SCANNED

BEGGS & LANE

A REGISTERED LIMITED LIABILITY PARTNERSHIP
ATTORNEYS AND COUNSELLORS AT LAW
POST OFFICE BOX 12950
PENSACOLA, FLORIDA 32576-2950

ROBERT P. GAINES
W. SPENCER MITCHEM
JAMES M. WEBER
ROBERT L. CRONGEYER
JOHN F. WINDHAM
J. NIXON DANIEL, III
RALPH A. PETERSON
GARY B. LEUCHTMAN
JOHN P. DANIEL
JEFFREY A. STONE
JAMES S. CAMPBELL
RUSSELL F. VAN SICKLE
RUSSELL A. BADDERS
GARY W. HUSTON
MARY JANE THIES
DAVID L. McGEE
CHARLES T. WIGGINS

SEVENTH FLOOR BLOUNT BUILDING
3 WEST GARDEN STREET
PENSACOLA, FLORIDA 32501
TELEPHONE (850) 432-2451
TELECOPIER (850) 469-3330

E. DIXIE BEGGS
Retired

BERT H. LANE
1917-1981

April 6, 1999

RECEIVED-FPSC
99 APR -7 PM 3:19
RECORDS AND REPORTING

Ms. Blanca S. Bayo, Director
Division of Records and Reporting
Florida Public Service Commission
2540 Shumard Oak Boulevard
Tallahassee, Florida 32399-0850

Re: Docket No. 990244-EI

Dear Ms. Bayo:

Enclosed for official filing in Docket No. 990244-EI is Gulf Power Company's revised Attachment "A" to the Company's petition filed in the docket on March 2, 1999. This new Attachment "A" (dated April 6, 1999) contains Gulf Power's revised proposal for an incentive revenue sharing mechanism that addresses certain regulatory issues including a reduction to the Company's authorized return on equity. In all other respects, Gulf's original petition and attachments remain as filed on March 2, 1999. Specifically, Gulf Power reasserts the arguments and other matters contained in its original filing as being fully supportive of the Company's revised proposal. It is Gulf Power's position that the material and discussion contained in the Company's original filing provides ample justification for the Commission to approve the Company's petition as amended by the enclosed Revised Proposal.

Two versions of Gulf Power's Revised Proposal are enclosed. One version has been ~~coded~~ to show changes to the original document entitled Attachment "A" that was part of Gulf Power's petition. Additions are shown in redline text. Deletions are shown in ~~strikeout text~~. The other enclosed version of the Revised Proposal does not contain redline markings or the ~~strikeout text~~.

ACK ____
AFA Revell
APP ____
CAF ____
CMU ____
CTR ____
EAG 4
LEG 2
LIN ____
OPC ____
RCH ____
SEC 1
WAS ____
OTH ____

RECEIVED & FILED
FPSC-BUREAU OF RECORDS

MAIL ROOM
99 APR -7 AM 8:59

DOCUMENT NUMBER-DATE
04493 APR-7 99
FPSC-RECORDS/REPORTING

An original and ten copies of this letter and Gulf's Revised Proposal have been enclosed for official filing. An extra copy of this letter has also been enclosed. Please acknowledge receipt and official filing of Gulf Power's Revised Proposal by marking the extra copy of this letter with the date and time received by your office and returning same to me at your earliest convenience. If there are any questions concerning this filing, please contact me.

Very truly yours,

Jeffrey A. Stone
For the Firm

JAS/js
Enclosures

cc: Tim Devlin, Director
Division of Auditing and Financial Analysis
Bob Elias, Esquire
Division of Legal Services

R. G. Livingston
S. D. Ritenour
A. E. Scarbrough

Revised Proposal
4/06/99

Attachment "A"[1]

The following is Gulf Power Company's proposal for addressing certain regulatory issues including a reduction to the Company's authorized return on equity ("ROE")[2]:

1. This plan covers calendar years 1999, 2000 and 2001.

2. Effective January 1, 1999, Gulf Power's authorized ROE will be established at a midpoint of ~~11.8%~~ 11.6% (reduced from 12.0%) for all regulatory purposes with an authorized range of ~~10.8%~~ 10.6% to ~~12.8%~~12.6%. For purposes of initiating this plan, a target earnings adjustment point of 12.2% has been used to calculate the amounts set forth in paragraph 4 below. The top of the authorized range, 12.6% will be used as the revenue sharing point for the purposes set forth in paragraph 7 of this plan.

