf participated in some misleading advertising in order to gain a competitive edge on gas usage?

GULF: No. The natural gas company advertising misled the customers by overstating the cost of electric service in a Good Cents Home. Gulf's ads were implemented in response to the inaccurate gas company ads. Gulf is not attempting to gain a competitive edge on gas usage through use of advertisements. We do have a desire to present the truth to our customers. (Bowers)

Revenue Expansion Factor

109. ISSUE: What is the appropriate revenue expansion factor for 1990?

GULF: The Revenue Expansion factor is 61.2858 percent and the NOI multiplier is 1.631699. (McMillan)

Revenue Requirements

110. ISSUE: Gulf has requested an annual operating revenue increase of \$26,295,000. Is this appropriate?

GULF: Yes. (McMillan)

111. ISSUE: Should any portion of the \$5,751,000 interim increase granted by Order No. 22681 issued on 3-13-90 be refunded?

GULF: No. The Company's requested rate relief of \$26,295,000 is appropriate. (Scarborough, McMillan)

112. ISSUE: Should Gulf be required to file, within 30 days after the date of the final order in this docket, a description of all entries or adjustments to its future annual reports, rate of return reports, published financial statements and books and records which will be required as a result of the Commission's findings in this rate case?

GULF: Gulf will make all appropriate filings, as required by the Commission. (Scarborough)

Cost of Service & Rate Design

113. ISSUE: Are the company's estimated revenues for sales of electricity based upon reasonable estimates of customers, KW and KWH billing determinants by rate class?

GULF: Yes. (Kilgore)

114. ISSUE: The present and proposed revenues for 1989 are calculated using a correction factor. Is this appropriate? (In error the issue states present and proposed revenues for 1989. It should state present and proposed revenues for 1990.)

GULF: Agree with Staff's position on this issue as set forth in Staff's Prehearing Statement in this docket. (Haskins)

115. ISSUE: What is the appropriate cost of service methodology to be used in designing the rates of Gulf Power Company?

GULF: 12 MCP and 1/13 energy. (O'Sheasy)

116. ISSUE: Are Gulf's separation of amounts for wholesale and retail jurisdictions appropriate?

GULF: Yes. Gulf's separation of amounts for wholesale and retail jurisdiction is appropriate as reflected in response to Industrial Intervenors Second Request for Production of Documents, Item No. 27. (Kilgore, O'Sheasy)

117. ISSUE: Is the method employed by the company to develop its estimates by class of the 12 monthly coincident peaks hour demands and the class non coincident peak hours demand appropriate?

GULF: Yes. (Kilgore)

118. ISSUE: If a revenue increase is granted, how should it be allocated among customer classes?

GULF: Agree with Staff's position on this issue as set forth in Staff's Prehearing Statement in this docket. (Haskins)

119. ISSUE: If an increase in revenues is approved, unbilled revenue will increase. Is the method used by the utility for calculating the increase in unbilled revenues by rate class appropriate?

GULF: Agree with Staff's position on this issue as set forth in Staff's Prehearing Statement in this docket. (Haskins)

120. ISSUE: Should the increase in unbilled revenues be subtracted from the increase in revenue from sales of electricity used to calculate rates by class?

GULF: Agree with Staff's position on this issue as set forth in Staff's Prehearing Statement in this docket. (Haskins)

121. ISSUE: What are the appropriate customer charges?

GULF: The appropriate customer charges are those resulting from the revised cost of service study and rate design as shown in the response to Interrogatories No. 12 and 13 of Industrial Intervenors Second Set of Interrogatories and Industrial Intervenors Second Request for Production of Documents, No. 27, as shown below: (Haskins)

Rate Schedule	Present Charge	Unit Cost	Proposed Charge
-----	-----	-----	-----
	\$	\$	\$
RS	6.25	9.71	8.00
GS	7.00	19.01	10.00
GSD	27.00	42.06	40.00
LP	51.00	450.75	225.00
PX	146.00	1138.88	570.00
RST	9.25	n/a	11.00
GST	10.00	n/a	13.00
GSDT	32.40	n/a	45.40
LPT	51.00	n/a	225.00
PXT	146.00	n/a	570.00

