M E M O R A N D U M

May 31, 1990

TO: DIVISION OF RECORDS AND REPORTING

FROM: DIVISION OF AUDIT AND FINANCE (DOUD) FD

RE: DOCKET NO. 891345-EI -- GULF POWER COMPANY
RATE CASE AUDIT -- 12 MONTHS ENDED DECEMBER 31, 1989
AUDIT CONTROL NO. 90-037-1-1

Forwarded. Audit exceptions document deviations from the Uniform System of Accounts, Commission rule or order, Staff Accounting Bulletin and generally accepted accounting principles. Audit findings disclose information that may influence the decision process.

Audit was prepared using micro computer and has been recorded on diskettes. The diskettes may be reviewed using IBM compatible equipment and LOTUS 1-2-3 software. There are no confidential working papers associated with this audit.

Please forward a complete copy of this report to:

Gulf Power Company
Attn: Mr. Warren E. Tate
Post Office Box 1151
Pensacola, FL 32520-1151

FD/sp
Attachment
cc: Chairman Wilson
Commissioner Beard
Commissioner Gunter
Commissioner's Office
Commissioner Easley
Bill Talbott, Deputy Executive Director/Technical
Legal Services
Division of Auditing and Financial Analysis (Devlin)
Division of Electric and Gas (Romig)
Tallahassee District Office (Freeman)

Mr. Don Hale
Office of Public Counsel
624 Fuller Warren Building
202 Blount Street
Tallahassee, FL 32301

DOCUMENT NUMBER-DATE
04764 MAY 31 1990
FPSC-RECORDS/REPORTING

Florida Public Service Commission

Audit Report

1990 Projected Test Year

12 Months Ended December 31, 1989

Field Work Completed

April 20, 1990

Gulf Power Company

Pensacola, Florida

Escambia County

Rate Case Audit

Docket No. 891345-EI

Audit Control Number 90-037-1-1

Don Hartsfield

Don Hartsfield, Audit Manager

Audit Staff	Minority Opinion
Everett "Butch" Broussard	No
Mike Buckley	No
Robert Freeman	No
John Grayson	No

Robert Freeman

Robert Freeman
Regulatory Analyst Supervisor

DOCUMENT NUMBER-DATE
04764 MAY 31 1990
PSC-RECORDS/REPORTING

INDEX

PAGE

I. EXECUTIVE SUMMARY

II. AUDIT SCOPE

III. AUDIT EXCEPTIONS

IV. AUDIT DISCLOSURES

A) SYSTEMS DISCLOSURES

B) RATE BASE DISCLOSURES

INDEX

PAGE

IV. AUDIT DISCLOSURES (CONT'D)

C) COST OF CAPITAL DISCLOSURES

D) INCOME DISCLOSURES

E) OTHER ITEMS

V EXHIBITS

I. EXECUTIVE SUMMARY

AUDIT PURPOSE: We have applied the procedures described in Section II of this report to the exhibits filed by Gulf Power Company in support of Docket No. 891345-EI for the actual 12 month period ended December 31, 1989 and for the projected 12 month period ending December 31, 1990 to determine if those exhibits represent utility books and records maintained in compliance with Commission directives; that company adjustments are based on supportable facts and assumptions; and to disclose any transactions, procedures or events discovered which may influence Commission decisions.

SCOPE LIMITATION:

A) Confidential Treatment - During the course of the audit, the company requested confidential treatment of the following:

Document Request No. 82 - Productivity Improvement Plan (Materials were later returned to the company while audit notes were retained)

Document Request No. 87 - Support for Adjustments to Net Operating Income (Confidential request was withdrawn)

Document Request No. 96 - Examples of Productivity Improvement Plan (Materials were later returned to the company while audit notes were retained)

B) Almost without exception, all requested documentation was reviewed by the internal audit staff and/or the Gulf Power attorney before being turned over to the Commission audit staff.

C) Additional Investigation - It is recommended that the Management Audit Staff of the Florida Public Service Commission conduct a management audit to better evaluate the effectiveness of management at Gulf Power.

D) Lack of a fully functional work order system did not allow full testing of the utility plant increases. (See Audit Disclosure No. 6)

DISCLAIM PUBLIC USE: This is an internal accounting report prepared after performing a limited scope audit; accordingly, this document must not be relied upon for any purpose except to assist the Commission staff in the performance of their duties. Substantial additional work would have to be performed to satisfy generally accepted audit standards and produce audited financial statements for public use.

OPINION: Subject to the audit exceptions and disclosures as noted below, the company scope limitations, and the procedures described in Section II, the appended rate base, net operating income, and cost of capital exhibits for the actual 12 months ended December 12, 1989 and the projected 12 months ended December 31, 1990, represent utility books and records maintained in substantial compliance with Florida Public Service Commission prescribed rules.

SUMMARY FINDINGS: See sections III and IV for details.

Attached is a schedule showing the 2 audit exceptions and 60 audit disclosures and where applicable, summarizes the dollar effect on rate base, utility expense and cost of capital (without applying state/federal jurisdictional factors).

Company responses will be provided at a later date.

FINDING SUMMARY

IMPACT IN 000'S (TOTAL COMPANY)

			Rate base				Expense				Cost of Capital				
			1987	1988	1989	1990	1987	1988	1989	1990	1987	1988	1989	1990	
EXCEPTIONS															
1	Over accrual of AFUDC - work order 110953	13-MON AVG			(1)	(4)									
2	Over accrual of AFUDC - work order 408506	13-MON AVG			(18)	(51)			?	?					
AUDIT DISCLOSURES															
1	Not Used	COMMENT													
2	Energy generated 1986 to 1989	COMMENT								?					
3	Internal Control Structure Weaknesses	COMMENT													
4	Perceived audit problems	COMMENT													
5	Unit Power Sales (UPS) Overview	COMMENT													
6	Gulf Power Company work order system	COMMENT													
7	Account 106, unclassified construction	ESTIMATED - AVG			694	2,137			(1,442)	(1,442)					
8	Accumulated depreciation methodology	IMPACT UNKNOWN			?	?			?	?					
9	Failure to provide an organizational chart	COMMENT													
10	Rate base 1989 actual vs rate case	COMMENT													
11	Cost of Plant Scherer	IMPACT UNKNOWN													
12	Plant Scherer acquisition Adjustment	13-MON AVG	?	?	(8,793)	(8,538)	?	(252)	(255)	(255)					Note Is approximately 70% UPS
13	Transfer of AFUDC accrued on raw land	IMPACT UNKNOW	?	?	?	?									
14	AFUDC rate	IMPACT UNKNOWN													
15	Non utility appliance sales and service	13-MON AVG				(444)				(12)					
16	Additional Hawkshaw Land Purchases	YEAR END	?	?	(2,029)	(2,229)									Note Dec Balance at 50%
17	Additional Pace Boulevard Land Purchases	YEAR END			(253)	(585)									Note Dec Balance
18	Navy House	YEAR END			(23)	(23)		(113)	(8)	(8)					
19	Cancelled Projects	13-MON AVG	?	?	(361)				(264)						
20	Plant held for future use - Carryville	YEAR END			(3,642)	(3,691)									Note Dec Balance
21	Records Retention	COMMENT													
22	UPS working capital	13-MON AVG	(12,098)	(7,252)	(3,263)	?									
23	Prepaid pension cost	13-MON AVG		(1,293)	(1,808)	(1,485)	(829)	(631)	707	754					Pension expense spread over 4 years and pension prepaid unchanged
24	Rate base reconciling items					?									
25	Fuel and conservation over recovery					?									
26	Acid rain and other dererred debits					?									
27	Peabody buy out					?									
28	Insurance deposits	13 MON AVG				(106)									
29	Reported cost of debt and preferred stock	ESTIMATED									(780)				
30	Non utility capital													?	
		SUBTOTAL	(12,098)	(8,545)	(19,497)	(15,019)	(829)	(996)	(1,262)	(963)	(780)	0	0	0	

FOOTNOTE ? MEANS AMOUNT UNKNOWN

FINDING SUMMARY (CONTINUED)

IMPACT IN 000'S (TOTAL COMPANY)

DISCLOSURES (CONT'D)

			Rate base 1987	Rate base 1988	Rate base 1989	Rate base 1990	Expense 1987	Expense 1988	Expense 1989	Expense 1990	Cost of Capital 1987	Cost of Capital 1988	Cost of Capital 1989	Cost of Capital 1990
	SUBTOTAL FROM PREVIOUS PAGE		(12,098)	(8,545)	(19,497)	(15,019)	(829)	(996)	(1,262)	(963)	(780)	0	0	0
31	Preferred stock premium and stock issue costs										?	?	?	?
32	Redeemed preferred stock										?	?	?	?
33	Cost of customer deposits	COMMENT												
34	Gulf Power plea agreement -- actions taken	COMMENT												
34A	West Florida Landscaping	COMMENT												
35	Executive salaries						?	?	?	?				
36	Management salaries	COMMENT												
37	Incentive compensation plans						?	?	?	?				
38	Executive development									(25)				
39	Political action committees						(34)	(33)	(26)	(20)				
40	Selected non operating expenses	ESTIMATED					(559)	(257)			Acct 426.4 at 1989 level			
41	Budget reference level	COMMENT												
42	Budget variances	COMMENT												
43	Non recurring items									(5)				
44	Heat pump program									(717)				
45	WeatherGUARD program									(140)				
46	Good cents incentive program									(50)				
47	BCCR programs									(2,200)				
48	Cancelled rate case charges	REPORTED							(1,028)					
49	Non allocation of postage costs						?	?	(285)	(289)				
50	Utility transmission rentals	IMPACT UNKOWN					?	?	?	?				
51	State Federal jurisdictional factors									?				
52	Line loss						(326)	(294)	(341)	?				
53	Changes in adjustments to net operating income								(179)					
54	Attorney bonus			?	(107)	(107)								
55	Out of period UPS charges								(281)					
56	Non utility activities	COMMENT												
57	Tax related work	COMMENT												
58	Independent quality assurance review	COMMENT												
59	FERC audit - 8 compliance exceptions	IMPACT UNKNOWN												
60	FERC audit - 13 compliance violations	IMPACT UNKNOWN												
FOOTNOTE	? MEANS AMOUNT UNKNOWN	TOTAL	(12,098)	(8,545)	(19,604)	(15,126)	(1,748)	(1,580)	(3,402)	(4,409)	(780)	0	0	0

II. AUDIT SCOPE

This report is based on the audit work described below. When used in this section of the report COMPILED defines completed audit work as:

> COMPILED: Reconciled exhibit amounts to the ge neral ledger; visually scanned general ledger accounts; investigated or disclosed observed errors, irregularities or inconsistencies. Except as noted no audit work was performed.

RATE BASE: Compiled plant accounts through December 31, 1989 starting with the general ledger plant balances at December 31, 1988; tested account balances by making a judgmental sampling of plant addition invoices, reviewing contracts and journal entries. Land purchases were compiled.

Compiled accumulated depreciation by testing the rates used by the company against the company's most current Commission approved depreciation rates, Order No. 19901, issued 8/30/88, traced balances from December 31, 1988 through December 31, 1989.

Compiled Plant Held for Future Use (PHFU) by obtaining the company's plans for each item in the account; investigated any cancelled projects related to PHFU; and traced each item to the general ledger.

Working Capital - Compiled working capital accounts by comparison of 1988 reported working capital to 1989 working capital reported and to 1990 projected working capital; compiled working capital balances reported at December 31, 1989; agreed pension expenses, prepayment and liability activity; and read UPS contract and compared to reported activity at December 31, 1989.

NET OPERATING INCOME: Compiled customer revenue accounts, prepared revenue analysis over past two years.

Compiled operating and maintenance accounts for reasonableness, applied analytical review techniques to determine which accounts to sample based on their fluctuation over the last five years and applied sampling techniques to those accounts which were over $1,000,000 in 1989. Samples of accounts 567 - Rents, 909 - Information and Instruction Expense, 913 - Advertising Expense, 921 - Office Supplies and Expenses, 923 - Outside Services Employed, 928 - Regulatory Commission Expense were taken and provided to the Bureau of Electric and Gas for review. No further audit work was performed on the samples and any subsequent samples taken will be done by Electric and Gas with the assistance of the audit staff.

COST OF CAPITAL: Compiled capital balances and reported capital costs, read 100% of all debt and preferred stock additions and reductions, compiled rate base to capital structure reconciliation; and compared cost of capital calculation methodology with procedures used to compute cost of capital in 1989.

COMPANY ADJUSTMENTS: Compiled company calculations supporting company adjustments for rate base, net operating income, and cost of capital; compared assumptions to last rate case.

OTHER: Read minutes of the Board of Directors Meetings and Audit Committee Meetings for 1989.

Read Arthur Andersen's working papers of their review of Gulf Power Company's operations in 1989.

AUDIT EXCEPTION NO. 1

SUBJECT: OVER ACCRUAL OF AFUDC - WORK ORDER NO. 110953

STATEMENT OF FACT: Rule 25-7.0141 (1),(D),3 F.A.C. states "when a project is completed and ready for service, it shall be immediately transferred to the appropriate plant account(s) or Account 106, Completed Construction Not Classified and may no longer accrue AFUDC. Work Order No. 110953 was signed 9/89 by the work order engineer as being completed. The project was not transferred to account 106 in September of 1989 and subsequently accrued AFUDC through December 1989 when it was transferred to Account 106.

AUDIT OPINION AND CONCLUSION: This over accrual of AFUDC displays a weakness in the controls of the Gulf Power Company Plant Accounting System. This weakness was previously reported as an Audit Exception in the Gulf Power Company Rate Case Audit, Docket No. 881167-EI.

The company acknowledged this over accrual of $4,028 and an adjustment was made to reverse this over accrual on March 31, 1990.

AUDIT EXCEPTION NO. 2

SUBJECT: OVER ACCRUAL OF AFUDC - WORK ORDER NO. 408506

STATEMENT OF FACT: Rule 25-7.0141 (1),(D),3 F.A.C. states "when a project is completed and ready for service, it shall be immediately transferred to the appropriate plant account(s) or Account 106, Completed Construction Not Classified and may no longer accrue AFUDC".

A letter dated February 8, 1989 from a work order engineer to the supervisor of plant accounting states "all major construction was completed on Gulf Power Company GWO No. 408506. This project was transferred to Account 106 in October 1989 and subsequently over accrued AFUDC from February to October of 1989. The amount of AFUDC over accrued has been computed below.

	AFUDC EQUITY 309-486	DEBT 309-487	OVER ACCURAL
FEB	868.51	1,536.28	2,404.79
MAR	1,865.34	3,299.55	5,164.89
APR	1,932.72	3,418.86	5,351.58
MAY	2,250.83	3,981.41	6,232.24
JUNE	2,250.84	4,512.10	6,762.94
JULY	2,577.57	4,559.39	7,136.96
AUG	2,612.72	4,612.56	7,225.28
SEPT	2,649.08	4,685.86	7,334.94
OCT	1,341.66	2,373.22	3,714.88
			51,328.50

AUDIT OPINION AND CONCLUSION: This over accrual of AFUDC displays a weakness in the controls of the Gulf Power Company Plant Accounting System. This weakness was previously reported as an Audit Exception in the Gulf Power Company Rate Case Audit, Docket No. 881167-EI.

AUDIT DISCLOSURE NO. 1

DISCLOSURE NUMBER NOT USED

AUDIT DISCLOSURE NO. 2

SUBJECT: ENERGY GENERATED 1986 TO 1989

STATEMENT OF FACTS: Described below are the KWH generated by GULF's plants for the last 4 years. According to the utility, these figures represent steam generation only; however, adding additional generation from other sources such as gas turbine generation does not materially affect the amounts below.

(000'S omitted)

1986	8,456,675
1987	11,469,973
1988	11,205,973
1989	8,791,206

rf:gp-rpt8

DISCLOSURE NO. 3

SUBJECT: INTERNAL CONTROL STRUCTURE WEAKNESS

STATEMENT OF FACTS: The following is a summary of perceived problems identified during the audit of Florida Jurisdictional income, ratebase and cost of capital. Comments are subdivided below into the following 3 topical areas.

Control Environment: Management philosophy, organizational structure, Board of Directors particularly including the audit committee, assigning authority and responsibility, management control methods, personnel policies, external influences such as examinations by bank regulatory agencies, and the internal audit function.

Accounting System: Recording all transactions on a timely basis in sufficient detail, valuing the monetary impact, determining the appropriate time period, and presenting properly the transactions and related disclosures.

Control Procedures: Proper authorizations, segregation of duties, presence of adequate safeguards, independent checks on performance and proper valuation.

AUDIT OPINION AND CONCLUSION:

CONTROL ENVIRONMENT WEAKNESS

Organization

The utility was unable to provide on a timely basis complete organizational charts by budget entity to permit full review of budgeted information. (Disclosure 9)

The utility organizational unit reporting regulatory assets, capital and income to the Commission is not under the utility controller. This function is under a budgetary, corporate planning, and rate-making function. (Observation)

DISCLOSURE NO. 3, INTERNAL CONTROL WEAKNESS

CONTROL ENVIRONMENT WEAKNESS (CONTINUED)

Unit Power Sales (UPS)

Accounting for Unit Power Sales (UPS) is divided among several accounting and operational sections resulting in reporting of incomplete information supplied on a piecemeal basis. (Disclosure 5)

Plant

No single individual is assigned responsibility to ensure a complete work order system is maintained. The responsibility is divided among plant accounting, accounts payable, land, budgeting, engineering, treasury, and the construction operating units. (Disclosure 6)

Utility uses 38 accounts to maintain the cost of one utility site survey. Area management refuses to consolidate these accounts unless ordered to do so by the Commission. (Disclosure 20)

Management Philosophy

Executive management did not allocate time in 1989 to non utility activities. (Disclosure 35)

ACCOUNTING SYSTEM

Regulatory

Jurisdictional financial information presented on surveillance reports was not fully obtained from the utility's general ledger. This information is obtained manually and entered into computerized worksheets. A material portion of this information is not from the general ledger, but rather from internal reports. (Observation)

Utility maintains its preferred stock issuing cost and preferred stock premium off the books and has not maintained deferred tax information associated with this activity. (Disclosure 31)

DISCLOSURE NO. 3, INTERNAL CONTROL WEAKNESS

ACCOUNTING SYSTEM (CONTINUED)

UPS

UPS accounts were not maintained in a fashion which would allow ready identification of cost incurred, costs billed to customers, and cost reported to the Commission._(Disclosure 5)

UPS billings were delegated to Southern Company Services, an affiliate. These UPS billings were not prepared in sufficient detail to indicate amounts due from UPS customers to Gulf Power. (Disclosure 5)

Plant

The utility maintains duplicative work in progress accounts: Account 107, Construction Work in Progress; and Account 106, Plant Unclassified. The plant unclassified account exists only at the date of the balance sheet or such other date as the Commission shall determine. The Plant Unclassified Account is used to depreciate projects which have "been completed and placed in service but which work orders have not been classified". Reportedly, the length of time monies remain in this account is 5 months. Maintaining duplicate account results in a more complex accounting system, and requires additional people to maintain and audit the plant accounts. (Disclosure 7)

The utility does not properly depreciate its plant. The current method calculates depreciation expense one month in arrears as a proxy for the correct depreciation amount. (Disclosure 8)

The utility accounting procedures provide for accrual of AFUDC upon land purchases recorded as Construction Work In Progress. After land purchases are made, the land can be immediately classified into a plant account. There is no reason to accrue AFUDC upon raw land purchases. Subsequent preparation of land for use such as removing unwanted buildings can be separately identified by work order. (Disclosure 13)

Data

Data tapes were lost during the test period making the electronic testing and summary of the utility's entry into the general ledger more difficult and time consuming.

Year to date detailed data tapes were not maintained by the utility. To prepare such a tape, FPSC staff had to consolidate 60 data sources to prepare a year-to-date data tape.