3. The Company will accrue to its Property Insurance Reserve an incremental $1.0 million (a total of $4.5 million) on an annual basis for the calendar years 1999, 2000, and 2001. The flexibility to adjust accruals allowed under Order No. PSC-96-1334-FOF-EI is suspended during the duration of this revenue sharing plan for the years 1999, 2000, and 2001.

4. For calendar year 1999, the Company will issue a credit on all retail customers bills for the July 1999 billing cycle that will total $3.7 million. The credit will be calculated on a per kWh basis using projected kWh sales for the July 1999 billing cycle. Any difference between the amounts actually credited and the $3.7 million target credit will become part of the true-up calculation for the calendar year 2000 fuel and purchased power cost recovery factor.

---

[1]This Revised Proposal is submitted as a replacement for the document entitled Attachment "A" that was part of Gulf Power's petition in Docket No. 990244-EI filed March 2, 1999. In all other respects, Gulf Power's petition remains unchanged. This document is coded to show changes to the original document entitled Attachment "A" that was part of Gulf Power's petition. Additions are shown in redline text. Deletions are shown in ~~strikeout text~~. Changes in the numbering of footnotes and paragraphs have not been coded in redline/~~strikeout~~ format.

[2]The provisions of this proposal will not take effect unless and until approved by an order of the Florida Public Service Commission that becomes final and is not subject to further review. The foregoing statement is not intended to restrict the ability of any person having legally sufficient interest to seek initiation of a rate proceeding during the period covered by the plan.

DOCUMENT NUMBER-DATE
04493 APR-7 8
RECORDS/REPORTING

For calendar year 2000, the Company will issue a credit to all retail customers totaling $3.7 million which will be used to reduce the fuel and purchased power cost recovery factor applied to customer billings during calendar year 2000.

After the close of calendar year 2001, the Company will issue a credit to all retail customers equal to the lesser of any jurisdictional revenues in calendar year 2001 contributing to earnings above the target earnings adjustment point of 12.2% or $3.7 million. This credit will be calculated on a per kWh basis using projected kWh sales for the April 2002 billing cycle and will be applied as a credit to customer bills during such cycle. Any difference between the amounts actually credited and the calculated target credit will become part of the true-up calculation for the calendar year 2003 fuel and purchased power cost recovery factor. The credit amount based on actual earnings for calendar year 2001 shall be determined and removed from the Company's earnings for 2001 before the determination pursuant to paragraph 7 below whether actual earnings for calendar year 2001 have reached the revenue sharing point and, if so, the calculation of the amount of revenues that will be subject to sharing.

5. Effective January 1, 1999, Gulf Power will no longer accrue a deferred return on the cost of the third floor of the corporate office as authorized and identified by the Florida Public Service Commission in Order No. 23573 issued October 3, 1990 in Docket No. 891345-EI (Gulf Power's last full base rate adjustment proceeding). The accumulated balance of such deferred return together with the identified third floor investment amount shall be included in the Company's authorized jurisdictional rate base and be subject to depreciation and amortization for purposes of calculating the achieved jurisdictional return beginning January 1, 1999.

6. Effective January 1, 1999, Gulf Power's merchandising operations and any other non-utility investment excluded from the Company's jurisdictional rate base for surveillance purposes will be removed from the Company's capital structure either on a pro rata basis (instead of totally from equity) in order to be consistent with the manner in which the Company actually finances such investments or based on a proxy capital structure equivalent to that of a publicly traded company operating in Florida that is primarily engaged in the financing of merchandise sales, whichever produces the greater equity ratio.[3]

---

[3]This item reflects the need to reassess the continued appropriateness of a decision reached nearly 10 years ago in Gulf's last rate case. This reassessment is of the same character as the reassessment reflected in item ~~3~~5 above.