122. ISSUE: What are the appropriate demand charges?

GULF: Agree with Staff's position on this issue as set forth in Staff's Prehearing Statement in this docket. The appropriate demand charges are those proposals based on the revised cost of service study and rate design as shown in the response to Interrogatories No. 12 and 13 of Industrial Intervenors Second Set of Interrogatories and Industrial Intervenors Second Request for Production of Documents, No. 27, as shown below: (Haskins)

Standard Rate	Present Charge	Unit Cost	Proposed Charge
-----	-----	-----	-----
	\$	\$	\$
GSD	6.25	7.55	4.52
LP	6.25	9.23	8.51
PX	7.50	8.59	8.26
TOU RATE			

GSDT			
Max	2.96	7.55	2.20
On-peak	3.42		2.46
LPT			
Max	2.97	9.23	4.14
On-peak	3.35		4.50
PXT			
Max	3.56	8.59	4.00
On-peak	3.99		4.31

123. ISSUE: The company presently has seasonal rates for the RS and GS rate classes. Should seasonal rates be retained for RS and GS? If so, should they be required for GSD/GSDT, LP/LPT and PX/PXT?

GULF: Yes. Seasonal rates for rates RS and GS should be retained. The Company has had seasonal energy charges in rates RS and GS since 1962 in order to better track costs incurred by the Company in the peak summer period and to send the proper price signal to the summer peaking customers as an incentive to control peak demand. The Company at this time is not proposing seasonal demand rates because we chose not to introduce the additional complexity of seasonal rates for these classes in this filing. (Haskins)

124. ISSUE: If seasonal rates are continued, how should they be designed?

GULF: The same ratio of summer price to winter price as in our present RS rate should be retained, and this same ratio should be used to obtain the GS seasonal differential. (Haskins)

125. ISSUE: How should time-of-use rates be designed?

GULF: The Load Factor Methodology as approved by the Commission in our last three rate cases is appropriate to calculate TOU energy and demand prices. Customer charge revenue is calculated first by utilizing the unit costs from the Cost of Service Study. For demand TOU rates, the standard demand price (based on demand unit costs from the Cost of Service Study and based on the demand charge we proposed to maintain) is split into "on peak" and "max" demand components, using the Load Factor Methodology. Then the remaining target revenue is split into on and off peak energy charges, again using the Load Factor Methodology. The TOU rates are designed to be revenue neutral to the standard rate counterpart; i.e., the rates are designed assuming all customers are on the TOU rate. (Haskins)

126. ISSUE: Should Gulf's Experimental Rate Schedule RS-VSP (Residential Service - Variable Spot Pricing) base rate charges be raised so that the rate is revenue neutral with the approved standard RS rate? If so, what should the charges be?

GULF: Yes. Charges for the RS-VSP rate, once it is approved, should be revenue neutral with the standard RS rate approved in this docket. (Haskins)

127. ISSUE: The company currently gives transformer ownership discounts of \$.25 per KW for customers taking service at primary voltage and \$.70 per KW for customers taking service at transmission levels. Is the current level of discounts appropriate?

GULF: No. The Company proposes that the transformer ownership and metering voltage discounts as developed in the response to Interrogatory No.'s 110, 111, and 113 of

Staff's Eighth Set of Interrogatories, after adjustment for the variance of demand and energy charges from unit cost, be approved. (Haskins)

128. ISSUE: All general service demand rate schedules (GSD, GSDDT, LP, LPT, PX, and PXT) except Standby Service (SS) and Interruptible Standby Service (ISS) provide for transformer ownership and metering discounts. The company has proposed providing metering discounts only for standby service rate schedules. Should the SS and ISS rate schedules have provisions for both transformer ownership and metering voltage discounts? If so, should the level of the transformer ownership discount and metering voltage discount for SS and ISS be set equal to the otherwise applicable rate schedule?