DISCLOSURE NO. 3, INTERNAL CONTROL WEAKNESS (CONTINUED)

CONTROL PROCEDURES

Plant

Completed, signed work orders were not present for all projects reviewed. Approximately 65 work orders were tested in various areas: 4 work orders initiated by Georgia Power associated with the construction of Plant Scherer were not in utility files, and 5 work orders did not include a date completed or appropriate "closeout signature". (Disclosure 6)

When requested, complete work order files were not available for land sales. Missing from the files were authorization for the land sale, a sales contract, and a closing statement.

rf:gp-rpt9

AUDIT DISCLOSURE NO. 4

SUBJECT: PERCEIVED AUDIT PROBLEMS

STATEMENT OF FACTS: During the week of March 26, 1990 to March 30, 1990, several members of the FPSC audit team reported utility personnel were denying access to utility records without a document request. Around 5:00 PM on March 29, 1990, the audit supervisor was contacted by a utility attorney from the law firm of Beggs and Lane who attempted to require the audit team to obtain virtually all documents by way of a written audit document request. The attorney also attempted to restrict all audit interviews of utility personnel by requiring that interviews first be scheduled through a utility employee reporting to Mr. George Fell. These concerns were later resolved as discussed below:

On March 30, 1990, the audit supervisor met with Mr. George Fell, Director of Internal Auditing and the contact person regarding the rate case audit. Topics discussed were the restriction of information. Also discussed were:

1) Difficulty of agreeing Jurisdictional amounts to the utility general ledger,

2) Unsupported entries made to the Jurisdictional records,

3) Failure to provide complete information regarding plant records during the audit of the plant account in docket 881167,

4) There seemed to be some resistance in establishing sufficient accounts to segregate conservation expenses in the general ledger,

5) Regulatory accounting manager did not provide full information regarding the general ledger source of regulatory balances in prior audits,

6) Several employees appeared to be uncooperative during the audit process, and

7) Attempts by area management to restrict interviews of utility employees in their area.

Mr. Fell agreed to discuss the problem with management, and arrange a meeting with Mr. Arlan Scarbrough, Vice President Finance. On April 3, 1990, 3 members of the audit team and Mr. Fell met with Mr. Scarbrough briefly regarding the problems encountered by the audit team concerning the lack of full cooperation by the people being audited. Thereafter cooperation from some of the people being audited increased significantly.

AUDIT DISCLOSURE NO. 4, PERCEIVED AUDIT PROBLEMS (CONT'D)

On April 4, 1990, it was reported that some written document requests were being submitted to utility attorneys prior to being submitted to the audit team.

On April 6, 1990, after more incidents regarding employees with documents in hand requiring written requests for information before providing copies to the PSC auditors, the audit supervisor requested a second meeting with Mr. Scarbrough, and a meeting with Mr. McCrary, the Company president.

On April 13, 1990, two members of the audit team, Mr. Fell and Mr. Scarbrough met with Mr. McCrary. Topics covered at length at the meeting were:

1) Failure of the surveillance reports to fully agree to account balances in the general ledger,
2) Unsupported entries to the jurisdictional records,
3) Lack of a fully functioning work order system,
4) Use and depreciation of account 106,
5) Failure to report UPS working capital charged to customers,
6) Failure to properly report actual cost of debt,
7) Difficulty in access to budget information,
8) Procedure of using document requests delays access to information,
9) Loss of computer records in the test year,
10) Failure to maintain a year-to-date electronic record of general ledger transactions,
11) Lack of a clear audit trail for SCS and affiliate billings, and
12) Failure of the utility to provide a detailed organizational chart.

AUDIT OPINION AND CONCLUSION: Since the meeting with Mr. McCrary the cooperation of all being audited has been much improved and is now considered good.

rf:gp-rpt8

AUDIT DISCLOSURE NO. 5

SUBJECT: UNIT POWER SALES -- OVERVIEW

STATEMENT OF FACT: Unit power sales (UPS) are based upon contracts between the UPS customer and the joint Southern Companies, Alabama Power, Georgia Power, Gulf Power, Mississippi Power, and Southern Company Services, Inc.

Two Gulf Power plants were included in the UPS contracts, Plant Daniel in Mississippi and Plant Scherer in Georgia. In February 1989, Plant Daniel was dropped from the UPS billings.

Each month Southern Company Services bills the UPS customers a capacity bill and an energy bill. The billing is on an estimated basis which is corrected to actual (trued up) at a later date.

The UPS customers presently are Florida Power and Light and the Jacksonville Electric Authority.

A former UPS customer, Gulf States, has filed suit against the Southern Companies seeking to be excused from its UPS contract. Texas and Louisiana PSC's have disallowed Gulf States UPS capacity payments from rates. The Southern operating affiliates have filed a counterclaim to recover lost payments and damages for breach of contracts. The case is pending in the U.S. District Court in Texas.

In consolidated proceedings initiated by Gulf States and the (Southern) operating subsidiaries, FERC in 1988 found the contracts not to be unreasonable. In February 1990, Gulf States filed a petition requesting the U. S. Supreme Court to review the decision.

Reported to the Commission at December 31, 1989 is $198,419,262 in total plant in service for Plant Scherer to include the value of transmission facilities. Of this amount $142,156,072 is excluded from rate base due to unit power sales. For the 13-month average year ended December 31, 1989 reported exclusions from rate base are a net investment of $153,768,776, Revenues of $49,077,127, Expenses of $34,445,671, and $13,798,140 in Net Operating Income.

AUDIT DISCLOSURE NO. 5 UPS OVERVIEW (CONTINUED)

Existing company schedules reporting UPS activities did not readily enable the auditor to fully reconcile to the general ledger: amounts charged to Gulf Power, amounts billed to UPS customers, and amounts reported to the Florida Public Service Commission.

The auditor obtained and examined UPS billings for capacity and energy for the past 3 years. These billings, prepared by Southern Company Services in Atlanta, are not prepared in sufficient detail to fully identify monies due to Gulf Power. In addition, accounting personnel of Gulf did not have copies of the energy billings from Southern Services on site to support entries into the books. (Copies of the January 31, 1989 capacity and energy UPS billing follow this disclosure.)

It appears 1989 costs incurred at the generating plants, Daniel and Scherer, are considerably less than UPS costs expected under terms of the capacity contracts. Applicable production costs reported for Plant Daniel and Plant Scherer are reported below and compared to reported UPS production costs.

	Production Cost	Percent Sold	Cost Allocated
Calendar year 1989 Plant Scherer costs:	$7,916,564	70.8250%	$5,606,905
January 1989 Plant Daniel costs:	$1,134,464	70.3938%	$ 798,592
			$6,405,497
UPS reported production costs:			
Fuel:			$(20,463,695)
Other Production:			$(2,189,179)
Difference:			$(16,247,377)

In addition to testing 1989 production costs, reported fuel cost was prorated down to purchased capacity levels and compared to reported contractual fuel expense. In 1987 and 1988, the UPS customer benefitted by $27,828,636 and $22,648,183 respectively. In 1989, the UPS customer lost $15,076,188. A copy of the 1989 production and fuel comparison follows to demonstrate the techniques used.

AUDIT DISCLOSURE NO. 5 UPS OVERVIEW (CONTINUED)

AUDIT OPINION AND CONCLUSION: Gulf Power has the resources available to readily reconcile and fully document: (1) all UPS-related cost incurred by account; (2) cost contractually billed; and (3) cost reported to the Commission.

Several utility accountants from different organizational units are assigned the duties of accounting for unit power sales.

A lesser part of the problem stems from prior Commission decisions which did not track the UPS contract. It would be helpful if any Commission decision recognized the UPS contracting basis.

rf:gp-rpt2

GULF POWER COMPANY

PREPARED BY AUDITOR

COMPARISON REPORTED PLANT PRODUCTION COSTS VERSES UPS PRODUCTION COSTS **1989**

TOTAL REPORTED	PLANT SHERER COSTS REPORT BY GA. POWER	PLANT SHERER COSTS REPORTED BY GULF POWER	PLANT DANIEL COSTS REPORTED BY GULF POWER JANUARY 1989	UPS COSTS REPORTED	DIFFERENCE
FUEL	6,919,958	6,917,711	693,299	20,463,695	
OTHER PRODUCTION AND MAINTENANCE EXPENSE	991,123	998,853	441,165	2,189,179	
TOTAL PRODUCTION EXPENSE	7,911,081	7,916,564	1,134,464	22,652,874	N/A
UPS COST SHARING PERCENTAGE		70.8250%	70.3938%	N/A	

BASED UPON CAPACITY SOLD
VERSES CAPACITY AVA!LABLE

AMOUNT OF COST SOLD			TOTAL DANIEL AND SCHERER		
FUEL	4,899,468	488,039	5,387,507	20,463,695	(15,076,188)
OTHER PRODUCTION AND MAINTENANCE EXPENSE	707,437	310,553	1,017,990	2,189,179	(1,171,189)
TOTAL PRODUCTION EXPENSE	5,606,905	798,592	6,405,497	22,652,874	($16,247,377)

Southern Company Services, Inc.
64 Perimeter Center East
Atlanta, Georgia 30346

Southern Company Services
the southern electric system

FLORIDA POWER & LIGHT COMPANY
MIAMI, FLORIDA

Southern Company Services, Inc., acting solely as agent for Alabama Power Company, Georgia Power Company, Gulf Power Company, and Mississippi Power Company, and the Associated Company Power Pool and in accordance with rate schedules on file with the Federal Energy Regulatory Commission submits this invoice for UNIT POWER SALES ELECTRIC CAPACITY to be delivered during the month of JANUARY 1989 as follows:

SEND REMITTANCE TO Southern Company Services, Inc. Attention: Treasury Department

Invoice No. UPS0189FPL

WE CHARGE YOUR ACCOUNT WITH:

Unit	Monthly Capacity Rate ($/KW-MO)	Monthly Capacity Purchased (KW)	Monthly Charges ($/MO)
BUDGET CHARGES FOR JANUARY 1989:			
Miller Unit 1 (Ala)	$ 6.943750	382,000	$ 2,652,513
Miller Unit 2 (Ala)	11.773833	395,000	4,650,664
Scherer Unit 1 (GaPC)	9.044417	42,000	379,866
Scherer Unit 2 (GaPC)	10.350000	42,000	434,700
Scherer Unit 3 (GaPC)	14.617250	374,000	5,466,852
Scherer Unit 1 (GaPC Buy Back)	11.616750	134,000	1,556,645
Scherer Unit 2 (GaPC Buy Back)	12.858750	224,000	2,880,360
Daniel Unit 1 (Gulf)	5.894333	152,000	895,939
Daniel Unit 2 (Gulf)	7.419667	151,000	1,120,370
Scherer Unit 3 (Gulf)	15.136583	125,000	1,892,073
Daniel Unit 2 (Miss)	7.072250	29,000	205,095
Total Production Charge			$22,135,077
Total Transmission Charge	1.029088	2,050,000	2,109,630
Total Budgeted Capacity Charges			$24,244,707
ADJUSTMENTS FOR JANUARY 1989:			
NOVEMBER Actual Capacity Charge True-up			338,502
NOVEMBER Administrative Cost			14,820
Interest Charges			6,127
Previous Month Adjustment			5,865
TOTAL CAPACITY CHARGES DUE SOUTHERN FOR JANUARY 1989			$24,610,021

800328A

Invoice

Southern Company Services, Inc
P O Box 101819
Atlanta, Georgia 30392

Southern Company Services
the southern electric system

FLORIDA POWER & LIGHT COMPANY
MIAMI, FLORIDA

Southern Company Services, Inc., acting solely as agent for Alabama Power Company, Georgia Power Company, Gulf Power Company, Mississippi Power Company and Savannah Electric and Power Company and in accordance with rate schedules on file with Federal Energy Regulatory Commission:

We charge your account with electric energy delivered during the month of January, 1989, as follows:

Economy Energy - Schedule C	438,000 kWh at 27.23490867	$11,928.89
Schedule R -	1,082,922,000 kWh at 18.26445060	$19,778,975.38

nit Power

		Auditor's Notes	
Miller No. 1 Energy	52,602,000 kWh	@ 26.69	1,403,947.38
Station Service	-		10,489.17
Alternate	-		-
Supplemental	-		-
Discretionary	-		-
Miller No. 2 Energy	56,906,000 kWh	@ 26.99	1,535,892.94
Station Service	-		2,429.10
Alternate	60,000 kWh	@ 25.37	1,522.49
Supplemental	-		-
Discretionary	-		-
Scherer No. 1 Energy	1,318,000 kWh	@ 28.41	37,444.38
Station Service	-		13,494.75
Alternate	1,276,000 kWh	@ 25.89	33,031.68
Supplemental	90,000 kWh	@ 27.66	2,489.40
Discretionary	-		-

PBC : C. Puntyo : Document Request 15 3 22

Invoice

Southern Company Services, Inc
P O Box 101819
Atlanta, Georgia 30392

Southern Company Services
the southern electric system

		Auditor's Notes		
Scherer No. 2 Energy	-		-	
Station Service	-		19,126.66	
Alternate	3,569,000 kWh	@25.68	91,642.85	
Supplemental	-		-	
Discretionary	-		-	
Scherer No. 3				
Base Energy - Georgia	-		-	
Station Service	-		29,019.70	
Base Energy - Gulf	-		-	
Station Service	-		9,663.95	
Alternate	7,594,000 kWh	@25.16	191,077.28	
Supplemental	-		-	
Discretionary	-		-	
Daniel No. 1 Energy	8,802,000 kWh	@22.76	200,333.52	
Station Service	-		10,173.72	
Alternate	938,000 kWh	@21.78	20,428.11	
Supplemental	-		-	
Discretionary	-		-	
Daniel No. 2				
Base Energy - Gulf	-		-	
Station Service	-		9,735.20	
Base Energy - Mississippi	-		-	
Station Service	-		1,856.48	
Alternate	2,775,000 kWh	@21.70	60,231.30	
Supplemental	-		-	
Discretionary	-		-	
Total Unit Power	135,930,000 kWh	@27.10		3,684,030.0
Interest for December True-Up				
Base	-1,994.60			
Alternate	-238.26			
Supplemental	-15.79			
Discretionary	-			
Station Service	-44.93			-2,293.5
Adjustment for December Actual				-261,018.0
		NET DUE SOUTHERN		$23,211,622.7

AUDIT DISCLOSURE NO. 6

SUBJECT: GULF POWER COMPANY WORK ORDER SYSTEM

STATEMENT OF FACT: 18 CFR 101, Electric Plant Instructions no. 11(b) states, "Each utility shall keep its work order system so as to show the nature, of each addition to or retirement of electric plant, the total cost thereof, the source and sources of cost, and the electric plant account or accounts to which charged or credited..."

AUDIT OPINION AND CONCLUSION: Gulf Power Company's present work order system is not maintained to provide ready access to the nature, cost, source of cost, and electric plant account(s) to which amounts are charged or credited for each addition or retirement.

Gulf maintains several files and reports all of which must be reviewed to determine the status of a plant addition or retirement.

The work order system presently maintained appears overly complex and may be inefficient. Information pertaining to a specific work order is maintained in many related files, disrupting work order control, making the work order system difficult to audit, and prolonging the audit process.

The system should be kept by having a monthly report for each individual work order showing the balance and a listing of all charges incurred to date. This report would then be supported to the extent possible by an individual work order file related to that work order; i.e. authorization to open work order, budget documents, copies of contracts, memoranda, invoices, inventory slips, accounting reports at closeout, references to engineering files, etc. When the work order closes and only when the work order closes, the plant costs are transferred to the appropriate accounts and the work order files support the addition for the plant record retention period.

During the inspection of the work order system, other areas of concern arose. First, completed work orders should have the signature of the project engineer along with the date that the project was completed.

Next, all documents that are received by Plant Accounting as a part of a work order file should be clocked in to reflect the date of receipt.

AUDIT DISCLOSURE NO. 6   WORK ORDER SYSTEM (CONTINUED)

Finally, when Gulf Power Company books expenses related to affiliate company work orders, they should have a copy of the affiliates work order and keep the same detailed reports for these work orders as they do for their own work orders.

The company reports the cost of maintaining complete work order files is a manual function which would cost $300,000 annually, involving personnel costs, office space, support from other departments, and modification of existing computer programs. The utility did not indicate any further specifics regarding this cost such as: how the costs was calculated or how much of the cost is already being incurred.

Because of the present state of Gulf Power's work order records, it would take several months to test plant additions. The accounts were last reviewed in the 1984 rate case.

AUDIT DISCLOSURE NO. 7

SUBJECT: ACCOUNT 106 - UNCLASSIFIED CONSTRUCTION

STATEMENT OF FACT: 18 CFR 101, Balance Sheet Accounts, 106 Completed Construction Not Classified- Electric, states, "At the end of the year or such other date as a balance sheet may be required by the commission, this account shall include the total of the balances of work orders for electric plant which have been completed and placed into service but which work orders have not been classified for transfer to the detailed electric plant accounts."

Through the review of the Gulf Plant Accounting System, it was observed that completed projects are transferred from Account 107-(Construction Work In Progress) to Account 106 - (Completed Construction-Not Classified) and these projects, in some instances, remain in Account 106 for extended periods of time. Also, some work orders are reported partially in Account 107, partially in Account 106, and partially in Account 101.

In 1989, the 13 month average balance of Account 106 is $50,735,343.79. The auditors estimated 1989 depreciation expense for Account 106 is $1,442,288.51 (see attached schedule).

For 1990, the utility reports $0 balance in this account, MFR schedule B-2a, page 3 of 4. This is not possible. In reality account 106 is stated as $0 because account 101 and 106 have been combined and are listed as plant in service.

AUDIT OPINION AND CONCLUSION: During the time these projects are included in Account 106 they are being depreciated. The depreciation of Account 106 is questionable because the projects included in Account 106 have not been classified and therefore do not have a definite "useful life".

Finally, the process of maintaining and depreciating Account 106 causes additional work and contributes to the complex nature of the work order system.

Commission Rule 25-6.0141 (1)(D)(3) FAC, refers to the use of account 106 in its treatment of AFUDC.

RECOMMENDATION: The commission may want to further study the treatment of account 106, as a generic topic.

GULF POWER COMAPANY
DEPRECIATION OF ACCOUNT 106

1989 DEPRECIATION EXPENSE (1989 FERC 1 p.336)	46,026,242		
1989 PLANT IN SERVICE			
BEGINNING BALANCE	1,364,764,307		
ENDING BALANCE	1,432,421,368		
AVERAGE PLANT IN SERVICE	2,797,185,675 /2 =		1,398,592,838
DEPR. EXP./ AVG. PL. IN SER.	460.26,242/ 1,398,592,838=		
			.03291
		***	* 0.85
			0.02797

	ACTUAL ACCOUNT 106	ESTIMATED AVG. MO. DEPR. RATE 0.02797/ 12	ESTIMATED 1989 DEPR. 106	ESTIMATED 13 MONTH AVG ACCOUNT 106 CUMULATIVE DEPR
Dec-88	40,772,834.49		0.00	0.00
Jan-89	46,117,221.98	0.00233	107,491.56	107,491.56
Feb-89	45,289,081.89	0.00233	105,561.30	213,052.86
Mar-89	42,318,320.09	0.00233	98,636.95	311,689.81
Apr-89	49,557,211.05	0.00233	115,509.60	427,199.41
May-89	54,614,221.98	0.00233	127,296.65	554,496.06
Jun-89	57,157,579.63	0.00233	133,224.79	687,720.85
Jul-89	50,953,005.40	0.00233	118,762.96	806,483.81
Aug-89	50,865,164.65	0.00233	118,558.22	925,042.04
Sep-89	53,575,650.94	0.00233	124,875.91	1,049,917.95
Oct-89	57,360,410.94	0.00233	133,697.56	1,183,615.51
Nov-89	57,090,295.30	0.00233	133,067.96	1,316,683.47
Dec-89	53,888,470.89	0.00233	125,605.04	1,442,288.51
TOTAL	659,559,469.23		1,442,288.51	9,025,681.84
13 MO. AVG.	50,735,343.79			694,283.22
				1,442,288.51
ESTIMATED 13 MONTH AVERAGE 1990 CUMULATIVE DEPRECIATION				2,136,571.73

*** AUDITORS ESTIMATE OF PERCENT OF PLANT UNCLASSIFIED THAT IS DEPRECIABLE

AUDIT DISCLOSURE NO. 8

SUBJECT: ACCUMULATED DEPRECIATION METHODOLOGY

STATEMENT OF FACT: The company has implemented a new on line depreciation system whereby depreciation is calculated using the average of the beginning and ending previous month balances as a base for the month. This base is then multiplied by the approved rate for the account being depreciated.