7. After the close of each calendar year covered by this plan, the amount of any actual revenues contributing to earnings above the revenue sharing point of ~~12.8%~~ 12.6% up to a ceiling on ROE of ~~14.3%~~ 14.6% (measured after sharing) for that calendar year will be divided into three shares on a 40%, 20%, 40% basis. These shares are to be distributed as follows:

One 40% share of such revenues shall be refunded to Gulf's retail customers during the following calendar year as a credit through the Company's fuel adjustment clause or in such other manner as may be approved by the Commission.

The 20% share of such revenues (such share hereafter referred to as "plan revenues") will be utilized to address certain regulatory issues under this plan as set forth in the remainder of this paragraph. The following items (in priority order) constitute regulatory assets that are to be addressed under this plan:

(a) outstanding balance of deferred returns on the cost of the third floor of the corporate office (approximately $2.9 million) ["Regulatory Asset A"];
(b) outstanding balance of the flow through portion of the FAS 109 regulatory asset (approximately $1.7 million) ["Regulatory Asset B"]; and
(c) outstanding balance of loss on reacquired debt (approximately $18.9 million) ["Regulatory Asset C"].

Plan revenues will first be applied to amortize the remaining balance of Regulatory Asset A. Any remaining plan revenues will be used to supplement the $3.5 million authorized annual accrual (and the incremental accrual referenced in paragraph 3 above) to Gulf Power's accumulated provision for property insurance ("Property Insurance Reserve") until a balance of at least ~~$12~~ $20 million is achieved. If any additional plan revenues remain after Regulatory Asset A is fully amortized and a balance of at least ~~$12~~ $20 million in the Property Insurance Reserve has been achieved, such remaining plan revenues will be applied first to amortize Regulatory Asset B and thereafter to amortize Regulatory Asset C. If any additional plan revenues remain after these two regulatory assets have been fully amortized, then such remaining plan revenues will be utilized first to further supplement the authorized annual accrual to the Property Insurance

Reserve until a balance of at least ~~$25~~ $30 million has been achieved[4] and thereafter to amortize any additional regulatory assets as may be approved by the Commission.

In exchange for the foregoing, in recognition of the Company's superior performance on key customer service indicators noted in paragraph 3 of the petition, and as an incentive to achieve even further efficiencies in operations of the Company, the Company's shareholders will be entitled to receive the remaining 40% share of actual revenues contributing to earnings above ~~12.8%~~ 12.6% up to a net earned jurisdictional return of ~~14.3%~~ 14.6% (measured after sharing).

The full amount of any revenues contributing to earnings above a net earned jurisdictional return of ~~14.3%~~ 14.6% (measured after sharing) will be deferred for use as directed by the Commission. The Commission will retain jurisdiction over all such deferred revenues.

8. The calculations of the actual jurisdictional ROE for calendar years 1999, 2000 and 2001 will be on an "FPSC Adjusted Basis" using the adjustments approved in Gulf Power's last full base rate proceeding as amended by this plan. Except as noted in the preceding sentence, all actual reasonable and prudent expenses and investment related to Gulf's retail electric jurisdiction will be allowed in the calculation and no annualized or proforma adjustments will be made.

9. The calendar year surveillance reports for 1999, 2000, and 2001 on which the sharing calculations will be based will continue to be filed no later than February 15 of the year following each plan year and will be subject to audit by the FPSC Staff and true-up consistent with paragraph ~~6~~ 8 above. ~~The FPSC Staff will attempt to complete its audit, review and Staff Recommendation no later than June 1 following the close of the calendar year under review to facilitate the finalization of the sharing process.~~ The Company will also submit a report on any revenues to be shared for the plan year for the Commission's review and approval.

[4]In Order No. PSC-96-1334-FOF-EI, the Commission established a target of $25 million to $36 million for Gulf Power's Property Insurance Reserve based on a study that had been requested by the Commission for its review.