GULF: The SS and ISS rate schedules should provide for metering voltage discounts only pursuant to Order No. 17159. In addition, pursuant to that order, the discount should be applied only to the energy portion of the bill. The metering voltage discount to be applied to the energy portion of the bill should be the same as the otherwise applicable demand rate schedule. (Haskins)

129. ISSUE: Should Gulf's proposed revision of the statement of the customer charge on the standby service rate schedules (SS and ISS) be approved?

GULF: No. Agree with Staff's position on this issue as set forth in Staff's Prehearing Statement in this docket. (Haskins)

130. ISSUE: Should Gulf's proposed change in the definition of the capacity used to determine the applicable local facilities and fuel charges on the standby service rate schedules (SS and ISS) be approved?

GULF: No. Agree with Staff's position on this issue as set forth in Staff's Prehearing Statement in this docket. (Haskins)

131. ISSUE: Should the proposed paragraph on the monthly charges for supplementary service on the SS and ISS rate schedules be approved?

GULF: No. Agree with Staff's position on this issue as set forth in Staff's Prehearing Statement in this docket. (Haskins)

132. ISSUE: Should the Interruptible Standby Service (ISS) Rate Schedule's sections on the Applicability and Determination of Standby Service (KW) Rendered be replaced by the language approved for the firm Standby Service (SS) in Docket No. 801304-EI? (Docket No. 801304-EI is stated in the issue incorrectly. The correct Docket No. is 891304-EI.)

GULF: Only the Determination of Standby Service (KW) Rendered Section should be replaced by the approved language for the Standby Service rate. The change in the Applicability Section of the Standby Service rate would not apply because it states a customer having on-site generating equipment is required to take standby service under certain conditions; however, this requirement would not apply to interruptible standby service customers. (Haskins)

133. ISSUE: The present standby rates are based on system and class unit costs from Docket No. 840086-EI. Should the standby rate schedules (SS and ISS) charges be adjusted to reflect unit costs from the cost of service study in this docket and the 1989 IIC capacity charge rates?

GULF: Yes. (Haskins)

134. ISSUE: Order No. 17568, Docket No. 850102-EI approved the experimental Supplemental Energy (SE) (Optional) Rider as a permanent rate schedule on the condition that it become a separate rate class in the company's next rate case. Has Gulf complied with Order No. 17568?

GULF: During a preliminary conference regarding the MFR's before filing our withdrawn case, Docket No. 881167-EI, a verbal agreement between the Company and the then Bureau Chief of Electric Rates was reached not to separate the SE customers from the others in that rate class because SE is a rider applied to other rate classes and not a separate rate class in itself. (Haskins)

135. ISSUE: How should rates for the Supplemental Energy (Optional Rider) be designed?

GULF: The Supplemental Energy (SE) customers' billing determinants should be combined with non-SE customers' billing determinants for rate design purposes. (Haskins)

136. ISSUE: The applicability clause of the three demand classes (GSD, LP and PX) is stated in terms of the amount of KW demand for which the customer contracts. Is this an appropriate basis for determining applicability?

GULF: Yes. If the proposed Local Facilities Charge for rates LP, LPT, PX, and PXT is approved, Gulf will initiate a review and possible revision of existing LP/LPT and PX/PXT contracts and signing of appropriate new contracts with those LP/LPT customers who presently do not have a signed contract. For new customers, you would have no actual demand upon which to base a contract or to determine which rate would be applicable; thus, without a contract capacity, you would have no meaningful contract. (Haskins)

137. ISSUE: The current GSD/GSDT and GSLD/GSLDT rate schedules have minimum charges equal to the customer charge plus the demand charge for the minimum KW to take service on the rate schedule for customer opting for the rate schedule. Is this minimum charge provision appropriate? (Gulf's names for its GSLD/GSLDT rates are LP/LPT.)