AUDIT OPINION AND CONCLUSION: In the past the company has calculated depreciation monthly using the actual plant in service beginning balance and an estimated ending balance. The use of an estimated end of month balance caused the company to adjust depreciation for the difference between the actual and estimated end of month balance.

The new on-line depreciation system allows the company to calculate depreciation without having to make true-up adjustments in the following month for the difference between estimated and actual end of month balances, however the amount depreciated is booked one month late.

This process amounts to depreciating new plant one month later than it should be depreciated.

AUDIT DISCLOSURE NO. 9

SUBJECT: FAILURE TO PROVIDE AN ORGANIZATIONAL CHART

STATEMENT OF FACTS: On January 17, 1990, audit document request number 4, requested "a copy of the organizational structure of each planning unit (for all planning units)." A complete set of management organizational charts was provided. This chart did not identify personnel by planning unit nor did the chart identify the organization of all company employees.

On January 31, 1990, audit document request number 13, requested: "The organizational charts provided contain several planning units per chart. Since audit analysis will be performed on each planning unit separately, it is more desirable to have separate charts showing only the planning units in question (as was made available in the last case)." Once again a complete management organizational chart was provided, and once again the chart did not identify personnel by planning unit, nor did the chart account for all employees.

During review of incentive plans, an audit team member made repeated requests for detailed organizational charts from a senior personnel manager. The auditor's request was for an organizational chart that identified by name and position all 1600 plus employees of the Company. The manager responded such charts do not exist.

In the April 13, 1990 meeting with the company president, top management offered the company telephone book as a supplement to the existing organizational chart. Subsequent to this meeting, the auditor reviewed the telephone book and orally requested an organizational chart again.

The company on April 19, 1990, furnished an organizational chart which was part organizational chart and part telephone book. Because the chart was received so late in the process, the material provided could not be put to practical use during the recent field work.

AUDIT OPINION AND CONCLUSION:

A detailed organizational chart is a basic tool of operational management and is an integral part of the budgeting process. Failure to provide an organizational chart early in the audit compromised the effort to fully inquire into the utility operational budgets in 1990.

rf:gp-rpt8

AUDIT DISCLOSURE NO. 10

SUBJECT: RATE BASE - 1989 ACTUAL VERSES 1989 RATE CASE

STATEMENT OF FACT: Net Florida jurisdictional rate base reported in the December 1989 surveillance report is $872,326,000.

In the withdrawn rate case, the utility's projected 1989 rate base was $905,569,000. Actual rate base was $33,243,000 less than requested in the 1989 rate case. This difference is calculated below as a 13-month average. Also presented below are the additions to plant in service on an annual basis.

13-month average Cost Category (IN 000'S)	1989 WITHDRAWN RATE CASE	1989 ACTUAL	1989 DIFF
PLANT	1,238,082	1,196,918	41,164
DEPRECIATION	(425,477)	(412,914)	(12,563)
FUTURE PLANT	3,448	3,554	(106)
CWIP	11,337	11,383	(46)
WORKING CAPITAL	78,179	73,385	4,794
	905,569	872,326	33,243

Annual increases in plant in service (Accounts 101, 102, 106, and 114) are presented below. Annual means from December 31 to December 31 of the following year.

	1987	$269,837,000
	1988	$ 32,123,000
	1989	$ 67,656,000
This case part-projected	1989	$ 72,331,000
Withdrawn rate case for	1989	$ 99,330,000
Projected	1990	$ 58,513,000

rf:gp-rpt7

AUDIT DISCLOSURE NO. 11

SUBJECT: COST OF PLANT SCHERER

STATEMENT OF FACTS: Gulf on March 1, 1984, agreed to buy CWIP from Georgia Power, specifically, 25% of Scherer No. 3 CWIP. Gulf also agreed to buy portions of common facilities sold by Georgia Power to the City of Dalton and Oglethorpe Power Corporation.

Gulf also agreed, and reportedly paid, accumulated interest on common facilities incurred by Dalton and Oglethorpe for a period from 1977 to 1987.

At December 31, 1989 for purposes of recovery through the UPS contract, Gulf reports $189,277,315 as the plant in service cost of Plant Scherer.

Based on an analysis of the operating reports of Georgia Power obtained from the Georgia Public Service Commission, the balance of Plant Scherer allocated to Gulf Power is $126,157,179.

The plant site has four generating units and two centrally located smokestacks. Gulf owns 25% of one of the generating units and a portion of the common facilities.

AUDIT OPINION AND CONCLUSION: No preexisting detailed reconciliation of this difference exists at Gulf Power Company.

rf:gp-rpt5

AUDIT DISCLOSURE NO. 12

SUBJECT: PLANT SCHERER ACQUISITION ADJUSTMENT

STATEMENT OF FACT: Reportedly Georgia Power, an affiliate, built Scherer Generating Units 1 and 2. Georgia Power also built common facilities which, in part, can serve the remaining two Units which were in planning stages.

Georgia sold portions of units 1 and units 2 , with common facilities, to the City of Dalton and Oglethorpe Power Corporation. The common facilities went into service in 1982 under operation of Georgia Power as agent for owners.

On March 1, 1984, Gulf agreed to buy CWIP from Georgia Power, specifically, 25% of Scherer No. 3 CWIP. Gulf also agreed to buy portions of the common facilities shared with Dalton and Oglethorpe 90 days before the plant went into service. Gulf also agreed to pay, and reportedly paid, accumulated interest on common facilities incurred by Dalton and Oglethorpe.

In November 1987, Gulf purchased its 6.25% share of joint common facilities from Dalton and Oglethorpe for $30,326,195 plus legal fees of $18,867. Two adjustments were made to this figure, refunds to Gulf for $1,148,967 (from Georgia Power) on December 23, 1987 and $45,378 (form Oglethorpe) on March 3, 1988. Thus the net price for these common facilities was $29,150,537. Assets purchased were $24,266,406 and offsetting depreciation of $3,796,376. The associated acquisition adjustment is 8,680,507 ($29,150,537 - 24,266,406 + 3,796,376). At december 31, 1989, the net value recorded is $8,154,924. These figures are unaudited.

A November 18, 1987 Georgia Power interoffice correspondence from J. C. Perryman to R. R. Cook, indicates common plant of Dalton and Georgia cost approximately $292,531,060 plus 10 years of interest at approximately $181,069,877.

Based upon informational literature, approximately 12,000 acres of land could be involved in the common plant. A restriction on the deed passing title to the land includes "Unrecorded lease agreement between the Georgia Department of Natural Resources and the Georgia Power Company concerning The Opening to Public Hunting of the Rum Creek Portion of Georgia Power Company Lands, dated November 5, 1975. The deed did not specify the acres transferred.

Gulf asserts the acquisition adjustment is the payment of reasonable carrying costs, but to date, has not provided a complete work order file fully accounting for: original cost of Scherer common facilities and calculation of the acquisition adjustment.

AUDIT DISCLOSURE NO. 12, **ACQUISITION ADJUSTMENT** (CONTINUED)

Gulf has amortized "above the line" $252,010 in 1988 and $255,312 in 1989. Amount amortized in 1987 is not separately recorded on the books and is unknown to the auditor as of the end of field work. The value of acquisition adjustment has been on the books at least since November 1987. The acquisition adjustment was carried in account 102, until June 1988 when net amortized value of $8,552,952 was recorded in account 114.

18 CFR 101, account 114, Electric Plant Acquisition Adjustments, paragraphs A & C, in summary, provides:

1. Amounts may be amortized "below the line".
2. The Commission must be petitioned for any other accounting method.
3. This account shall include the difference between purchase cost and original cost.

18 CFR 101, Account 102, Electric Plant Purchased or Sold, paragraph states; "... the utility shall file with the Commission the proposed journal entries to clear this account from the accounts recorded herein."

Gulf also did not use 18 CFR 101, account 115, Accumulated Provision For Amortization Of Acquisition Adjustments, to record amounts amortized.

AUDIT OPINION AND CONCLUSION: Gulf knew about the purchase in excess of original cost in 1984, but did not notify the Florida Commission until its rate filing in docket 881167, nor has Gulf fully provided the original cost documentation, or used the prescribed accounts. The utility indicated it was not aware of any requirement to report the acquisition adjustment to the Florida Commission.

Use of pre-approved accounts 114, 115, and 425 fully record the asset, report the accumulated amortization of the asset, and amortization expense "below the line". Approval appears required for any other accounting method. Thus in this case, it appears the Company is requesting "above the line" treatment and an alternative accounting method to avoid the use of account 115. The utility should be required to fully justify "above the line treatment". The company should also be required to use account 115 to provide a full accounting of this asset.

rf:gp-rpt5

AUDIT DISCLOSURE NO. 13

SUBJECT: TRANSFER OF AFUDC ACCRUED ON RAW LAND

STATEMENT OF FACT: In February 1989 a journal entry was made transferring AFUDC from Work Order No. 218301 (Purchase of Right of Way) to Work Order No. 218303 (Construct 115 KV Single Pole Line).

Gulf Power Company accrued $2427.83 of AFUDC on a work order used for the purchase of right of way and thereafter transferred the accrued AFUDC to a work order used for the construction of a transmission line on the right of way.

The internal procedures of Gulf Power Company direct this type of activity. This is displayed in Land Rule #3 states, "AFUDC on land should be journaled to the construction work order at completion of the project, as FERC rules do not permit AFUDC to be unitized as a part of fee simple or right-of-way land accounts."

AUDIT DISCLOSURE NO. 14

SUBJECT: AFUDC RATE

STATEMENT OF FACTS: The utility reports recording AFUDC using the rate ordered by Florida Public Service Commission Order 19410, but reportedly splits the debt and equity components according to the federal requirements as described in 18 CFR 101, plant instruction 3 (17). A copy of this federal instruction is attached to this disclosure.

The utility represents any deferred taxes associated with capitalized AFUDC or its depreciation are calculated based upon the Florida method. This statement has not been audited.

rf:gp-rpt8

(17) "Allowance for funds used during construction" (Major and Nonmajor Utilities) includes the net cost for the period of construction of borrowed funds used for construction purposes and a reasonable rate on other funds when so used, not to exceed, without prior approval of the Commission, allowances computed in accordance with the formula prescribed in paragraph (a) of this subparagraph. No allowance for funds used during construction charges shall be included in these accounts upon expenditures for construction projects which have been abandoned.

(a) The formula and elements for the computation of the allowance for funds used during construction shall be:

$$A_i = s(S/W) + d(D/D+P+C)(1-S/W)$$
$$A_e = [1-S/W][p(P/D+P+C) + c(C/D+P+C)]$$

A_i = Gross allowance for borrowed funds used during construction rate.

A_e = Allowance for other funds used during construction rate.

S = Average short-term debt.

s = Short-term debt interest rate.

D = Long-term debt.

d = Long-term debt interest rate.

P = Preferred stock.

p = Preferred stock cost rate.

C = Common equity.

c = Common equity cost rate.

W = Average balance in construction work in progress plus nuclear fuel in process of refinement, conversion, enrichment and fabrication.

(b) The rates shall be determined annually. The balances for long-term debt, preferred stock and common equity shall be the actual book balances as of the end of the prior year. The cost rates for long-term debt and preferred stock shall be the weighted average cost determined in the manner indicated in § 35.13 of the Commission's Regulations Under the Federal Power Act. The cost rate for common equity shall be the rate granted common equity in the last rate proceeding before the ratemaking body having primary rate jurisdictions. If such cost rate is not available, the average rate actually earned during the preceding three years shall be used. The short-term debt balances and related cost and the average balance for construction work in progress plus nuclear fuel in process of refinement, conversion, enrichment, and fabrication shall be estimated for the current year with appropriate adjustments as actual data becomes available.

NOTE: When a part only of a plant or project is placed in operation or is completed and ready for service but the construction work as a whole is incomplete, that part of the cost of the property placed in operation or ready for service, shall be treated as "Electric Plant in Service" and allowance for funds used during construction thereon as a charge to construction shall cease. Allowance for funds used during construction on that part of the cost of the plant which is incomplete may be continued as a charge to construction until such time as it is placed in operation or is ready for service, except as limited in item 17, above

AUDIT DISCLOSURE NO. 15

SUBJECT: NON-UTILITY APPLIANCE SALES AND SERVICE

STATEMENT OF FACT: The utility failed to use the proper non-utility plant investment amounts in calculating the projected non-utility appliance sales and service plant investment for 1990.

The worksheets and calculations used to determine the amounts allocated to non-utility appliance sales and service were disorganized and provided practically no audit trail.

AUDIT OPINION AND CONCLUSION: Failure to use the proper non-utility investment amount causes the projected 1990 rate base to be over stated $451,000, accumulated depreciation to be overstated $7,000, and caused depreciation expense to be understated by $12,000 (amounts shown are thirteen month average except for depr. expense).

Failure to maintain a proper audit trail made it very difficult to understand and follow the flow of the calculations and allocations made. This failure may very well have led to the error mentioned above.

RECOMMENDATION: Adjust 1990 projected rate base and depreciation expense by the amounts shown above.

Require the utility to establish an audit trail for its allocations to appliance sales and service and, generally, better organize those workpapers.

BB:
WRITE_UP.DOC

AUDIT DISCLOSURE NO. 16

SUBJECT: ADDITIONAL HAWKSHAW LAND PURCHASES

STATEMENT OF FACT: During 1989 Gulf Power Company purchased 12,448 square feet of land for $121,500 as an addition to the Hawkshaw / Corporate Office Site. This addition brought the total Hawkshaw land expenditures to $4,057,502 The company has also budgeted $400,000 for additional land associated with Hawkshaw for 1990.

During an interview with the Gulf Power Company Manager of General Services, an explaination of the 1989 and budgeted 1990 land expenditures was provided. The company is aquiring land to meet the following requirements that are incorporated into the company's Master Plan for the Hawkshaw site:

1) City of Pensacola Ordinance 7/78 (Off-street parking requirements), Section 16; which states that the parking requirement for offices is "One space for each two hundred square feet of gross floor area in the building."

2) City of Pensacola Ordinances 126.83 and 12-86 which both state in Section 5 that, "The total coverage of the lot, including all structures, parking areas, driveways, and other impervious surfaces, shall not exceed 75% (permitting (25% open space)..."

AUDIT DISCLOSURE NO. 17

SUBJECT: ADDITIONAL PACE BOULEVARD LAND PURCHASES

STATEMENT OF FACT: During 1989 Gulf Power Company purchased 70,352 square feet of land for $252,900 as an addition to the Pace Boulevard Office Site. The company has also budgeted $333,000 for addition land associated with this site for 1990.

The Gulf Power Company Manager of General Services explained the 1989 and budgeted 1990 land expenditures at Pace Boulevard. The company is acquiring land to meet growth needs as outlined in the Pace Boulevard property acquisition master plan. The specific growth needs are as follows:

General Warehouse Expansion
General Repair Shop Expansion
Auto Rebuild Center
Building Maintenance Shop
Western Division Parking Growth
Training Yard
Employment Growth Center

AUDIT DISCLOSURE NO. 18

SUBJECT: NAVY HOUSE

STATEMENT OF FACT: On September 1, 1987, Gulf Power Company purchased a house located at 621 South Navy Boulevard on Bayou Grande, just north of the Pensacola Naval Air Station for a total purchase price of $110,000, commonly referred to as the "NAVY HOUSE". The purchase price was based on an appraisal made by Pratt Martin. The utility stated that the purchase was made due to the need of the utility for a termination point for an overhead 125KV transmission line in order to connect to a submarine cable to furnish the N.A.S. with sufficient power for the U.S.S. Kittyhawk which should be in Pensacola by the end of 1991.

The utility explored its options as they related to the house itself and a decision was made to keep the house and utilize it for meetings which the company states need to be held away from corporate headquarters. The purchase price was allocated between transmission plant and general plant based on the appraisal as follows:

Plant Account		Amount
Transmission Plant (Land)	350-10210-218301	$35,000
General Plant (Land)	389-10210-827301	35,000
General Plant (House)	390-38830-827301	$ 40,000
Total Purchase Price		$110,000

The decision to keep the house was based on several factors including the fact that the south yard is now a small parking lot and in close proximity to high-voltage equipment. This almost eliminated the yard and it was believed that the house could not be sold as a home at that point. Also, the location would have made it extremely difficult for traffic to get in or out of. Parking was extremely limited on the site and that coupled with the difficulty of getting in and out of the parking lot lead the utility to believe it was not a good site for a business to locate. Utility personnel stated he believed that the company could have broken even on the cost removal, $0 to $2,500, if the house had been sold and moved from the property. No evidence was presented which indicated any formal study was made to reach any of the above conclusion.

Once the decision had been made to utilize the structure for a meeting place, the building was renovated to ready the structure for this purpose. Some of the renovation costs were capitalized while other costs were expensed. The total cost of renovation reported by the utility was $130,868.37.

AUDIT DISCLOSURE NO. 18 - (Continued)

In addition to the cost associated with the renovation of the structure, there are monthly operating costs. The utility has estimated the monthly operating costs for the Navy House to be $626.30 or $7,515.60 annually.

The utility stated the "Navy House" is considered 100% utility and is necessary so that meetings can be held at a remote location eliminating interruptions.

The new corporate office building has approximately 11 large conference rooms, 15 small conference rooms and the Pace Boulevard building has 12 conference rooms for a total of 38 conference rooms in the Pensacola area. 117 meetings have been held at the "Navy House" between March 10, 1988 and April 6, 1990, the majority of which have been for "team building". A list of these meetings and the dates held are included in the working papers.

DH/NAVY.DOC

GULF POWER COMPANY
NAVY HOUSE WORKSHEET
PROJ. TYE 12/31/90

PREPARED BY: DON HARTSFIELD
DATE: 05/02/90

ACCOUNT	DESCRIPTION	PLANT AMOUNT	PLANT POTENTIAL DISALLOWANCE	1988 EXPENSE AMOUNT	1988 EXPENSE POTENTIAL DISALLOWANCE	1989 EXPENSE POTENTIAL DISALLOWANCE
A. ORIGINAL PURCHASE						
350-10210-218301	LAND - TRANSMISSION PLANT	$35,000				
389-10210-827301	LAND - GENERAL PLANT	35,000				
390-38830-827301	HOUSE - GENERAL PLANT	40,000				
B. REFURBISHING						
390-38940-827301	HEAT PUMP	$4,800	$4,800			
390-38830-827301	CEILING FAN	219	219			
391-40100-827301	MINI BLINDS	974	974			
701-205	BUILDING STRUCTURE WORK			$42,615	$42,615	
701-210	PAINTING			3,481	3,481	
C. SITE IMPROVEMENTS						
701-110	SITE WORK			$525		
701-205	CONCRETE WORK			3,258		
D. FURNISHINGS AND EQUIPMENT						
391-40100-827301	FURNITURE	$10,383	$10,383			
398-46100-837301	EQUIPMENT	3,445	3,445			
398-46100-837301	APPLIANCES	2,476	2,476			
701-110	INTERIOR PLANTS			$581	$581	
701-145	COFFEE MAKER			37	37	
701-145	SIGNAGE			40	40	
701-900	SECURITY SYSTEM			1,468	1,468	
E. REGULATORY REQUIREMENTS						
307-00140-827301	IMPACT FEE	$960	$960			
701-205	ELECTRICAL PATCHWORK			$1,658	$1,658	
701-220	ELECTRICAL REWIRING			4,945	4,945	
701-205	SEWER DESIGN			6,600	6,600	
701-205	SEWER CONNECTION			44,404	44,404	
F. ESTIMATED OPERATING BUDGET						
	LANDSCAPING			$3,528	$3,528	$3,528
	INTERIOR PLANTS			600	600	600
	WATER			942	942	942
	SEWER			1,712	1,712	1,712
	CABLE TV			188	188	188
	PEST CONTROL			192	192	192
	TELEPHONE			353	353	353
	TOTAL	$133,257	23,257	117,127	113,345	7,516

AUDIT DISCLOSURE NO. 19

SUBJECT: CANCELLED PROJECTS

STATEMENT OF FACT: During 1989, Gulf Power Company reports 3 cancelled projects; "Crist Waste To Energy", "Valparaiso", and "SCS Building".