GULF: No. Results of our initial analyses indicate that the GSD rate becomes cheaper than the GS rate as KW increases and also as load factor improves. At the proposed level of GS energy prices, these breakeven points are too low for reasonable implementation. However, if this relationship changes significantly as a result of other decisions in this case, then such a change may be workable. If so, the Company would like to see it approved. Likewise, if the change is made in the minimum demand provision of the LP/LPT rates, then new rates would have to be designed to assure recovery of any lost revenues as a result of additional crossovers to rates LP/LPT and any reduction in demand (kw) used for billing purposes. (Haskins)

138. ISSUE: What is the appropriate method for calculating the minimum bill demand charge for the PX rate class?

GULF: Agree with Staff's position on this issue as set forth in Staff's Prehearing Statement in this docket and, in addition, the minimum bill would include the Local Facilities Charge, if applicable. (Haskins)

139. ISSUE: What is the appropriate method for calculating the minimum bill demand charge for the PXT rate class?

GULF: Agree with Staff's position on this issue as set forth in Staff's Prehearing Statement in this docket and, in addition, the minimum bill would include the Local Facilities Charge, if applicable. (Haskins)

140. ISSUE: The proposed change in the application of the minimum bill provision allows a customer who has less than a 75 percent load factor in a given month to not be billed pursuant to the minimum bill provision as long his annual load factor for the current and most recent 11 months is at least 75 percent. Is this appropriate?

GULF: Agree with Staff's position on this issue as set forth in Staff's Prehearing Statement in this docket. (Haskins)

141. ISSUE: The company has proposed the implementation of a local facilities demand charge for LP/LPT and PX/PXT customers, which would be applied when the customer's actual demand does not reach at least 80 percent of the Capacity Required to be Maintained (CRM) specified in the Contract for Electric Power. Is this local facilities charge appropriate? If so, to what customer classes should it apply?

GULF: Yes. This charge will protect other customers from having to subsidize those customers who, on a temporary or permanent basis, reduce their load or shut down completely. Such a customer would be obligated to pay at least the minimum monthly bill, which would include the Local Facilities charge, if applicable, for the duration of the contract. We propose to use this Local Facilities Charge for our large customers (LP, LPT, PX, and PXT). (Haskins)

142. ISSUE: The company's proposed street and outdoor lighting rates are shown on the revised MFR Schedule E-16d submitted as item No. 147 of Staff's Eighth Set of Interrogatories. Should these proposed rates be approved?

GULE: No. The proposed street and outdoor lighting rates shown on the 2nd revision of MFR Schedule E-16d, submitted as Late Filed Exhibit No. 16 of J. L. Haskins 2nd Deposition in this docket, should be approved. These rates are based on calculations using better information regarding additional facilities charges that was not available to us until after the original rates are filed. Therefore, they represent a better forecast of appropriate rates.
(Haskins)

143. ISSUE: The company proposes to eliminate the general provisions pertaining to replacement of lighting systems on the Outdoor Service Rate Schedule (OS). Is this appropriate?

GULE: Yes. The Commission should not impede the replacement of old mercury vapor fixtures with more energy efficient high pressure sodium lights. Otherwise, replacement of any mercury fixture, regardless of age, would be effectively halted because customers would be required to pay for removal of a worthless fixture. (Haskins)

144. ISSUE: Should the language on OS-III be clarified so that only customers with fixed voltage loads operating continuously throughout the billing period (such as traffic signals, cable TV amplifiers and gas transmission substations) would be allowed to take service on OS-III?

GULE: Yes. Agree with Staff's position on this issue as set forth in Staff's Prehearing Statement in this docket.
(Haskins)

145. ISSUE: Since the company's last rate case, sports fields taking service on rate schedules GS and GSD were allowed to transfer to the OS-III rate schedule. The company has now proposed an OS-IV rate for sports fields. Is this appropriate, and, if so, how should the rate be designed?

GULF: Yes. Sports fields with night time lighting load should not receive service under OS-II, OS-III, GS, or GS-D because their load characteristics are not similar to those of OS-II, OS-III, GS, or GS-D loads. Specifically, the load does not remain on Gulf's system for the entire "darkness hours" period. The load also does not peak at the same time as the GS or GS-D loads. This rate should have a Customer Charge and an Energy Charge. (Haskins)

146. ISSUE: The company's proposal for service charges are summarized as follows:

	<u>Present</u>	<u>Company Proposed</u>
Initial Service	\$16.00	\$20.00
Reconnect a Subsequent Subscriber	16.00	16.00
Reconnect of Existing Customer after Dis- Connection for Cause	16.00	16.00
Collection Fee	6.00	6.00
Installing & Removing Temporary Service	48.00	60.00
Minimum Investigative Fee	30.00	55.00

Are these charges appropriate?