"Crist Waste To Energy" recorded at $264,306 was charged above the line in October 1989 to expense. The utility also left $200,932 in 13-month working capital for 1989 above the line. For budgeted 1990, the project appears properly removed from rate base.

"Valparaiso" was a budgeted project which reportedly has no impact upon actual 1989 Florida jurisdictional net operating income, and appears properly removed in budgeted 1990.

"SCS Building" recorded at $346,447 was expensed below the line May 31, 1989. The utility left $160,051 in 13-month CWIP plant for 1989 above the line. For budgeted 1990, the project appears properly removed.

18 CFR 101, Account 183 states, in part: "...If the work is abandoned, the charge shall be made to Account 426.5, Other Deductions, or to the appropriate expense account."

rf:gp-rpt1

AUDIT DISCLOSURE NO. 20

SUBJECT: PLANT HELD FOR FUTURE USE - CARYVILLE

STATEMENT OF FACT: As mentioned in the PSC audit report for Gulf's 1989 rate case filing, $304,000 of land at the Caryville site was disallowed for rate making purposes in the company's 1984 rate case, docket 840086-EI.

In that rate case order, the Commission stated that "Gulf has not adequately demonstrated that its plan to purchase another 1,000 acres for its Caryville site is necessary and prudent." In the 1989 rate case, it was discovered that Gulf had budgeted an additional $50,000 for land to be used for coal storage. Gulf stated that they did not expect the site to be in service until sometime between the years 1995 through 2001. This land was never purchased in 1989 and the $50,000 has been budgeted again for 1990. The 1990 projected 13 month average balance in Plant Held for Future Use - Caryville is $1,398,000.

The order also stated that the Commission "... shall require our Staff to develop guidelines as to what amount of land should be allowed in property held for future use for proposed generating plant sites." As of this audit, those guidelines have not been developed.

The Caryville site currently has the following balances associated with it as of December 31, 1989 and projected December 31, 1990:

Account	1989	1990
101	$ 203,331.74	$ 227,896.00
105	1,270,703.42	1,320,703.42
106	24,564.26	0.00
183	1,000,891.83	1,000,891.83
186	1,142,329.61	1,142,329.61
Total Caryville	$3,641,820.86	$3,691,820.86

Accounts reported above are entitled: 101, Plant In Service; 105, Plant Held For Future Use; 106, Plant Unclassified; 183, Preliminary Survey and Investigation (Charges); and account 183 Miscellaneous Deferred Debits.

Gulf Power also operates a sod farm at the Caryville site. The sod farm operation has four employees - a manager, a bookkeeper and two workers.

The sod farm's operating results for the past two years are as follows:

Audit Disclosure No. 20 continued

Revenue:	1988	1989
St. Augustine Sales	82,397.77	261,344.32
Centipede Sales	0.00	13,885.40
Total Revenue:	82,397.77	275,229.72
Total Expenses:	236,445.70	263,974.24
Sod Project Net Income:	(154,047.93)	11,255.48

Revenues and expenses (unaudited) have been placed below the line. Reportedly, assets associated with the operation are below the line (unaudited). To date, audit work has consisted of a tour of the site.

AUDIT OPINION AND CONCLUSION: Audit staff believes that there were too many accounts reporting the Caryville site study in account 183, Preliminary Survey and Investigation Charges. Account 183 contains 38 subaccounts to report the cost of the Caryville site study, making it extremely difficult to follow the other transactions in this account.

The utility accounting manager in the area has indicated that the number of accounts used will not be reduced until the utility is ordered to do so.

RECOMMENDATION: Have the utility streamline the subaccounts used in FERC 183.

RF/BB:
WRITE_UP.DOC

AUDIT DISCLOSURE NO. 21

SUBJECT: RECORDS RETENTION

STATEMENT OF FACT: Conversations with utility management indicate that the utility may destroy a substantial amount of plant records once the most recent FERC compliance audit is issued.

18 CFR 125.2 (j) provides: "However records related to plant shall be maintained for a minimum of 25 years unless accounting adjustments resulting from reclassification and original cost studies have been approved by the regulatory Commission having jurisdiction ...."

AUDIT OPINION AND CONCLUSION: Since the utility seeks to have its plant investment valued by documentation of its investment rather than an original cost study, the minimum plant records retention for all associated plant documents is 25 years.

It should also be noted certain records have a retention for longer than 25 years.

rf:gp-rpt

AUDIT DISCLOSURE NO. 22

SUBJECT: UPS WORKING CAPITAL

STATEMENT OF FACT: UPS working capital is reported to the Commission on a 13-month average.

UPS working capital is charged to the UPS customers largely on a 1/8 O&M basis.

The utility represents the balance sheet reporting for UPS working capital was approved in the utility's 1984 rate case. The representation has not been confirmed by the auditor to date by reviewing vote sheets, transcripts, and exhibits in the prior rate case.

AUDIT OPINION AND CONCLUSION: When reporting balance sheet method for O&M and collecting from customers largely based upon 1/8 O&M, the utility collects too much for a working capital allowance.

The overall impact on working capital follows:

a) In 1987 working capital overstated by $13,497,115,

b) In 1988 working capital overstated by $7,252,748,

c) In 1989 working capital overstated by $3,263,689,

d) Impact on 1990 working capital is unknown.

The auditor's calculation of this difference by year is attached.

rf:gp-rpt7

GULF POWER COMPANY

Prepared by auditor

ISSUE: UPS WORKING CAPITAL ADJUSTMENT

PERIOD: 1987

	MONTH		(A) SCHERER II	(B) DANIEL I	(C) DANIEL II	(A+B+C) TOTAL	(D) SCHERER III FACTOR	(E) DANIEL I FACTOR	(F) DANIEL II FACTOR	(G) (AXD) SCHERER III WORKING CAP BILLED UPS	(H) (BxE) DANIEL I WORKING CAP BILLED UPS	(I) (CXF) DANIEL II WORKING CAP BILLED UPS	(G+H+I) TOTAL
1	DEC	86	0	15,081,445	14,938,448	30,019,893	0.00000	0.83105	0.83561	0	12,533,384	12,482,733	25,016,117
2	JAN	87	11,012,208	14,945,151	14,725,226	40,682,585	0.88814	0.88201	0.88534	9,780,406	13,181,729	13,036,764	35,998,898
3	FEB	87	11,066,589	11,027,519	10,240,338	32,334,446	0.88814	0.88201	0.88534	9,828,704	9,726,350	9,066,134	28,621,187
4	MAR	87	10,761,302	10,965,935	10,780,669	32,507,906	0.88814	0.88201	0.88534	9,557,565	9,672,032	9,544,508	28,774,105
5	APR	87	10,302,640	13,298,554	13,181,892	36,783,086	0.88814	0.88201	0.88534	9,150,208	11,729,418	11,670,396	32,550,023
6	MAY	87	11,818,831	12,442,921	13,709,576	37,971,328	0.88814	0.88201	0.88534	10,496,801	10,974,744	12,137,573	33,609,119
7	JUN	87	12,978,712	13,471,556	13,145,220	39,595,488	0.88814	0.80361	0.79563	11,526,941	10,825,829	10,458,755	32,811,525
8	JUL	87	13,336,051	13,363,237	12,162,725	38,862,013	0.88814	0.80361	0.79563	11,844,308	10,738,783	9,677,051	32,260,143
9	AUG	87	13,008,162	12,786,663	13,020,732	38,815,557	0.88814	0.80361	0.79563	11,553,098	10,275,445	10,359,709	32,188,250
10	SEP	87	9,210,449	12,274,852	11,443,590	32,928,891	0.88814	0.80361	0.79563	8,180,188	9,864,150	9,104,884	27,149,222
11	OCT	87	9,290,762	8,942,159	11,241,888	29,474,809	0.88814	0.80361	0.79563	8,251,517	7,185,976	8,944,404	24,381,897
12	NOV	87	10,640,541	7,920,428	9,684,985	28,245,954	0.88814	0.80361	0.79563	9,450,312	6,364,907	7,705,682	23,520,902
13	DEC	87	11,617,847	8,164,825	8,915,645	28,698,317	0.88814	0.80361	0.79563	10,318,299	6,561,306	7,093,571	23,973,176
14	TOTAL		135,044,094	154,685,245	157,190,934	446,920,273				119,938,346	129,634,053	131,282,164	380,854,563
15	13 MO AVG		10,388,007	11,898,865	12,091,610	34,378,483				9,226,027	9,971,850	10,098,628	29,296,505

SALES FACTORS

IN KWH	SCHERER	DANIEL I	DANIEL II
12/86		212/255 1	214/256 1
1/87	185/208 3	225/255 1	227/256 4
6/87	185/208 3	205/255 1	204/256 4

WORKING CAPITAL REMOVED	(15,799,390)
DIFFERENCE	$13,497,115

GULF POWER COMPANY

Prepared by auditor

ISSUE: UPS WORKING CAPITAL ADJUSTMENT

PERIOD: 1988

	MONTH		(A) SCHERER II	(B) DANIEL I	(C) DANIEL II	(A+B+C) TOTAL	(D) SCHERER III FACTOR	(E) DANIEL I FACTOR	(F) DANIEL II FACTOR	(G) (AXD) SCHERER III WORKING CAP BILLED UPS	(H) (BxE) DANIEL I WORKING CAP BILLED UPS	(I) (CXF) DANIEL II WORKING CAP BILLED UPS	(G+H+I) TOTAL
1	DEC	87	11,617,847	8,164,825	8,915,645	28,698,317	0.88814	0.80361	0.79563	10,318,299	6,561,306	7,093,571	23,973,176
2	JAN	88	10,551,004	8,886,768	9,262,828	28,700,600	0.90963	0.82632	0.81887	9,597,473	7,343,286	7,585,080	24,525,839
3	FEB	88	11,508,206	9,937,045	8,136,022	29,581,273	0.90963	0.82632	0.81887	10,468,169	8,211,147	6,662,369	25,341,686
4	MAR	88	12,087,400	10,742,099	8,269,149	31,098,648	0.90963	0.82632	0.81887	10,995,019	8,876,377	6,771,383	26,642,780
5	APR	88	9,996,594	9,593,570	9,796,334	29,386,498	0.90963	0.82632	0.81887	9,093,167	7,927,328	8,021,954	25,042,449
6	MAY	88	12,254,774	9,751,381	9,873,610	31,879,765	0.90963	0.82632	0.81887	11,147,267	8,057,730	8,085,233	27,290,231
7	JUN	88	12,895,865	9,433,795	9,517,870	31,847,530	0.90963	0.91247	0.91246	11,730,420	8,608,084	8,684,662	29,023,166
8	JUL	88	14,124,831	10,027,706	10,051,174	34,203,711	0.70225	0.70491	0.70579	9,919,170	7,068,679	7,094,024	24,081,872
9	AUG	88	13,483,660	10,589,063	10,638,826	34,711,549	0.70275	0.70491	0.70579	9,475,606	7,464,387	7,508,783	24,448,777
10	SEP	88	11,053,268	10,881,208	10,145,256	32,079,732	0.70275	0.70491	0.70579	7,767,654	7,670,325	7,160,426	22,598,406
11	OCT	88	11,498,644	8,519,725	10,989,704	31,008,073	0.70275	0.70491	0.70579	8,080,641	6,005,680	7,756,430	21,842,751
12	NOV	88	11,293,643	9,889,398	9,875,880	31,058,921	0.70275	0.70491	0.70579	7,936,577	6,971,183	6,970,303	21,878,064
13	DEC	88	10,706,111	9,911,409	9,444,525	30,062,045	0.70275	0.70491	0.70579	7,523,691	6,986,699	6,665,857	21,176,247
14	TOTAL		153,071,847	126,327,992	124,916,823	404,316,662				124,053,153	97,752,212	96,060,078	317,865,443
15	13 MO AVG		11,774,757	9,717,538	9,608,986	31,101,282				9,542,550	7,519,401	7,389,237	24,451,188

SALES FACTORS

IN KWH	SCHERER	DANIEL I	DANIEL II
12/87	185/208 3	205/255 1	204/256 4
1/88	193/212 75	211/255 35	210/256 45
6/88	193/212 175	233/255 35	234/256 45
7/88	149/212 175	180/255 35	181/256 45

WORKING CAPITAL REMOVED	(17,198,440)
DIFFERENCE	$7,252,748

RF UPSWC

GULF POWER COMPANY

Prepared by auditor

ISSUE: UPS WORKING CAPITAL ADJUSTMENT

PERIOD: 1989

	MONTH		(A) SCHERER III	(B) DANIEL I	(C) DANIEL II	(A+B+C) TOTAL	(D) SCHERER III FACTOR	(E) DANIEL I FACTOR	(F) DANIEL II FACTOR	(G) (AXD) SCHERER III WORKING CAP BILLED UPS	(H) (BxE) DANIEL I WORKING CAP BILLED UPS	(I) (CXF) DANIEL II WORKING CAP BILLED UPS	(G+H+I) TOTAL
1	DEC	88	10,706,111	9,911,409	9,444,525	30,062,045	0.70225	0.70491	0.70579	7,518,372	6,986,699	6,665,857	21,170,928
2	JAN	89	9,932,134	8,360,854	7,235,247	25,528,235	0.70275	0.70305	0.70483	6,979,781	5,878,091	5,099,609	17,957,481
3	FEB	80	9,924,330			9,924,330	0.76878			7,629,599	0	0	7,629,599
4	MAR	89	9,514,484			9,514,484	0.70275			6,686,278	0	0	6,686,278
5	APR	89	9,943,576			9,943,576	0.70275			6,987,821	0	0	6,987,821
6	MAY	89	10,334,381			10,334,381	0.70275			7,262,459	0	0	7,262,459
7	JUN	89	10,638,411			10,638,411	0.70275			7,476,115	0	0	7,476,115
8	JUL	89	9,404,130			9,404,130	0.70275			6,608,727	0	0	6,608,727
9	AUG	89	10,105,266			10,105,266	0.70275			7,101,449	0	0	7,101,449
10	SEP	89	9,660,286			9,660,286	0.70275			6,788,740	0	0	6,788,740
11	OCT	89	8,864,377			8,864,377	0.70275			6,229,417	0	0	6,229,417
12	NOV	89	7,643,263			7,643,263	0.70275			5,371,283	0	0	5,371,283
13	DEC	89	7,563,969			7,563,969	0.70275			5,315,559	0	0	5,315,559
14	TOTAL		124,234,718	18,272,263	16,679,772	159,186,753				87,955,599	12,864,790	11,765,466	112,585,856
15	13 MO AVG		9,556,517	1,405,559	1,283,059	12,245,135				6,765,815	989,599	905,036	8,660,450

SALES FACTORS IN KWH	SCHERER	DANIEL I	DANIEL II
12/88	149/212.175	180/255.35	181/256.45
1/89	149/212.025	181/257.45	181/256.80
2/89	163/212.025		
3/89	149/212.025		

WORKING CAPITAL REMOVED	(5,396,761)
DIFFERENCE	$3,263,689

RF:UPSWC

AUDIT DISCLOSURE NO. 23

SUBJECT: WORKING CAPITAL - PREPAID PENSION COST

STATEMENT OF FACT: Gulf Power pension cost and prepaid pension cost for the 1987, 1988, 1989, and projected 1990 is as follows:

Year	(13-month average) Prepaid Pension Cost	Annual Pension Cost
1987	0	$1,583,838
1988	$1,293,446	$1,385,000
1989	$1,808,581	$ 47,000
(Projected)		
1990	$1,485,000	$ 0

The above amounts do not include costs of post retirement benefits.

Pension cost on the books for 1987, 1988, and 1989 is based upon an actuarial study prepared in the fall for the activity in the preceding year. The calculated cost is, in part, based upon the amount of money placed in the pension fund by the Utility.

Portions of the pension cost are allocated to non utility operations and to construction activities. These transfers from the pension cost accounts are not separately maintained on the books, instead the pension cost allocations are commingled with post retirement medical and other benefits.

AUDIT OPINION AND CONCLUSION: The Commission may wish to consider the value to the customer from the utility prepaying pension costs.

If an adjustment of annual pension cost is deemed necessary, there are other factors to be considered:

1) An offsetting tax deferral which also would have to be considered.

2) Some of the pension costs are transferred to nonutility and construction.

3) Cost described above would need to be allocated into a Florida Jurisdictional basis.

rf:gp-rpt

AUDIT DISCLOSURE NO. 24

SUBJECT: RATE BASE RECONCILING ITEMS

STATEMENT OF FACT: For the 1990 projected capital structure, the utility has dropped 8 reconciling items from the capital reconciliation. These items were present in the December 1989 surveillance report. The items that were removed were:

	1989 Actual	1990 Projected
1. Daniel Coal Cars (Plant-In-Service and Depreciation Reserve)	$38,569	$ 0
2. Leisure Lakes	$143,087	$ 0
3. Deferred Debt for Non-utility NESB & Sod Farm Revenue	$9,805	$ 0
4. Unamortized Rate Case Expense 1989 Case	$292,020	$ 0
5. Corporate Investigation & Acid Rain	$5,015	$ 0
6. Heat and Air-conditioning Loans	$885	$ 0
7. Fuel & Conservation Under(Over) Recovery	$1,657,117	$ 0
8. Non Utility Sales & Use Tax Approved	($266,565)	$ 0

Gulf's explanation for dropping these items were:

1. No adjustment is necessary since the Daniel Coal Cars have been retired.
2. No adjustment is necessary since these facilities are used and useful and will remain so.
3. Nothing Budgeted.
4. No adjustment is necessary since the Unamortized Rate Case Expense is properly included in Rate Base.

AUDIT DISCLOSURE NO. 24, RATE BASE RECONCILING ITEMS (CONTINUED)

5. Nothing Budgeted.

6. Nothing Budgeted.

7. Deferred Debits or Credits related to over or under recoveries of fuel and conservation revenues should not be included in working capital since interest expense or income related to the over or under recoveries are accounted for through the fuel clause.

8. Nothing Budgeted.

MB:
RBRECON

AUDIT DISCLOSURE NO. 25

SUBJECT: FUEL AND CONSERVATION OVER RECOVERY

STATEMENT OF FACT: Gulf Power, on MFR schedule A-11, requests fuel and conservation over and under recoveries be excluded from working capital because these amounts are interest bearing.

For the 1989 surveillance report Gulf removed, at 13-month average, $1,657,117 in under recovery of fuel and conservation from working capital.

For the 1990 projected test year, no under recovery of fuel and conservation costs is removed from working capital. The utility projects the impact of over and under recovery as $0.

The current practice followed excludes under recoveries from working capital and includes over recoveries in working capital.

rf:gp-rpt7

AUDIT DISCLOSURE NO. 26

SUBJECT: WORKING CAPITAL -- ACID RAIN AND OTHER DEFERRED DEBITS

STATEMENT OF FACTS: For its 1989 surveillance report and from its 1990 projections Gulf Power excluded charges for acid rain (Account 186-914) from its reported 13-month average working capital

For information, deferred debits remaining in rate base are presented below:

ACCOUNT		ACCOUNT DESCRIPTION	1989 AMOUNT	1990 AMOUNT	
183		PRELIMINARY SURVEY AND INVESTIGATION	1,475,338	1,276,000	
184		CLEARING ACCOUNTS	445,521	452,000	
186	945	CARRYVILLE SUBSURFACE STUDY	692,570	692,000	NET OF ADJUSTMENT
186	946	"			
186	600	CASHIER'S OVER AND UNDERS	1,379		
186	601	"			
186	800	SUSPENSE ACCOUNT	66,237		
186	100	COMPANY JOB ORDERS	2,379		
186	904	AEC & BRMC ADMINISTRATION	37		
186	905	"			
186	901	UPS ADMINISTRATION	0		
186	912	DAMAGE VEHICLE REPAIR	(473)		
186	918	MARGRET CORBIN CASE	0		
186	921	GORE RECEPTION	0		
186	932	HAWKSHAW PROJECT	29,011		
186	910	PSA & ACCOUNTING MEETIONG	2,665		
186	990	PLANT SET-UP ACCOUNTS PAYABLE	2,591,101	1,653,000	
186	992	PLANT SCHERER TRUE-UP	40,432		
186	993	ACCOUNTS PAYABLE CLEARING, Q/S CLEARIN	45		
186	995	SCS BILLING & MISS CO. SUB	(76,754)		
188		RESEARCH AND DEVELOPMENT	35,082		
186	917	OTHER MISCELLANEOUS DEFERRED DEBITS	11,711	30,000	
186	909	A/P ZERO REMIT & MISC	500		
186	1000				
186	1001				
186	941	PREFERRED STOCK HOLD	108,144		
186	920	MATERIALS SOLD TO GEORGIA	260		
186	999	UNAMORTIZED RATE CASE (1990)		765,000	
			5,425,185	4,868,000	

rf:gp-rpt8

AUDIT DISCLOSURE NO. 27

SUBJECT: PEABODY BUY OUT

STATEMENT OF FACTS: In April 1988, the utility recorded the buy out of a coal contract recorded at $60,000,000 on Gulf Power's books. This transaction, commonly called the Peabody Buy out, is amortized through the fuel clause.

In fuel clause revenues on a prorated basis, Gulf is receiving an equity return of 13.75% and a debt return of 9.00% for the unamortized balance of the peabody buy out.

The value of the buy out as of December 31, 1989 is $52,461,666 (accounts 186-930 and 253-930).

rf:gp-rpt6

AUDIT DISCLOSURE NO. 28

SUBJECT: INSURANCE DEPOSITS

STATEMENT OF FACT: In its 1990 projected working capital, the utility proposes to include the following insurance deposits for recovery through rates:

	ACCOUNT	ACCOUNT TITLE	1990 13-MONTH BALANCE
1)	128-020	Energy Insurance Mutual Reserve	106,342
2)	128-030	Ace Limited Insurance Reserve	27,175
3)	128-040	X L Insurance Company Reserve	10,837

The utility excluded these insurance deposits from rate base in its 1987, 1988 and 1989 surveillance reports.

AUDIT OPINION AND CONCLUSION: The Energy Insurance Mutual Reserve, Account 128-020, should be excluded from working capital inasmuch as Section 628.381, F. S., provides for dividends to mutual policyholders. The 1990 projected deposit balance of $106,342 is eligible for dividends.

rf:gp-rpt7

AUDIT DISCLOSURE NO. 29

SUBJECT: REPORTED COST OF DEBT AND PREFERRED STOCK

STATEMENT OF FACT: Rule 25-6.024 (1)(c), FAC, provides in part, that the utility shall file: "Required rates of return...calculated in accordance with Section 366.071(5)(b)(2), F. S....."

Section 366.071(5)(b)(2), F.S. provides, " "Required rate of return" shall be calculated the weighted average cost of capital ... using the last authorized return on equity ..., the current embedded cost of fixed-rate capital, the actual cost of short term debt, the actual cost of variable-cost debt, and the actual cost of other sources of capital which were used in the last rate case of the utility."

In the twelve-month period ended December 1987, the utility reported the mid point overall return as 8.64%. The auditor calculates the actual mid point as 8.52%. The issue equates to a refund of 1987 tax savings of approximately $65,500 per basis point before expansion for taxes. The exact calculation is pending other issues.

To demonstrate the difference, in 1987, a schedule is attached which portrays the utility's cost of debt as 8.42% and the auditor's calculation of debt cost at 8.20%. This difference was caused by Plant Scherer coming in service to jurisdictional and UPS customers on January 1, 1987.

In 1988, it appears that their was no material difference between the utility calculation method and actual interest cost. A material difference exceeds one basis point.

In 1989, the utility supporting schedules received through the end of field work, April 20, 1989, do not provide the information needed to test the cost of debt and preferred stock. The utility has agreed, as necessary, to provide this information.

AUDIT OPINION AND CONCLUSION: In 1987, 1988 and 1989, the utility reported its cost of capital in its surveillance report using a calculation method other than actual as appears required by Rule 25-6.024, FAC. The result was to incorrectly report cost of capital in 1987, and possibly in 1989, and to decrease any required 1987 tax saving refund to customers.

RECOMMENDATION: Require the utility in its surveillance reports to report actual costs of capital based upon interest expensed in the reporting period; and if possible, correct the 1987 tax savings refund amount.

rf:gp-rpt

GULF POWER COMPANY

Prepared by auditor

COST OF DEBT 1987

ALL AMOUNTS WERE RECONCILED TO FILED RATE BASE

	AMOUNT OF BONDS	COST RATE	INTEREST EXPENSE 13 MONTH AVERAGE	INTEREST EXPENSE ACTUAL
1987 :				
DEC 86	367,853,807	9.0754%	33,384,118	
JAN 87	294,202,650	8.5211%	25,069,288	2,089,107
FEB 87	292,230,765	8.5100%	24,868,747	2,072,396
MAR 87	289,893,396	8.4965%	24,630,774	2,052,565
APR 87	290,265,695	8.4980%	24,666,646	2,055,554
MAY 87	290,898,617	8.5009%	24,728,945	2,060,745
JUN 87	298,782,752	8.5758%	25,623,122	2,135,260
JUL 87	298,805,430	8.5761%	25,625,865	2,135,489
AUG 87	300,130,075	8.1544%	24,473,826	2,039,486
SEP 87	301,699,464	8.1639%	24,630,547	2,052,546
OCT 87	301,279,614	8.1591%	24,581,801	2,048,483
NOV 87	286,126,938	8.0305%	22,977,302	1,914,775
DEC 87	289,961,961	8.0634%	23,380,899	1,948,408
TOTAL	3,902,131,164		328,641,880	$24,604,814
13 MO AVG	$300,163,936		$25,280,145	
	COST OF DEBT PER COMPANY		8.4221%	
	COST OF DEBT PER AUDITOR			8.1971%

AUDIT DISCLOSURE NO. 30

SUBJECT: NON-UTILITY CAPITAL

STATEMENT OF FACT: In preparing the 1990 projected capital structure, the utility did not remove capital associated with non-utility assets from equity. Instead the utility removed $14,484,000 from equity, debt and preferred stock as shown on MFR Schedule D-1, page 1 of 4, line 20. This practice is not consistent with the treatment of this item in the utility's last rate case.

The utility's filing for the projected test year 1990, included the cost of the Leisure Lakes project in rate base ($143,000). The utility justified including this item in rate base on MFR Schedule B-4, page 5 of 7, line 24. In the prior rate case this item was removed from rate base and equity as a non-utility item.

MB:
NONUTIL

AUDIT DISCLOSURE NO. 31

SUBJECT: PREFERRED STOCK PREMIUM AND STOCK ISSUE COSTS

STATEMENT OF FACT: In its 1987, 1988, and 1989 surveillance report and in its filing for the projected 1990 year, the utility calculated its cost of preferred stock by adjusting the amount of preferred stock outstanding by the premium received for the preferred stock and by the cost of issuing the preferred stock.

The utility, when reporting the balance of preferred stock in its capital structure, excluded premium and the issue cost from the preferred stock balance (MFR Schedule D-1, page 1 of 4, line 14) but used the adjusted cost rate after further correction for Unit Power Sales.

Furthermore, the cost of issuing the preferred stock was written off the books in prior years. The preferred stock premium was accounted for as equity in the capital structure.

The 13 month average amounts involved are as follows:

	PREFERRED PREMIUM	PREFERRED ISSUE COSTS
1990	$88,151	$1,036,001
1989	$88,151	$1,044,474
1988	$88,151	$1,087,700
1987	$88,151	$1,103,361

MB:
PREFPREM

AUDIT DISCLOSURE NO. 32

SUBJECT: REDEEMED PREFERRED STOCK

STATEMENT OF FACT: According to the prospectus, the 11.36% preferred stock is entitled to a sinking fund requiring Gulf to redeem or purchase 5,000 shares on or before each February 1 at $100.00 per share. This equates to a redemption of $500,000. In addition, Gulf will have the non-cumulative option to redeem an additional 5,000 shares in any year. Original issue was 100,000 shares at $100.00 each or $10,000,000.

According to a second prospectus, a 10.40% preferred stock issue is entitled to a sinking fund requiring Gulf to redeem or purchase 7,500 shares on or before each December 1 at $100.00 per share. This equates to a redemption of $750,000. In addition, Gulf will have the non-cumulative option to redeem an additional 7,500 shares in any year. Original issue was 150,000 shares at $100.00 each or $15,000,000.

Listed below is a schedule of the activity in these accounts.

	Actual	Required
Preferred Balance at 12/31/86	$73,412,600	$73,412,600
Less: Redeemed Feb. 1987	1,000,000	500,000
Redeemed Dec. 1987	1,500,000	750,000
Preferred Balance at 12/31/87	70,912,000	72,162,600
Less: Redeemed Feb. 1988	1,000,000	500,000
Redeemed Dec. 1988	750,000	750,000
Preferred Balance at 12/31/88	69,162,600	70,912,600
Less: Redeemed Feb. 1989	500,000	500,000
Redeemed Dec. 1989	750,000	750,000
Preferred Balance at 12/31/89	67,912,600	69,662,600
Less: Redeemed Feb. 1990	1,000,000	500,000
Projected Redeemed Dec. 1990	750,000	750,000
Projected Preferred Balance at 12/31/90	66,162,600	68,412,600

MB:
AVESTOCK

AUDIT DISCLOSURE NO. 33

SUBJECT: COST OF CUSTOMER DEPOSITS

STATEMENT OF FACT: The utility has requested a 7.65% return on customer deposits; MFR Schedule D-1, page 1 of 4, line 16. Actual cost of customer deposits as found reported on the company's books for 1987, 1988 and 1989 are as follows:

(000's omitted)	1987	1988	1989
Account 431-100 December 31 balance Customer Deposit Interest	$1,127	$1,198	$1,191
Divided by:			
13-month avg balance Customer Deposits	$15,277	$15,699	$15,586
Cost Rate	7.38%	7.63%	7.64%

MB:
DEPOSITS

AUDIT DISCLOSURE NO. 34

SUBJECT: GULF POWER PLEA AGREEMENT IN U.S. DISTRICT COURT

STATEMENT OF FACT: On October 30, 1989, Gulf Power Company (Gulf) entered guilty pleas to two federal offenses. The Company plead guilty to count:

1) Conspiring to make political contributions in violation of the Public Utility Holding Company Act (PUHCA);

2) Conspiring to impede the Internal Revenue Service (IRS) through the creation of false or inflated invoices.

The government requested that the court accept the guilty plea and impose a fine of $500,000 on Gulf Power Company. By Official Check number 379716281, dated October 30, 1989, Gulf Power made payment to the Clerk, U.S. District Court in the amount of $500,100.00.

The payment was recorded on the books of Gulf Power by Accounts Payable Voucher Number 506336 on October 30, 1989, with a debit of $500,100 to FERC Account 426-304, which is below-the-line and not taken into consideration when computing base rates.

In a joint statement by Edward L. Addison, President of The Southern Company and Douglas L. McCrary, President of Gulf Power Company, it is stated that what has been done cannot be undone but positive and specific action to see that nothing like this will happen again at Gulf Power has been taken. The specific steps listed are:

> 1) Reorganization of the management structure at Gulf Power to better divide responsibilities and authority;
>
> 2) Publish specific guidelines that strictly define the acceptable use of outside firms that provide professional services;
>
> 3) Clearly state to every vendor and contractor that they are not expected or required in any way to make political or charitable contributions as a condition of doing business with Gulf Power;
>
> 4) Adopted a comprehensive code of ethics that all employees must sign and adhere to. Violations will result in disciplinary action up to and including dismissal;

AUDIT DISCLOSURE NO. 34 - (Continued)

5) Developed an ethics awareness program to provide ongoing guidance to all employees, from top management to the newest hired. The dean of the business school at the University of West Florida has been retained to help Gulf Power carry out this program;

6) Establish a confidential Employee Concerns Program that reports directly to the chief executive of Gulf Power. This program encourages all employees to report any activity involving the company which they know, or suspect, to be unethical or illegal;

7) Strengthened established auditing practices. A new director of internal auditing position has been created at Southern Company and will be responsible for helping to ensure compliance with the Company's polices throughout the Southern Company system and to see that auditing methods in every system company is adequate. This position will report directly to the president of the Southern Company and to the audit committee of The Southern Company board, which is made up entirely of outside directors.

AUDIT DISCLOSURE NO. 34-A

SUBJECT: WEST FLORIDA LANDSCAPING

STATEMENT OF FACT: Gulf Power Company is still transacting business with West Florida Landscaping (WFL) even though WFL was involved in the illegal political contributions. WFL was observed working at Gulf Power (Gulf) headquarters in Pensacola in April of 1990. In 1989 Gulf reportedly paid WFL $253,708.49.

AUDIT DISCLOSURE NO. 35

SUBJECT: EXECUTIVE SALARIES

STATEMENT OF FACT: The 1990 budget information, as provided by the utility in document request #156, indicates that $13,813 of $982,608 of Executive and Officers salaries have been classified as Other. The company reports this amount represents the amount booked "below-the-line".

The audit staff has examined the Payroll source file as provided by the utility for 1989 and has found that executive salaries have apparently been charged "above-the-line".

DH/EXECSAL.DOC

AUDIT DISCLOSURE NO. 36

SUBJECT: MANAGEMENT SALARIES

STATEMENT OF FACTS: The utility reports salaries and incentive payments of supervisors and managers and executive management in 1989 as $13,920,095. In 1989 total salaries were reported as $53,481,599. Management compensation as a percentage of total salaries then computes to be 26.03%.

In 1990, salaries of supervisors, managers, and executive management is reported as $14,292,185. Budgeted incentive is reported as $105,965 for a total compensation of $14,398,150 a 3.4 % increase over the prior year: (14,398,150/13,920,095)-1.

Originally the utility reported $464,174 as budgeted incentive for 1990. This amount was reduced by a reported stipulation to $105,965.

rf:gp-rpt8

AUDIT DISCLOSURE NO. 37

SUBJECT: INCENTIVE COMPENSATION PLANS

STATEMENT OF FACT: Gulf Power Company has two incentive pay plans.

First, the Performance Pay Plan was for "exempt" employees only in 1989; in 1990 it will include all employees except union members. The plan provides for an annual one time "bonus" determined by management. The total accrual was $1,097,780 for 1989 and projected to be $1,268,621 for 1990. The Performance Pay Plan pool funding comes from four sources:

1.) 1% of all participants salaries for annual minimum funding.
2.) Percentage of salary for meeting individual goals (3% in 1989 and 4% in 1990).
3.) Percentage of salary for the Company meeting return on equity goals (2% in 1989 and 2.5% 1990).
4.) Percentage of salary for the Company meeting cost of product goals (2% in 1989 and 2.5% in 1990).

The second Incentive Compensation Plan is called the Productivity Improvement Plan and is for the top 15 executives only. There were two parts in 1989, the Individual Performance Award pool and the Corporate Financial Performance component. For 1990, the Individual Performance Award pool has been dropped. The awards are based on Gulf's Return On Common Equity as compared to a peer group. The maximum amount an individual receives is based on his position level. The Return On Common Equity has a four year measuring period. The total accrual was $464,177 for 1989 and projected to be $464,177 for 1990. Subsequently the utility reports that the 1990 projection has been revised down to $105,965.

MB:
ICP

AUDIT DISCLOSURE NO. 38

SUBJECT: EXECUTIVE DEVELOPMENT

STATEMENT OF FACT: As discussed in the PSC audit report for Gulf Powers' 1989 rate case filing (Disclosure no. 23), Gulf had budgeted $25,800 for top level executive development courses and seminars. The bulk of these dollars were for a single program for Mr. A. E. Scarbrough to attend - $20,800 for the Stanford Executive Program. For projected 1990, Gulf projects to spend $25,000 for top level executive development programs. Of this $25,000, Mr. Scarbrough is once again budgeted to spend $21,000 on the Stanford program. Though included as a recurring "first time" item in the 1989 filing, Mr. Scarbrough did not attend this class.

AUDIT OPINION AND CONCLUSION: The Stanford Executive Program lasts for eight weeks and as events showed in 1989, top executives may not have the time to attend a course this lengthy on an annual basis. Treating this particular course as an annually occurring event should be identified as an issue in the rate case.

BB:
WRITE_UP.DOC

AUDIT DISCLOSURE NO. 39

SUBJECT: POLITICAL ACTION COMMITTEES (PAC)

STATEMENT OF FACTS: Two political action committees have been attributed to the actions of Gulf Power, PAC I and PAC II.

PAC I is a formal political action committee registered with the Department of State under the name of Gulf Power Employees' Committee For Responsible Government. Payroll deductions are available to the Gulf Power employees who belong to this PAC. Contributions to the PAC for the 1987, 1988, 1989 and projected 1990 are as follows:

1987	$22,342
1988	$26,480
1989	$20,281
1990	$22,000 (Projected)

PAC II was an informal system where Gulf employees contributed to candidates without the use of a PAC. According to the testimony of Gulf's president, Mr. McCrary, this practice ended in fall 1988.

A utility manager responsible for control of this program reports Gulf Managers contributing to political candidates had been a long standing practice. Around 1982, due to complaints from managers who felt they were paying more than their fair share, a managers meeting was held and management employees went on a pledge program. Upper level managers would pledge and contribute $175 every two years, middle level managers $125, and supervisors $75. Reportedly, precise records of the contributions were not maintained, but some records of the activity were maintained regarding how well a manager met his political contribution pledge. The annual activity was about $12,000 every two years or $6,000 per year. Pledges reported are as follows:

1983-1984	$12,535
1985-1986	$12,125
1987-1988	$12,125

Despite specific inquires regarding the presence of all political contributions in the previous rate case, no employee ever mentioned an organized PAC II to the auditor. Only Pac I was disclosed.

The above amounts do not include any adjustment for payroll benefits, jurisdictional factors or recognition of salaries capitalized to plant.

rf:gp-rpt6

AUDIT DISCLOSURE NO. 40

SUBJECT: SELECTED NON OPERATING EXPENSES

STATEMENT OF FACT: The audit staff made a series of document requests in compliance with audit manual interim change 3-90, Non-Operating Expenses which was issued 1/30/90 and Audit Services Request item number 18.

The audit staff requested a list by account all expenses in 1989 for:

1) Charitable, social, or community Donations; (Document/Record Request No. 39)

2) Life insurance for officers and employees; (Document/Record Request No. 40)

3) Penalties for fines for violations of any regulatory statutes by the company or officials; (Document/Record Request No. 41)

4) Expenditures for purpose of influencing public officials, referenda, legislation, or ordinances (either with respect to the possible adoption of new referenda, legislation or ordinances or repeal or modification of existing referenda, legislation or ordinances) or approval, modification, or revocation of franchises; or for the purpose of influencing the decisions of public officials, but shall not include such expenditures which are directly related to appearances before regulatory or other governmental bodies in connection with the reporting utility's existing or proposed operations; (Document/Record Request No. 42)

5) Losses relating to investments in securities written-off or written-down; (Document/Record Request No. 43)

6) Losses on sale of investments; (Document/Record Request No. 44)

7) Losses on the reacquisition, resale, or retirement of utility debt securities; (Document/Record Request No. 45)

8) Preliminary survey and investigation expenses related to abandoned projects. (Document/Record Request No. 46)

AUDIT DISCLOSURE NO. 40 - (Continued)

The utility's responses to requests 39 to 46 are attached on the following schedule. The response give to requests 43, 44 and 45 was "none". The second schedule shows the balances of each account the utility sited in it's responses for 1987, 1988 and 1989.