GULF: Yes. (Haskins)

147. ISSUE: Should LP customers who have demands in excess of 7500 KW but annual load factor of less than 75 percent be allowed to opt for the PXT rate?

GULF: Agree with Staff's position on this issue as set forth in Staff's Prehearing Statement in this docket. (Haskins)

148. ISSUE: Is Gulf Power's proposed change to the PX minimum monthly bill reasonable, appropriate, and consistent with the other provisions of the rate?

GULF: Yes. The minimum bill for PX should be the customer charge plus a per KW demand charge, consisting of the KW demand charge for the class plus the KWH charge times the KWH necessary to achieve a 75% load factor plus the Local Facilities Charge, if applicable.
(KW charge + 547.5 x KWH charge) = per KW minimum charge
(Haskins)

149. ISSUE: Should Gulf's proposal to decrease the PXT on-peak energy charge and increase the off-peak energy charge be approved?

GULF: Yes. Agree with Industrial Intervenors' witness, Jeffrey Pollock, as he states in his testimony that even though the overall energy charge revenue would be less, the results are consistent with the unit costs in the revised cost of service study. (Haskins)

150. ISSUE: Should scheduled maintenance outages of a self-generating customer that are fully coordinated in advance with Gulf Power be subject to the ratchet provision of the SS rate?

GULF: Yes. Standby Service Order No. 17159 requires that the initial standby service contract demand represent the maximum backup or maintenance demand that the customer expects to impose on the utility. To insure the accuracy of the initial contract demand, the order includes a ratchet provision to increase this contract demand for a total of 24 months if the actual standby taken exceeds the contract demand. (Haskins)

151. ISSUE: Should the assumed 10% forced outage factor for self-generating customers that is built into the SS rate design be continued?

GULF: Yes. In the Standby Order No. 17159, a 10% forced outage rate was specified as the outage rate to be used in the calculation of the Reservation Charge and Daily Demand Charges. (Haskins)

152. ISSUE: How should the reservation and nonfuel energy charges of the SS rate be set?

GULF: These charges should be designed in the manner specified by the Commission in Standby Service Order No. 17159. (Haskins)

153. ISSUE: Is it appropriate to assume that customers on present rates would remain on the same rate when proposed rates become effective?

GULF: No. This would not be an appropriate rate design assumption. Gulf first produces rates which were designed using the forecasted billing determinants for each rate class. With our rate design computer program, we then have the capability of running the forecasted customer billing determinants against these preliminary rates and also the preliminary rates in competition with other rates to assure that each customer is on the most economical rate for that customer; assuring, of course, that all qualifications or restrictions of the rate are met. This enables the Company then to do any necessary fine tuning of the rates through successive iterations in order to get as close as possible to the proposed revenue target. If we did not check for crossovers (competition runs), we would not recover the proposed revenue because those customers crossing to a different rate would be paying lower prices and thus not producing the revenue that was originally intended. (Haskins)

154. ISSUE: Would it be appropriate to grant a rate increase without allowing the Company to redesign the rates to recover the approved revenue, run the rates in competition, and go through the same iteration process as was done in the original filing of the case and the revised portion of this case?

GULF: No. If not allowed this opportunity, then the Company would end up not collecting the full amount of the granted revenue increase as intended by the Commission in its decision. (Haskins)

E. STIPULATED ISSUES:

None at this time.

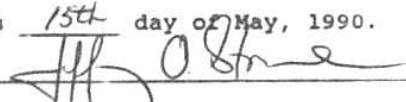
F. PENDING MOTIONS:

None.

G. OTHER MATTERS:

If other issues are raised for determination at or prior to the hearings beginning June 11, 1990, Gulf respectfully requests an opportunity to submit additional statements of position and, if necessary, to file additional testimony.

Respectfully submitted, this 15th day of May, 1990.



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