GULF POWER COMPANY
RESPONSES TO DOCUMENT REQUESTS 39 THROUGH 46

		1989
DOCUMENT/RECORD REQUEST NO. 39		
426-120	Char. Cont. Chamber of Commerce	$ 55,713
426-130	Char. Cont. Comm. Welfare Orgs. - In. Serv. Area	15,858
426-135	Char. Cont. Comm. Welfare Orgs. - Out. Serv. Area	300
426-140	Educational Inst. and Scholar. - In. Serv. Area	3,949
426-145	Educational Inst. and Scholar. - Out. Serv. Area	50
426-150	Hospitals & Clinics Inside Service Area	1,705
426-165	Research & Development Orgs. - Out. Serv. Area	300
426-190	Other Donations Inside Service Area	22,382
426-195	Other Donations Outside Service Area	21,783
	Southern Company Services Donations	
426-420	Other	3,985
426-510	Employee Membership Fees & Dues in Private & Social Clubs	42
923-010	Service Company Fees and Expenses	20,723
Total Southern Company Services Donations		24,750
	TOTAL	$ 146,290
DOCUMENT/RECORD REQUEST NO. 40		
926-201	Life Insurance - Regular Employees	$ 34,492
926-209	Life Insurance - Retirees	102,254
926-200	Business Travel	2,332
	TOTAL	$ 139,078
DOCUMENT/RECORD REQUEST NO. 41		
426	Florida DER - SO2 Emmission Rate Exceedance	5,014
	IRS - Heavy Vehicle Use Tax - Form 2290	102
	Florida DOT - Vehicle Overweight Penalty	100
	Treasurer of U.S.A. - EPA Settlement - Alleged PCB Violation	10,500
	Florida DER - SO2 Emmission Rate Exceedance	1,011
	Florida DER - SO2 Emmission Rate Exceedance	1,520
	Clerk, U.S. Dist. Court - Violation - Public Util. Holding Act	500,100
	Pensacola News Journal - FDER Legal Notice Regulations	305.00
	TOTAL	518,651
DOCUMENT/RECORD REQUEST NO. 42		
426-410	Franchise	0
426-420	Other	712,216
426-421	Responsible Government Committee	7,577
426-4	TOTAL	719,793
DOCUMENT/RECORD REQUEST NO. 46		
506-610	Research and Development (Crist Waste to Energy)	264,307

GULF POWER COMPANY
COMPARISON OF EXPENSES
1987, 1988 AND 1989

DON HARTSFIELD
05/02/90

ACCOUNT NUMBER	ACCOUNT DESCRIPTION	1987	1988	1989
	CHARITABLE, SOCIAL, OR COMMUNITY DONATIONS			
426-120	CHAR. CONT. CHAMBER OF COMMERCE	3,561	4,356	55,213
426-130	CHAR. CONT. COMM. WELFARE ORGS. IN. SERV. AREA	198,043	159,194	15,858
426-135	CHAR. CONT. COMM. WELFARE ORGS. - OUT. SERV. AREA	50	400	300
426-140	EDUCATIONAL INST. AND SCHOLAR. - IN. SERV. AREA	10,246	9,603	3,949
426-145	EDUCATIONAL INST. AND SCHOLAR. - OUT SERV. AREA	4,305	0	50
426-150	HOSPITALS & CLINICS INSIDE SERVICE AREA	5,561	3,523	1,705
426-165	RESEARCH & DEVELOPMENT ORGS. - OUT. SERV. AREA	17,723	0	300
426-190	OTHER DONATIONS INSIDE SERVICE AREA	31,677	21,769	22,382
426-195	OTHER DONATIONS OUTSIDE SERVICE AREA	5,900	20,538	21,783
	TOTAL	277,067	219,382	121,540
926-200	EMPLOYEE MEDICAL INSURANCE	1,967,307	2,154,626	2,152,024
926-201	EMPLOYEE LIFE INSURANCE	0	42,631	34,493
926-209	EMPLOYEE GROUP LIFE INSURANCE - POST - RETIREMENT	871,000	920,000	855,107
	TOTAL	2,838,307	3,117,257	3,041,623
426-4	EXPENDITURES FOR CERTAIN CIVIC, POLITICAL AND RELATED ACTIVITIES.			
426-410	FRANCHISE	0	0	0
426-420	OTHER	157,684	455,000	712,216
426-421	RESPONSIBLE GOVERNMENT COMMITTEE	3,062	7,149	7,577
426-4	TOTAL	160,746	462,149	719,793
	PRELIMINARY SURVEY AND INVESTIGATION EXPENSES ON ON ABANDONED PROJECTS			
506-610	RESEARCH AND DEVELOPMENT	1,416,644	1,171,180	1,591,083

NOTE: SCHEDULE IS FOR INFORMATION ONLY. TOTAL AMOUNT SHOWN IN AN ACCOUNT INCLUDES EXPENDITURES WHICH ARE NOT RELATED TO THE PREVIOUS SCHEDULE.

SOURCE: GENERAL LEDGER

AUDIT DISCLOSURE NO. 41

SUBJECT: BUDGET REFERENCE LEVEL

STATEMENT OF FACT: As stated in the PSC audit report for Gulf Power's 1989 rate case filing (Disclosure no. 43), Gulf begins building its current years' budget based on a "reference level." The reference level represents the prior years' budget less all non-recurring items and corporate controlled items. All increases or decreases to this level must be justified by the individual planning units.

AUDIT OPINION AND CONCLUSION: Utility staff state that the "reference level" method is used for O&M budgeting over other methods, such as "Zero Based Budgeting," because of its simplicity. Gulf contends that Zero Based Budgeting requires paperwork so voluminous that it is impractical for use in preparing the O&M budget.

A major concern addressed in the 1989 audit was that there was no practical way to audit the reference level, were a substantial percentage of the O&M budget was located. Audit staff pointed out the fact the reference level was built upon year after year and that there appeared to be no beginning or end to it. It was thought that to be able to effectively audit it, one would have to audit prior O&M budgets, less non-recurring and corporate controlled items, all the way back to year one.

BB:
WRITE_UP.DOC

AUDIT DISCLOSURE NO. 42

SUBJECT: BUDGET VARIANCES

STATEMENT OF FACT: As reported in the PSC audit of Gulf Power's 1989 rate case filing (Disclosure no. 21), Gulf Power does not true-up its current years' Reference Levels for variances resulting from the previous year.

Utility staff have stated that Gulf takes into consideration these variances when preparing their annual budgets. Per utility staff, the various variance analysis are one of the many inputs used in determining any particular budget request. The utility staff further state that it would be imprudent for the utility to increase or decrease its budget based solely on the prior years' budget variance.

AUDIT OPINION AND CONCLUSION: Commission audit staff have not been able to verify these representations.

BB:
WRITE_UP.DOC

AUDIT DISCLOSURE NO. 43

SUBJECT: NON-RECURRING ITEMS

STATEMENT OF FACT: Gulf Power currently has in its 1990 O&M budget, non-recurring items in the amount of $7,158,205 excluding Plant Daniel and Southern Company Services. Plant Daniel has $140,000 budgeted as non-recurring and Southern Company Services has $873,151 budgeted as non-recurring. Gulf represents that there are no non-recurring amounts budgeted for Plant Scherer or for General to All.

In FPSC Document/Record Request No. 30, Gulf states that $5,000 budgeted in the Internal Accounting Controls Planning Unit for potential non-recurring work by AA&Co. should be adjusted out of NOI. According to Gulf, this work regards Grand Jury and IRS investigations.

AUDIT OPINION AND CONCLUSION: As discussed in the PSC audit report for Gulf Power's 1989 rate case filing, not all items listed as non-recurring in Gulf's various O&M budgets are non-recurring in the "regulatory" sense. Many of these items are non-recurring solely for company planning purposes because they may occur again within the same planning unit in succeeding years.

Determining whether any or all of these items are non-recurring for regulatory purposes is based on technical knowledge of the items involved. Therefore, the auditor did not attempt to make any such distinction.

BB:
WRITE_UP.DOC

AUDIT DISCLOSURE NO. 44

SUBJECT: HEAT PUMP PROGRAM

STATEMENT OF FACT: Gulf Power Company's Heat Pump Program, which started in 1985, was implemented to improve the quality and efficiency of the installation of various heating, ventilation, and air conditioning equipment.

In the Gulf Power Company 1989 rate case filing Gulf requested that $717,000 of expenses associated with the Heat Pump Program be allowed in base rates. In 1989 this program was discontinued, however the previously budgeted expenses were not removed from the budget and the monies are now "buried" in the reference level.

Mr. Charles B. Davis, Assistant to Director of Marketing of Gulf Power Company stated, via telephone conversation, on April 27, 1990, "that some of the Heat Pump Program expenses had been transferred to the Technology Transfer Program." It was also stated, "that the exact amount of the transfer of expenses from the Heat Pump Program to the Technology Transfer Program is unknown.."

For the 1990 projected year, using the budget documents provided, the $717,000 in expenses for these programs could not be identified.

See discussion of The Reference Level at Audit Disclosure No. 41

AUDIT DISCLOSURE NO. 45

SUBJECT: WEATHERGUARD PROGRAM

STATEMENT OF FACT: In Gulf's 1989 rate case filing, the utility was seeking to recover a company designed program called "WeatherGUARD." This program was to be made available only to low income households while the cost was to be recovered from all rate payers through base rates.

Assistant to the Director of Marketing and Load Management, Charles B. Davis, stated in an interview April 18, 1990, that this program was canceled and that neither it nor any similar program is sought for recovery through base rates for projected 1990.

Audit staff were unable to verify that this program has been removed from the 1990 projected O&M expenses. Audit staff were also unable to verify the utility's current claim that the amount budgeted for this program in 1989 was $125,000 and not the $140,000 as shown in the company's 1989 filing (MFR schedule C-16g).

In an effort to explain these two items budget, documentation was provided by Mr. Davis for the Marketing and Load Management Planning Unit for 1989 and 1990. However, the budget documents provided did not correspond to those provided in support of the utility's filing for O&M requirement for 1989 or 1990. Mr. Davis could not explain the discrepancies in these documents.

When further inquiries were made as to how the removal of this program could be traced to the 1990 O&M budget, Mr. Davis stated that it could not be directly traced to the "B-3's" or "B-4's," that its removal is "buried in the Reference Level." This statement appears to be in conflict with earlier company statements that any increase or decrease to the reference level must be justified in an accompanying "B-4" form. See Audit Disclosure No. 41 for a discussion on the Reference Level.

BB:
WRITE_UP.DOC

AUDIT DISCLOSURE NO. 46

SUBJECT: GOOD CENTS INCENTIVE PROGRAM

STATEMENT OF FACT: The Good Cents Incentive Program, which started in 1987, serves as a incentive program to builders, heating, ventilation, air conditioning, and retrofit contractors that build "good cents" homes and convert inefficient heating equipment to heat pumps.

In the program, points are earned for various activities preformed by contractors and may be redeemed for advertising, merchandise, and travel awards.

As of December 1989, the program had a total of 1,560,000 points outstanding which has an estimated value of $85,500. The 1990 budget for expenses associated with this program is $50,000 and is requested to be recovered through base rates.

AUDIT DISCLOSURE NO. 47

SUBJECT: ECCR PROGRAMS

STATEMENT OF FACT: As stated in the PSC audit report on Gulf Power's 1989 rate case filing (Disclosure no. 29), Gulf is budgeting to transfer its Good Cents New Home program from recovery through its Energy Conservation Cost Recovery (ECCR) program to recovery through base rates. Gulf is also seeking to recover three other former ECCR programs through base rates.

On June 22, 1988, the staff of the Florida Public Service Commission and Gulf Power Company entered into a stipulation whereby Gulf Power agreed to stop recovering cost incurred under its Good Cents New Home program through the ECCR clause (ref. docket no. 870718-EG, order no 19742, attachment "A", item 7). Gulf Power staff refer to this stipulation when providing justification on why they are seeking to recover the Good Cents New Home program in base rates. This stipulation states in item seven that "... Gulf agrees not to seek further reimbursement under the CCR clause for this program ...." On reviewing this stipulation, it does not appear that there was any specific agreement to either allow or disallow Gulf to recover these costs through base rates. Gulf is budgeting to recover $1,148,625 through base rates in 1990 for the Good Cents New Home program.

Gulf is also seeking to recover three other former ECCR programs through base rates: Good Cents Existing, $513,654; Energy Education, $470,714; Seminars, $67,627. The combined total of all former ECCR programs sought for recovery through base rates is $2,200,620. These amounts are company representations and were not audited. The company reports that it has provided justification for including these programs in base rates through its testimony.

The FPSC currently has an outstanding docket regarding Gulf's ECCR program - docket no. 900002-EG, audit control no. 90-071-1-1.

BB:
WRITE_UP.DOC

AUDIT DISCLOSURE NO. 48

SUBJECT: CANCELLED RATE CASE CHARGES

STATEMENT OF FACT: The prior rate case, Docket 871167, was cancelled by Gulf Power. Expenses for this case have not been adjusted out of 1989 Net Operating Income. Documents obtained from the utility estimate the amount charged in 1989 was $1,028,759. This amount has not been audited.

MB:
CANCEL

AUDIT DISCLOSURE NO. 49

SUBJECT: NON ALLOCATION OF POSTAGE COSTS

STATEMENT OF FACT: The utility currently does not allocate any portion of its postage costs to its non-utility appliance sales and service division.

Total postage expense for residential billings for 1989 and projected 1990 is $697,729 and $705,949. Gulf represents that appliance sales and service advertisements were included in residential billings for Feb., May, June, July and November, 1989. The total postage costs for these months was $285,746. This amount represents 40.95% of the total residential billing postage costs for 1989. Assuming that the same percentage will apply for 1990, postage costs including non utility advertising in 1990 is estimated by the auditor as $289,086.

Because of time constraints, audit staff did not verify the types, quantity, or frequency of advertisements included in residential billings for 1989.

BB:
WRITE_UP.DOC

AUDIT DISCLOSURE NO. 50

SUBJECT: UTILITY TRANSMISSION RENTALS

STATEMENT OF FACTS: The utility has 3 out-of-state line rental agreements, which provide for transmission service for Gulf's ownership in Plants Daniel and Scherer and serve retail load in Gulf off the Alabama transmission system. Gulf owns 50% of Plant Daniel Units 1 and 2 in Mississippi and 25% of Plant Scherer Unit 3 in Georgia.

Plant Daniel is located approximately 100 miles from the Gulf Power service area. The line to serve Gulf Power runs through 2 states, Mississippi and Alabama, and provides 512 MW of capacity.

A line rental agreement with Mississippi Power, an affiliate, provides for 50.84 miles of 230 KV line plus a switching terminal. The annual rental cost to Gulf Power for the line and line maintenance is 18% of the cost to construct the line. The annual rental cost is calculated as follows: \$3,268,471 (reported construction cost) times 18% equals \$588,325.

A second line rental agreement with Alabama Power, also an affiliate, provides for the remaining lines to connect Plant Daniel to Florida as well as serving retail load from the Alabama Transmission system. The annual rental cost to Gulf Power for the lines and line maintenance is 18% of the cost to construct the line. For January through May 1990, the rental is \$3,622,042 (construction cost) times 18% times 5/12 or \$271,653. For June through December 1990, the rental is \$3,192,366 (construction cost) times 18% times 7/12 or \$335,198. The total cost for 1990 is \$606,851 (271,653 + 335,198).

A third rental agreement accounts for Plant Scherer, providing 212 MW of capacity. Plant Scherer is located northwest of Macon, Georgia approximately 225 transmission line miles away. Power from Plant Scherer reaches Gulf Power through the Georgia Power transmission system. Georgia Power, an affiliate, charges a transmission fee per KW to Gulf, and offsets this charge by the transmission revenues received from Gulf's Unit Power Sales (UPS). The schedule of budgeted charges to Gulf is presented below: (IN 000'S)

YEAR	GEORGIA	LESS	GULF UPS SALES	EQUALS	RENTAL
1987	3,177		(1,551)		1,626
1988	2,825		(1,259)		1,566
1989	2,918		(1,144)		1,774
1990	3,007		(1,187)		1,820
1991	3,157		(1,253)		1,904
1992	3,480		(1,668)		1,812

AUDIT DISCLOSURE NO. 50 **UTILITY TRANSMISSION RENTALS (cont'd)**

The Mississippi and Alabama contracts remain in force for the life of Plant Daniel and the retail load, according to Bill Howell, a utility witness. The Georgia contract expires in 1992.

AUDIT OPINION AND CONCLUSION: The contracts do not appear to be based upon rate base regulation amounts. Mississippi and Alabama contracts reflect fixed costs of transmission. The Georgia contract reflects generally increasing costs which may increase significantly when UPS sales end.

rf:gp-rpt6

AUDIT DISCLOSURE NO. 51

SUBJECT: STATE FEDERAL JURISDICTIONAL FACTORS

STATEMENT OF FACTS: A portion of Gulf's revenues are based upon wholesale sales which are under the jurisdiction of the Federal Energy Regulatory Commission. In this case, Section E of the minimum filing requirements presents the cost of service studies with these calculations.

Amounts reported for total revenues and total expenses since 1986 follow:

REVENUES (000'S OMITTED)

YEAR	JURISDICTIONAL	CALCULATED PERCENTAGE	FLORIDA JURISDICTIONAL
1986	236,601	.9658	228,501
1987	239,063	.9689	231,629
1988	247,149	.9718	240,197
1989	256,837	.9775	251,083
1989 BUDGET	257,080	.9754	250,869
1990 BUDGET	262,013	.9754	255,580

EXPENSES (000'S OMITTED)

YEAR	JURISDICTIONAL	CALCULATED PERCENTAGE	FLORIDA JURISDICTIONAL
1986	173,561	.9693	168,236
1987	179,700	.9702	174,345
1988	183,833	.9791	180,005
1989	189,128	.9773	184,844
1989 BUDGET	192,730	.9782	188,522
1990 BUDGET	199,211	.9772	194,670

AUDIT OPINION AND CONCLUSION: This analysis indicates that in 1990 Gulf is using a similar expense percentage achieved in 1989 but did not adopt the 1989 revenue percentage. Amount involved is an increase in total revenues of $550,227 (262,013,000 times .0021) without consideration of income taxes. This would decrease any need for rate relief.

If 1986 percentages for revenues and expenses are used, the budgeted income would be decreased by $953,000 without considering income taxes. This would increase any need for rate relief.

Any issue contained in the separation study of .0001 adjusts the test year income by at least $19,000 without consideration of income taxes. The audit did not include testing of this cost separation.

rf:gp-rpt6

AUDIT DISCLOSURE NO. 52

SUBJECT: LINE LOSS

STATEMENT OF FACT: In calculating the amount of fuel expense, the utility grosses up recoverable costs by 0.21% for line losses.

The utility did not account for this gross up in its 1987, 1988, 1989 and probably 1990 rate case.

The respective amounts are, as calculated by the auditor, shown below.

	Total Fuel Expense	Line Loss
1987	$ 155,567,837	$ 326,008
1988	140,342,467	294,103
1989	163,064,253	341,718
1990	Unknown	Unknown

BB:
WRITE_UP.DOC

AUDIT DISCLOSURE NO. 53

SUBJECT: CHANGES IN ADJUSTMENTS TO NET OPERATING INCOME

STATEMENT OF FACT: Three adjustments to net operating income were changed after the Surveillance Report for the 12 months ended December 31, 1989 was issued.

Marketing Support Activities provided a notebook explaining marketing adjustments, but the material provided could not be agreed by the auditor to the amount of the two marketing adjustments.

Also provided was an adjustment to remove grand jury costs from utility account 923, Outside Services Employed. The total amount of the reported adjustment affecting the vendor Beggs and lane was $391,739. Details supporting this amount could not be agreed to the information on the previously supplied data tape. Other vender payments adjusted were not tested. Account 923 is an account which has been included in the statistical tests of account balances supplied to the industry staff for further review.

Amounts are provided below:

	1989	
	Surveillance Report	Company's Response to Doc. Req. 87
Grand Jury Investigation	$707,465	$863,864
Area Development in Sales Exp.	599,844	608,924
Marketing Support Activities	$ 58,629	$ 89,830
Total	$1,365,938	$1,562,618
Difference		$ 179,566

MB:
NOIADJ

AUDIT DISCLOSURE NO. 54

SUBJECT: Attorney Bonus

STATEMENT OF FACT: On Wednesday, April 4, 1990 The Florida Public Service Commission held a public hearing. This hearing allowed Gulf Power customers the opportunity to present comments on the rates and service of the company to the commission. During the hearing, Mr. Bill Davison of 5642 Esperanto Drive, stated that through a television broadcast he had viewed "...attorneys bragging about six-figure Christmas bonuses."

Gulf Power Company reports that Attorney Levin was paid a bonus of $107,399.23. This payment was charged to account 228-2108, Attorney's fees and expenses - Public - Operations, on May 21, 1987 (Document number 324506). No calculation of the amount of the bonus payment was present in the payment documents provided.

The payment was made based upon a May 21, 1987 letter statement from Mr. Levin to Gulf Power Company. The request for monies stated; "Total amount $107,399.23. This statement reflects the discussion and understanding we had concerning our employment in this matter and also reflects the payment of $146,677 which we have been paid on account to date."

Gulf further reports that this payment was the result of effective defense in the appeal of a verdict against Gulf for damages totaling $11,200,000. The appeal of this verdict resulted in the reversal of the judgement of the Trial Court and subsequently resulted in a final settlement of $1,450,000.

The audit staff did not visit the Santa Rosa County Courthouse to confirm Gulf's representation.

AUDIT DISCLOSURE NO. 55

SUBJECT: ERRORS AND OUT OF PERIOD UPS CHARGES

STATEMENT OF FACTS: Unit Power Sales (UPS) expenses are billed and booked on an estimated basis. Later, adjustments are recorded to correct the estimates.

The utility's 1989 UPS expenses include $188,616 of 1988 transmission expenses recorded in 1989 and $25,558 of 1988 production expenses also recorded in 1989. These adjustments reduce the net operating income in 1989 by $129,498 as calculated below:

	Transmission	Production
Amount	188,616	25,558
Jurisdictional Factor	.9695245	.9688126
Jurisdictional Amount	182,867	24,761
Less Income Taxes at 37.63%	(68,813)	(9,317)
Income Effect	114,054	15,444

Adjustment 114,054 + 15,444 = 129,498
(Reduces 1989 jurisdictional Income)

Also noted was a recording error in December 1989 UPS income tax expense: $205,232 was recorded as a reduction in income tax expense rather than an increase in income tax. Adjustment needed to correct error $410,464 (205,232 times 2). (Increases 1989 jurisdictional income.)

The total adjustment is $280,966 increase in income ($114,054 + 15,444 - 410,464). These adjustments pertain to 1989 jurisdictional income before removing monies related to the federal jurisdiction.

rf:gp-rpt6

AUDIT DISCLOSURE NO. 56

SUBJECT: NON UTILITY ACTIVITIES

STATEMENT OF FACTS: The utility reports 3 non utility enterprises: sod sales; vision design a marketing company, which specializes in video advertisements; and a appliance sales business.

The sod sales business in 1988 reports sod sales of $82,397 which resulted in a loss of $154,047. In 1989, reported sod sales are $275,229 with a profit of $11,255.

Vision Design in 1988 reported $435,825 in sales and a $373,372 loss. In 1989 Vision Design reported $625,677 in sales and a $469,252 loss.

Appliance sales reports the following:

In 1986, $8,229,335 in sales and a $307,428 profit W/O income tax,
In 1987, $8,587,503 in sales and a $16,885 profit W/O income tax,
In 1988, $7,384,457 in sales and a $351,909 loss W income tax benefit, and
In 1989 $7,297,242 in sales and a $245,897 loss W income tax benefit.

rf:gp-rpt8

AUDIT DISCLOSURE NO. 57

SUBJECT: TAX RELATED WORK

STATEMENT OF FACT: Tax related issues were not researched as part of this audit. The Tax Bureau of The Division of Auditing and Financial Analysis is conducting their own investigation of these issues.

AUDIT DISCLOSURE NO. 58

SUBJECT: INDEPENDENT QUALITY ASSURANCE REVIEW

STATEMENT OF FACT: The Institute of Internal Auditors, an independent organization, reviewed the internal audit department of Gulf Power in 1988, a summary of their March 28,1989 recommendations follow:

Overall the internal audit function was rated "adequately complies" with the standards for the professional practice of internal auditing. Compliance with some standards was judged inadequate, but not considered significant enough to prohibit the department from carrying out its duties.

In the report summary, the reviewers noted:

"Thus, in our view, the effectiveness of the internal audit function could be improved by the (internal audit) director reporting to the President."

"Supervision, however, should focus on determining whether auditing procedures necessary to evaluate the internal controls have been developed, executed, and documented."

"Some improvements in audit work include more direct support of the audit objectives and increased testing procedures. Further supervision should also ensure compliance with audit Manual requirements."

"The Department should broaden its scope to include audits of economic and efficient use of resources, and whether company goals were accomplished."

"The good work to identify all auditable units within Gulf Power should be completed ...."

Within the body of the report the following comments were noted:

"The audit staff is involved in taking, rather than testing physical inventories ...."

"... Over 60% (audits) were issued more than 60 days after the field work was completed."

rf:gp-rpt9

AUDIT DISCLOSURE NO. 59

SUBJECT: FERC AUDIT - 8 COMPLIANCE EXCEPTIONS

STATEMENT OF FACTS: Reporting in this area is pursuant to the request of industry staff.

In 1989, A team of two auditors from the Federal Energy Regulatory Commission (FERC) reviewed the records of Gulf Power Company for the period 1985 to 1988. The audit team reported 8 compliance exceptions.

On June 23, 1989, Gulf Power company responded to the report of these federal auditors.

The following pages present excerpts from each comment in the FERC audit along with the FPSC auditor's summary of the company response, and FPSC auditor's notes where deemed helpful.

AUDIT DISCLOSURE NO. 59 (CONTINUED) - 8 FERC EXCEPTIONS

FERC EXCEPTION 1: "The Company's accounting for cost of several buy outs of coal supply contracts was not consistent with the requirements of the Uniform System of Accounts. Also, the Company incorrectly included the buy out cost in billings under its tariffs to wholesale customers."

Company disagrees.

FPSC auditor notes. Gulf has recognized two buy outs of coal contracts to avoid increased coal prices. These contracts are known as the "Plant Daniel Coal Buy Out" and the "Peabody Buy Out". Values on the books at December 31, 1989 are $45,103,075 and $52,730,008, respectively.

The Commission has reviewed these buy outs, and has included the costs in fuel adjustment clause revenues. These costs are not in, or requested for, base rates.

In its "10 K" form filed with the Federal Security Exchange Commission (SEC), Gulf reports at March 1990, a 46-day supply of coal at nameplate burn and an average delivered price of coal in 1989 of $47 per ton.

In its "10 K" form filed with the SEC, the consolidated Southern Company reports a 52-day recoverable supply of coal at nameplate burn at an average delivered price of $46 per ton.

FERC EXCEPTION 2: "The Company did not properly classify certain payments made to Alabama By-Product Corporation for coal purchased from the Maxine Mine. Also, the Company improperly included such amounts as a component of fuel costs in fuel adjustment clause billings to wholesale customers."

Company: Disagrees.

FPSC auditor note. This comment was based to a large extent upon an investigation performed by the Florida Public Service Commission and reported in FPSC order 13452.

FERC EXCEPTION 3: "The Company did not properly classify payments made to Alabama By-Product Corporation in connection with the closing of the Maxine Mine. Also, the Company improperly included such payments as a component of fuel costs in fuel adjustment clause billings to the wholesale customers."

Company disagrees.

FPSC Auditors note. The FPSC according to the Company's response determined a $14.7925 charge per ton was reasonable and recoverable.

FERC EXCEPTION 4: "The Company did not classify reimbursements received in connection with black lung payments related to the Maxine Mine. Also, the Company did not adjust fuel adjustment clause billings to wholesale customers on a timely basis to reflect such reimbursements as a reduction of fuel cost."

Company disagrees.

FERC EXCEPTION 5: "The Company's accounting for the acquisition of an ownership interest in plant Scherer resulted in the following accounting difficulties:

o An improper write-up in the original cost of the plant.

o Failure to record certain deferred income taxes associated with the required assets.

o Misclassification of associated company payables and receivables arising out of the property transfer."

Company disagrees.

AUDIT DISCLOSURE NO. 59 (CONTINUED) - 8 FERC EXCEPTIONS

FERC EXCEPTION NO. 6: "The Company's accounting for an acquisition adjustment related to the purchase of common facilities at Plant Scherer was not consistent with the requirements of the Uniform System of Accounts."

Company disagrees.

FERC EXCEPTION NO. 7: "The Company's accounting procedures for accruing allowance for funds used during construction were not consistent with the requirements of the Uniform System of Accounts in the following respects:

Plant Scherer

The Company did not cease accruing AFUDC on the project at January 1, 1987 in-service date. It continued to record both the AFUDC on the pollution control bond trust fund balance and the trust fund's earnings in the Plant Scherer Unit No. 3 work order until September 1988. the amount of AFUDC charged beyond the in service date was $684,754 and the excess interest income credited to the project was $1,002,814.

The Company failed to reduce the base for computing AFUDC on the Plant Scherer Unit No. 3 project expenditures by the related interest income. This resulted in an over accrual of AFUDC charged to the project of $864,040....

Both deficiencies resulted in the company overaccruing $545,980 of AFUDC on the project."

Unfunded Post Retirement Benefits

"Beginning in 1987....The Company included the accrued but unfunded post retirement expenses in the base for computing Allowance for Funds Used During Construction (AFUDC)."

Company disagrees.

FERC EXCEPTION 8: "The Company's accounting for the sale of railroad cars and the subsequent leasing of other railroad cars was not consistent with the requirements of the Uniform System of Accounts. Also, the Company's tariff billings for the leased cost of new railroads cars were incorrect."

Company disagrees.

rf:gp-rpt3

AUDIT DISCLOSURE NO. 60

SUBJECT: FERC AUDIT - 13 COMPLIANCE VIOLATIONS

STATEMENT OF FACTS: Reporting in this area is pursuant to the request of industry staff.

In 1989, A team of two auditors from the Federal Energy Regulatory Commission (FERC) reviewed the records of Gulf Power Company for the period 1985 to 1988. The audit team reported 13 compliance violations.

On June 23, 1989, Gulf Power company responded to the report of these federal auditors.

The following pages present excerpts from each comment in the FERC audit along with the FPSC auditor's summary of the company response and FPSC auditor's notes where deemed helpful.

AUDIT DISCLOSURE NO. 60 (CONTINUED) - 13 FERC VIOLATIONS

FERC VIOLATION 1: " The Company's accounting for spare parts at its existing generating plants was not consistent with the requirements of the Uniform System of Accounts."

Company disagrees.

FPSC auditors note. In 1988, the utility had included spare parts inventory of $170,200 in plant-in-service with which the FERC auditor took exception.

FERC VIOLATION 2: "The Company did not classify the cost of certain land that was not used in utility operations."

Company disagrees.

FPSC auditor notes. The land in question is located at the company's bay shore headquarters.

FERC VIOLATION 3: "The Company's recording of adjustments in income tax was not consistent with the requirements of the Uniform System of Accounts."

Company agrees.

FPSC auditors note. The company did not report changes in existing income tax accruals, accounts 190, 281, 282, and 283 in the proper accounts, misstating the split between current and deferred tax expense.

AUDIT DISCLOSURE NO. 60 (CONTINUED) - 13 FERC VIOLATIONS

FERC VIOLATION 4(a): "The Company recorded interest income of expenses on deferred retail fuel expenses in Account 456, Other Electric Revenues, or Account 557, Other Expenses, depending upon whether there was an over/under recovery of deferred fuel. The interest income or expense is recovered through the retail fuel adjustment clause and the amount in Account 456 or 557 would be ignored in a retail rate proceeding."

Company agrees.

FPSC auditors note. The FERC auditor recommended that these entries be made to account 431 and account 419.

FERC VIOLATION 4(b): "The Company records carrying charges on spare parts and equipment billed from Georgia Power Company (GPC) in account 514, Maintenance of Miscellaneous Steam Plant , and account 562, station Expense. GPC did not sell these spare parts and equipment to the Company. These items can be used in GPC locations other than Plan Scherer no. 3 and related common facilities. GPC allocates costs of these items to the Company and computes a carrying charge based upon GPC's cost of capital."

No Company Response.

FERC VIOLATION 5: "During the years 1984 through 1988, the Company incurred expenses in conjunction with settlements of employee discrimination charges brought against them before the Equal Employment Opportunity Commission. The Company recorded all compromised settlement amounts to account 930.2.

The Company's accounting was not in accordance with the Chief Accountant's Accounting Release (AR) No. 12. AR-No. 12 requires that expenditures resulting from employment practices that were found to be discriminatory by a judicial or administrative decree or that were the result of a compromised settlement or consent degree should not be considered as just and reasonable charges to utility operations and should be classified in account 426.3, Penalties, or Account 426.5, Other Deductions."

Company agreed to take recommended action.

AUDIT DISCLOSURE NO. 60 (CONTINUED) - 13 FERC VIOLATIONS

FERC VIOLATION 6: "The Company charged utility operating expenses with expenditures related to non utility operations. The expenditures include the following:

Description	Account Used	Proper Account
School appliance change-out plan	**908**	**426.5**
Handicap-EVAC Program ad	**909**	**426.1**
Yellow pages for centsable contractor	**909**	**426.5**
Costs of parties celebrating completion of electric facilities	**912**	**426.5**
Sponsorship of Heat Pump's Association social events	**912**	**426.5**
Billboards with Lexington on it in order to gauge customer reaction	**913**	**426.5**
WeatherGUARD program costs	**908**	**426.5**
Portions of dues to National Association of Manufacturers and Florida Taxwatch, Inc.	930.2	426.4
United Way Related Expenses	930.2	426.1
Naval Aviation Foundation, Inc.	930.2	426.5
Milton Clean Community System	930.2	426.5
A Community "Clean and Green" program	930.2	426.5
Playground Concert Association	930.2	426.5
Contributions-Southeastern Electric Exchange & Mississippi State University high voltage lab	**566,588**	**426.1**
Contributions - of Florida Public Utility Research Center	**930.2**	**426.1**
Billboard Question/PAC	921	426.4
Legal Expenses related to Southern Sod Contracts (non utility operation)	923	417.1"

Company agrees with part, disagrees with part.

FPSC auditors note. Items disagreed with are in bold type.

AUDIT DISCLOSURE NO. 60 (CONTINUED) - 13 FERC VIOLATIONS

FERC VIOLATION 7: The Company computes one half month's depreciation on projects in the month that they are transferred to Account 106, Completed Construction Not Classified-Electric. Staff noted that on several major projects (projects greater than $5,000,000) the closing to account to Account 106 was delayed one or two months due to clerical errors. The Company failed to adjust the depreciation for the period of delay. Two Major Projects were:

Description	Month of Service	Month 1st Depreciated	Additional Depreciation
Christ Warehouse	11/08/85	12/85	$19,806
Corporate Office	02/27/87	3/87	$49,568"

Company disagrees and states:

"The Company recovers depreciable plant investment using remaining life depreciation rates. As in the case of the Corporate Office project, the full investment is to be recovered over 420 months. The Company contends that one-half month's depreciation accrual has no material effect over a 420 month remaining life, because the full investment will be recovered. ...

The Company implemented a computerized Depreciation system in January, 1989. The system mechanically calculates depreciation expense monthly. Any manual adjustments outside the depreciation system will not update the databases of the system. The processes to update the data bases manually is extremely complicated and time consuming. Therefore, the company maintains that if no significant materiality effect can established by making such an entry, then the entry is not recommended. However, the Company agrees to record manual adjustments in the future if they prove to be significant."

FERC VIOLATION 8: "In 1984, Southern Company Services cancelled the construction of a building, the costs of which were allocated to all the System Operating Companies. A total of $715,752 was allocated to Gulf Power Company. The Company charged $369,305 to operating expense and capitalized $346,477 in Account 107, Construction Work in Progress - Electric."

Company agrees.

FPSC auditor notes. This item is covered in the disclosure Cancelled Projects.

AUDIT DISCLOSURE NO. 60 **(CONTINUED) - 13 FERC VIOLATIONS**

FERC VIOLATION 9: "The Company marketing department puts on various entertainment activities such as fishing trips, weekend getaways, dinner and shows for such groups as architects, builders, HVAC dealers and their spouses to create goodwill and trust in Gulf personnel. These activities do not relate to conservation. The Company has spent tens of thousands of dollars each year on these activities."

Company disagrees.

FERC VIOLATION 10: "The Company recorded the loss on the reacquisition of the 12.0% series due 2012 in account 189, Unamortized Loss on Reacquired debt. For FERC Form 1 reporting the company is amortizing this loss to Account 428, Amortization of Debt Discount and Expense."

Company agrees.

FPSC auditor note. The amortization should be to account 428.1 Amortization of Losses on Reacquired Debt. The Company has, at a minimum, included reacquisition of debt costs in its requested cost of capital as follows:

(1) Since January 1987, $242,630 annually for 15% First Mortgage Bond issued 2/18/80 and due 2010, and

(2) Since August 87, $75,350 annually for 12 3/5% Pollution Control Bond issued 8/1/82 and originally due 2012.

AUDIT DISCLOSURE NO. 60 **(CONTINUED) - 13 FERC VIOLATIONS**

FERC VIOLATION 11: "Mississippi Power Company (MPC) and the Company are joint tenants in common of Plant Daniel Generating Station which is operated by MPC. The Company is allocated its share (50%) of operating and maintenance costs. MPC allocates administrative and general (A&G) expenses to the Company before the removal of A&G expenses to unit power sales (UPS). The Company then allocates this A&G charge to the same (UPS) customers as MPC. After January 1989, MPC and Gulf no longer had unit power sales from Plant Daniel.

As a result of the above procedures, the Company was being over billed for A & G expenses by the amount that should be applicable to MPC's UPS customers. Based on July, 1987 billing, the annualized over billing for A&G expenses amounted to $17,928. This also resulted in the UPS customers being billed for a portion of the same costs by the company."

Company disagrees.

FPSC auditor note. UPS customers referred to are Florida Power and Light and Jacksonville Electric Authority.

FERC VIOLATION 12: "The Company recorded commitment fees paid for bank loans committed but not borrowed in Account 921, Office Supplies and Expenses.

In the Company letter directive dated July 1, 1986, the Company was directed to record bank commitment fees in account 431, Other Interest Expense as required by the uniform system of accounts."

Company disagrees.

FERC VIOLATION 13: "On page 261 of the FERC Form 1, the Company failed to disclose the basis of allocation of the consolidated tax among group members."

Company agrees to recommended actions.

rf:gp-rpt3

FLORIDA PUBLIC SERVICE COMMISSION

COMPANY: GULF POWER COMPANY

DOCKET NO. 891345-EI

EXPLANATION: Provide a schedule of 13-month average rate base as adjusted for the test year, and the prior year if the test year is projected. Provide detail of all adjustments on Schedule B-4.

Type of Data Shown:
Historic Test Year Ended
Projected Test Year Ended 1990
Prior Year Ended
Witness: R. J. McMillan
A. E. Scarbrough

Adjusted 13-Month Average Rate Base
(Thousands)

Test Year Ended 12/31/90

Line No.	Rate Base Components	(1) Total Company per Books	(2) Non-Electric Utility	(3) Electric Utility (1) + (2)	(4) Commission Adjustments Made in Last Case as Applicable (Sch. B-5)	(5) Adjusted per Commission (3)+(4)	(6) Company Adjustments (Sch. B-6)	(7) Total Utility with Commission & Company Adjustments (5) + (6)	(8) Unit Power Sales Rate Base	(9) Total Utility Adjusted for UPS (7) - (8)	(10) Jurisdictional Rate Base Factor	(11) Jurisdictional Utility Adjusted Per Company & Commission (9) x (10)
1	Plant-in-Service	1,451,703	(2,472)	1,449,231		1,449,231		1,449,231	141,652	1,307,579	0.9755617	1,275,624
2	Accumulated Provision for Depreciation & Amortization	487,260	(715)	486,545		486,545	48	486,593	19,951	466,642	0.9749744	454,964
3	Net Plant-in-Service (1) - (2)	964,443	(1,757)	962,686	0	962,686	(48)	962,638	121,701	840,937	0.9758876	820,660
4	Plant Held for Future Use	4,025		4,025		4,025		4,025		4,025	0.9751553	3,925
5	Construction Work-in-Progress	15,739		15,739	(431)	15,308		15,308		15,308	0.9765482	14,949
6	Plant Acquisition Adjustment	8,043		8,043		8,043		8,043	5,647	2,396	0.9670284	2,317
7	Net Utility Plant (3)+(4)+(5)+(6)	992,250	(1,757)	990,493	(431)	990,062	(48)	990,014	127,348	862,666	0.9758713	841,851
8	Working Capital Allowance *	200,266	(10,228)	190,038	(12,299)	177,739	(89,402)	88,337	4,163	84,174	0.9707392	81,711
9	Other Rate Base	0		0		0		0		0		0
10	Total Rate Base (7) + (8) + (9)	1,192,516	(11,985)	1,180,531	(12,730)	1,167,801	(89,450)	1,078,351	131,511	946,840	0.9754151	923,562
10	Operating Income	78,848		78,848	665	79,513	(2,385)	77,128	14,326	62,802	0.9698736	60,910
11	Rate of Return (10) / (9)	6.61%		6.68%		6.81%		7.15%		6.63%		6.60%

* See MFR Schedule B-14 for an explanation of the adjustments to Working Capital.

Supporting Schedules: B-4, B-5, B-6, B-7, B-12a, B-13a, B-14, C-.

Recap Schedules: A-1a, A-9, D-12a

FLORIDA PUBLIC SERVICE COMMISSION

COMPANY: GULF POWER COMPANY

DOCKET NO. 891345-EI

EXPLANATION: Provide the company's 13-month average cost of capital for:
1) the test year,
2) the prior year if the test year is projected, and
3) the test year of the last rate case

Type of Data Shown:
Historic Test Year Ended
Projected Test Year Ended 1990
Prior Year Ended 1989
Witness: R. J. McMillan
A. E. Scarbrough

Line No.	Class of Capital	(A) Company Total per Books	(B) Direct Adjust-ments (1)	(C) Non-Utility Adjustments (2)	(D) Other Rate Base Adjusts.	(E) Balance Sheet Items Excluded From Rate Base	(F) System Adjusted	(G) Less: Unit Power Sales	(H) System net of UPS	(I) Juris-dictional Factor	(J) Juris-dictional Capital Structure	(K) Ratio	(L) Cost Rate	(M) Weighted Cost Rate
	Prior Year Ended 12/31/89													
1	Long-Term Debt	445,567	(32,561)	(7,460)	(46,860)	38,203	396,889	71,117	325,772	0.9749288	317,605	36.28	8.64	3.13
2	Long-Term Note	47,947	(47,947)	0	0	0	0		0	0.9749288	0	0.00		0.00
3	Short-Term Debt	1,115	0	0	(155)	126	1,086		1,086	0.9749288	1,059	0.12	10.29	0.01
4	Preferred Stock	68,682	0	(1,150)	(7,915)	6,453	66,070	11,025	55,045	0.9749288	53,665	6.13	7.72	0.47
5	Common Equity	359,279	(20,042)	(6,015)	(40,209)	32,782	325,795	46,272	279,523	0.9749288	272,515	31.13	13.00	4.05
6	Customer Deposits	15,355	0	0	(2,182)	1,779	15,152		15,152	1.0000000	15,152	1.73	7.63	0.13
7	Deferred Taxes	201,467	0	0	(25,644)	20,907	196,730	18,450	178,280	0.9749288	173,810	19.85		0.00
8	Investment Credit - Zero Cost	1,006	0	0	(142)	116	980		980	0.9749288	955	0.11		0.00
9	Investment Credit - Weighted Cost	50,270	0	0	(6,017)	4,906	49,159	7,360	41,799	0.9749288	40,751	4.65	10.40	0.48
10	Total	1,190,888	(100,550)	(14,625)	(129,124)	105,272	1,051,861	154,224	897,637		875,512	100.00		8.27
	Test Year Ended 12/31/90													
11	Long-Term Debt	439,734	(30,116)	(7,282)	(36,529)	34,027	399,834	61,439	338,395	0.9750016	329,936	35.73	8.72	3.12
12	Long-Term Note	42,089	(42,089)	0	0	0	0		0	0.9750016	0	0.00		0.00
13	Short-Term Debt	4,432	0	0	(470)	438	4,400		4,400	0.9750016	4,290	0.46	8.00	0.04
14	Preferred Stock	67,432	0	(1,117)	(6,121)	5,701	65,895	9,161	56,734	0.9750016	55,316	5.99	7.75	0.46
15	Common Equity	367,404	(17,576)	(6,085)	(32,503)	30,277	341,517	40,333	301,184	0.9750016	293,655	31.79	13.00	4.13
16	Customer Deposits	15,775	0	0	(1,686)	1,570	15,659		15,659	1.0000000	15,659	1.70	7.65	0.13
17	Deferred Taxes	203,823	0	0	(20,252)	18,865	202,436	14,785	187,651	0.9750016	182,959	19.81		0.00
18	Investment Credit - Zero Cost	858	0	0	(92)	86	852		852	0.9750016	831	0.09		0.00
19	Investment Credit - Weighted Cost	48,068	0	0	(4,527)	4,217	47,758	5,793	41,965	0.9750016	40,916	4.43	10.49	0.46
20	Total	1,189,615	(89,781)	(14,484)	(102,180)	95,181	1,078,351	131,511	946,840		923,562	100.00		8.34

(1), (2) See Notes on Attached Pages

Supporting Schedules: D-3a, D-4a, D-7, D-12a

Recap Schedules: A-1a, A-2, A-12a, A-12b, B-3

GULF POWER CORP.
WORKSHEET-13 MO AVG RATEBASE
FPSC SCHED.2 PG 1 OF 3
PAGE 2 OF FILE NAME: RRCORD3(89)
RANGE: A63..L116
DECEMBER, 1989

	PLANT IN SERVICE	ACCUMULATED DEPRECIATION & AMORTIZATION	NET PLANT IN SERVICE	PROPERTY HELD FOR FUTURE USE	CONSTRUCTION WORK IN PROGRESS	NUCLEAR FUEL (NET)	NET UTILITY PLANT	WORKING CAPITAL	TOTAL RATE BASE	
SYSTEM PER BOOKS	1,399,259,094	446,221,379	953,037,715	3,645,488	17,805,787	0	974,488,990	218,599,935	1,193,088,925	
LESS UPS	(170,467,896)-	(22,095,881)-	(148,372,015)				(148,372,015)	(5,396,761)-	(153,768,776)-	
LESS ADJUSTMENTS:										
APPLIANCE SALES AND SERVICE	(2,435,499)	(617,771)	(1,817,728)				(1,817,728)		(1,817,728)	
INTEREST BEARING CWIP					(6,170,589)		(6,170,589)		(6,170,589)	
DANIEL COAL CARS	(310,233)	(271,664)	(38,569)				(38,569)		(38,569)	
LEISURE LAKES	(166,834)	(23,747)	(143,087)				(143,087)		(143,087)	
ACCUM DEPR-CORPORATE INVESTIGATION		48,442	(48,442)				(48,442)		(48,442)	
CURRENT ASSETS								(33,567,404)-	(33,567,404)	
CURRENT LIABILITIES								266,565-	266,565	
OTHER INVESTMENTS								(3,543,142)-	(3,543,142)	
DEFERRED DEBITS								(104,928,749)-	(104,928,749)	
DEFERRED CREDITS								4,164,608-	4,164,608	
NON CURRENT LIABILITIES								0-	0	
COAL INVENTORY ADJUSTMENT								0.	0	(145,826,537)-
TOTAL ADJUSTED	1,225,878,632	423,260,758	802,617,874	3,645,488	11,635,198	0	817,898,560	75,595,052	893,493,612	
JURIS. FACTOR	0.9763753	0.9755537		0.9751131	0.9783397					
JURIS.- FPSC ADJUSTED	1,196,917,617	412,913,599	784,004,018	3,554,763	11,383,176	0	798,941,957	73,384,935-	872,326,892	

SOURCES

SYSTEM PER BOOKS:

ALL BUT WORKING CAPITAL: PAGE 1 RRRD (AUTOMATIC)
WORKING CAPITAL: FILE NAMES RRCACL: CA-CL+COMMON DIVIDENDS DECLARED+CUSTOMER DEPOSITS+LT+ST DEBT+TOTAL ON RRWCADOL

UPS:

ALL BUT WORKING CAPITAL: FROM RRUPSRD
WORKING CAPITAL: RRUPSRD TOTAL UPS: FUEL STOCK + OTHER M&S + PREPYTS + OTHER WC

ADJUSTMENTS

ALL BUT WORKING CAPITAL: AUTOMATIC FROM PAGE 1 RRRD
WORKING CAPITAL:
CURRENT ASSETS & CURRENT LIABILITIES: FROM RRCACL LIABILITIES-A/P MERCHANDISE ONLY
COAL INVENTORY: FROM RRCOALAD

JURIS. FPSC ADJUSTED:

EVERYTHING AUTOMATIC EXCEPT WORKING CAPITAL
WORKING CAPITAL: TOTAL JURISDICTIONAL FROM PG. 2 RRCACL PLUS TOTAL RETAIL FROM RRWCADOL

GULF POWER COMPANY
CAPITAL STRUCTURE
FPSC ADJUSTED BASIS
DECEMBER, 1989

SCHEDULE 4

			ADJUSTMENTS				LOW POINT		MIDPOINT		HIGH POINT	
AVERAGE	SYSTEM PER BOOKS	RETAIL PER BOOKS	PRO RATA	SPECIFIC	ADJUSTED RETAIL	RATIO (%)	COST RATE (%)	WEIGHTED COST (%)	COST RATE (%)	WEIGHTED COST (%)	COST RATE (%)	WEIGHTED COST (%)
LONG TERM DEBT	443,566,309	363,222,965	(42,073,671)		321,149,294	37.04	8.63	3.20	8.63	3.20	8.63	3.20
SHORT TERM DEBT	1,115,385	1,189,316	(136,308)		1,053,008	0.12	10.29	0.01	10.29	0.01	10.29	0.01
PREFERRED STOCK	60,681,931	61,537,635	(7,088,005)		54,449,630	6.24	7.72	0.48	7.72	0.48	7.72	0.48
CUSTOMER DEPOSITS	15,385,725	17,042,521	(1,965,104)		15,077,417	1.73	7.64	0.13	7.64	0.13	7.64	0.13
COMMON EQUITY	359,312,525	298,204,191	(34,360,922)		263,843,269	30.25	14.60	4.42	15.60	4.72	16.60	5.02
DEFERRED INCOME TAXES	201,895,685	195,663,434	(22,370,298)		173,293,136	19.87						
TAX CREDITS - ZERO COST	990,464	1,067,575	(124,949)		942,626	0.11						
TAX CREDITS - WEIGHTED COST	38,279,730	45,789,080	(5,278,568)		40,510,512	4.64	11.02	0.51	11.43	0.53	11.84	0.55
TOTAL	1,143,433,774	985,916,717	(113,589,825)	0	872,326,892	100.00		8.76 %		9.08 %		9.40

...ING INCOME
...AME: ARLO403 (ND)
...11..8100-
...ER, 1989

	SYSTEM AMOUNT 12-MTD	LESS: UPS	LESS: ADJUSTMENTS		TOTAL CO ADJUSTED	JURIS FACTOR	JURIS AMOUNT	OTHER AMOUNT
OPERATING REVENUES:		(NON-FUEL)						
BASE RATE REVENUES	244,030,654·		0		244,030,654		244,030,654	0
CONSERVATION REVENUES	1,097,836·		(1,097,836)		0		0	0
FUEL REVENUES-RETAIL	160,269,060·		(160,269,060)		0		0	0
-WHOLESALE	5,634,110·		(5,634,110)		0		0	0
-UPS	20,463,695·		(20,463,695)		0		0	0
OTHER OPERATING REVENUES(NET					0		0	0
OF FUEL, CONS, FRAN FEE)	5,757,339·				5,757,339	0.9631370	5,545,106	212,233
FRANCHISE FEE REVENUE	6,060,606·		(6,060,606)		0		0	0
SCH E, S, & ECON NET OF FUEL	1,451,077·				1,451,077	0.9686692	1,406,309	45,408
UPS NET OF FUEL	20,717,364·	(20,613,432)			103,932	0.9690732	100,718	3,214
OTHER	5,493,354				5,493,354		0	5,493,354
TOTAL OPERATING REVENUES	488,576,711·	(20,613,432)	(203,126,123)		256,037,156		251,082,867	5,754,209
OPERATING EXPENSES:								
O & M EXPENSE								
PRODUCTION	232,800,260·	(2,189,179)	(187,117,237)	(1)	43,493,844	0.9688126	42,137,384	1,356,460
TRANSMISSION	6,336,322·	(1,431,370)			4,904,952	0.9695245	4,755,471	149,481
DISTRIBUTION	13,188,757·				13,188,757	0.9961533	13,138,024	50,733
CUSTOMER ACCT. (NET OF 650)	6,989,696·		640,254	(9)	7,629,950	0.9993721	7,625,159	4,791
650 UNCOLLECTIBLE	(576,509)·	576,509			0	0.9686692	0	0
CUSTOMER INFO	5,778,429·		(1,638,688)	(2)	4,139,741	1.0000000	4,139,741	0
SALES EXPENSE	1,376,311·		(599,844)	(3)	776,467	1.0000000	776,467	0
A & G EXPENSE	36,732,302·	(1,169,218)	(1,501,302)	(4)	34,061,782	0.9803320	33,391,855	669,927
TOTAL O & M	302,625,480·	(4,213,170)	(190,216,817)		108,195,493		105,964,101	2,231,392
DEPRECIATION	46,026,242·	(4,791,186)	(4,548)	(5)	41,230,508	0.9774296	40,299,917	930,591
AMORTIZATION	4,990,115·				4,990,115	0.9686275	4,833,563	156,552
AMORTIZATION OF ITC	(12,256,727)·	274,391			(11,982,336)	0.9776021	(11,937,936)	(44,400)
OTHER TAXES	30,717,529·	(974,882)	(9,616,564)	(6)	20,126,083	0.9795153	19,713,806	412,277
INCOME TAXES	23,620,910·	(5,110,517)	(1,923,018)	(7),(8)	16,587,375		16,167,569	419,806
INTEREST SYNCH			(19,079)		(19,079)		(197,504)	178,425
TOTAL OPERATING EXPENSES	405,723,557	(14,815,292)	(201,780,026)		189,128,239		184,843,596	4,284,643
NET OPERATING INCOME	82,853,154·	(13,798,140)	(1,346,097)		67,708,917		66,239,271	1,469,646

ADJUSTMENTS:

(1)	FUEL EXPENSE	(192,961,211)·	
	PEABODY EQUITY RETURN	5,843,974·	557-930
		(187,117,237)	
(2)	CONS. IN CUST INFO EXP	(1,580,059)·	Attachment 1
	GRAND JURY INVESTIG	0	Attachment 4
	MARKETING SUPPORT ACT. Att 4	(58,629)·	From Paul Shimel 908,909,910
(3)	AREA DEVELOPMENT IN SALES EXPENSE	911-1001, 912-120, 1001, 913-810, 830, 810	1001
(4)	GRAND JURY INVESTIG	(707,465)·	From Paul Shimel 923
	CONSERVATION	(176,595)·	Attachment 1
	AREA DEVELOP	(214,451)·	930-110, 120, 140, 150, 160, 170, 180
	IND ASSOC DUES	(56,343)·	930-200 disallowed portion
	SCS O.D. - PRIOR PER.	(346,447)·	930-909 expensed in May of 1989
		(1,501,302)	
(5)	LEISURE LAKES	(4,548)·	From plant accting
		(4,548)	
(6)	ON CONSER. REV	(37,872)·	Rev tax on ECCR Rev (.01628)
	ON FUEL REV	(2,641,208)·	
	FRANCHISE FEE EXP.	(6,752,177)·	408-117, 124
	IN CONSER EXP	(73,822)·	Attachment 1
	ON FRAN REV	(111,485)·	451-5's x .01625
		(9,616,564)	
(7)	REVENUE ADJ	(203,126,123)	
	EXPENSE ADJ	(199,837,929)	
		(3,288,194)	
	TAX RATE	0.3763	
	TAX ADJ	(1,237,348)	
(8)	PRIOR PERIOD TAX ADJ	(685,670)·	Attachment 2
		(1,923,018)	
(9)	ACCT.CHANGE UNCOLL.EXP.	640,254·	Attachment 3

K=(AC-T)/I	SET/US K=	84,277,213	X .3763 - 16,587,375
B-NOI BEF TAX			
C-.3763			
I-RATE BASE		893,493,612	
T-INCOME TAXES			
	=	0.016929209021	

RETAIL INCOME TAXES = 82,209,336 X .3763 - 0.016929209021 X 872,326,892

= 16,167,569

	TOTAL CO ADJ	JUR FACTOR*	JUR TAXES D-pd 89
CURR. PAYABLE	16,454,459	0.7451216	12,260,574
DEFERRED	5,243,433	0.7451216	3,906,995
ITC	0	0.7451216	0
TOTAL	21,697,892		16,167,569

* 16,167,569 DIVIDED BY 21,697,892

* PRIOR PERIOD TAX ADJ

STATE ADJ	1,141,850·
FEDERAL ADJ	(456,180)·
	685,670

9lw 89
3el. 90

* see attachment 4

111

Commissioners:
MICHAEL M. WILSON, Chairman
GERALD L. (JERRY) GUNTER
THOMAS M. BEARD
BETTY EASLEY

State of Florida

STEVE TRIBBLE, Director
Division of Records & Reporting
(904) 488-8371

Public Service Commission

May 31, 1990

Gulf Power Company
Attn: Mr. Warren E. Tate
Post Office Box 1151
Pensacola, FL 32520-1151

Dear Mr. Tate:

Docket No. 891345-EI -- Gulf Power Company
Rate Case Audit - 12 Months Ended December 31, 1989

The enclosed report is forwarded for your review.

The audit report and any company response should be filed as soon as practical due to the urgency in the pending Rate Case. Comments will be forwarded for consideration by the staff analyst in the preparation of a recommendation for this case.

Thank you for your cooperation.

Sincerely,

Steve Tribble

ST/FD/sp
Enclosure

CC: G. Edison Holland, Jr.

DATE: 5-31-90

TO: Legal

The attached is sent to you for:

- ☐ Your Information
- ☐ Further Handling
- ☐ Necessary action
- ☐ Advice on Handling
- ☐ Response

Remarks: Copies of responses to interrogatories sent to AJA & EAG.

Division of Records & Reporting JJ

PSC/R&R 9 (3/87)

END OF
OF ROLL

ROLL NO.

#3

RECORD TYPE Closed
Docket files (1989)

LAST IMAGE General file
#04764 - 5/31/90

BOX 3

JULY 1994