10. The jurisdictional separation factors to be utilized in the surveillance report calculations referred to in paragraph ~~6~~8 above will continue to be ~~those developed in~~ based on a cost of service study prepared in accordance with the same methodology as the cost of service study used in Gulf's last full base rate adjustment proceeding (Docket 891345-EI) however, the Company will complete an updated study using the surveillance report for the calendar year 1998 as a base period. The updated study will be completed and new separation factors will be available in time to be used in conjunction with the surveillance report calculations referred to in paragraph 8 above.

11. Any revenues deferred pending Commission approval as to final disposition will accrue interest at the 30-day commercial paper rate as specified in Rule 25-6.109, Florida Administrative Code. Such deferred revenues will be assigned a cost rate in the determination of the cost of capital based on the rate used in the interest accrual for deferred balances consistent with the Commission's decision on this issue in Docket No. 950379-EI for Tampa Electric Company.

Attachment "A"[1]

The following is Gulf Power Company's proposal for addressing certain regulatory issues including a reduction to the Company's authorized return on equity ("ROE")[2]:

1. This plan covers calendar years 1999, 2000 and 2001.

2. Effective January 1, 1999, Gulf Power's authorized ROE will be established at a midpoint of 11.6% (reduced from 12.0%) for all regulatory purposes with an authorized range of 10.6% to 12.6%. For purposes of initiating this plan, a target earnings adjustment point of 12.2% has been used to calculate the amounts set forth in paragraph 4 below. The top of the authorized range, 12.6% will be used as the revenue sharing point for the purposes set forth in paragraph 7 of this plan.

3. The Company will accrue to its Property Insurance Reserve an incremental $1.0 million (a total of $4.5 million) on an annual basis for the calendar years 1999, 2000, and 2001. The flexibility to adjust accruals allowed under Order No. PSC-96-1334-FOF-EI is suspended during the duration of this revenue sharing plan for the years 1999, 2000, and 2001.

4. For calendar year 1999, the Company will issue a credit on all retail customers bills for the July 1999 billing cycle that will total $3.7 million. The credit will be calculated on a per kWh basis using projected kWh sales for the July 1999 billing cycle. Any difference between the amounts actually credited and the $3.7 million target credit will become part of the true-up calculation for the calendar year 2000 fuel and purchased power cost recovery factor.

---

[1]This Revised Proposal is submitted as a replacement for the document entitled Attachment "A" that was part of Gulf Power's petition in Docket No. 990244-EI filed March 2, 1999. In all other respects, Gulf Power's petition remains unchanged.

[2]The provisions of this proposal will not take effect unless and until approved by an order of the Florida Public Service Commission that becomes final and is not subject to further review. The foregoing statement is not intended to restrict the ability of any person having legally sufficient interest to seek initiation of a rate proceeding during the period covered by the plan.

For calendar year 2000, the Company will issue a credit to all retail customers totaling $3.7 million which will be used to reduce the fuel and purchased power cost recovery factor applied to customer billings during calendar year 2000.

After the close of calendar year 2001, the Company will issue a credit to all retail customers equal to the lesser of any jurisdictional revenues in calendar year 2001 contributing to earnings above the target earnings adjustment point of 12.2% or $3.7 million. This credit will be calculated on a per kWh basis using projected kWh sales for the April 2002 billing cycle and will be applied as a credit to customer bills during such cycle. Any difference between the amounts actually credited and the calculated target credit will become part of the true-up calculation for the calendar year 2003 fuel and purchased power cost recovery factor. The credit amount based on actual earnings for calendar year 2001 shall be determined and removed from the Company's earnings for 2001 before the determination pursuant to paragraph 7 below whether actual earnings for calendar year 2001 have reached the revenue sharing point and, if so, the calculation of the amount of revenues that will be subject to sharing.

5. Effective January 1, 1999, Gulf Power will no longer accrue a deferred return on the cost of the third floor of the corporate office as authorized and identified by the Florida Public Service Commission in Order No. 23573 issued October 3, 1990 in Docket No. 891345-EI (Gulf Power's last full base rate adjustment proceeding). The accumulated balance of such deferred return together with the identified third floor investment amount shall be included in the Company's authorized jurisdictional rate base and be subject to depreciation and amortization for purposes of calculating the achieved jurisdictional return beginning January 1, 1999.

6. Effective January 1, 1999, Gulf Power's merchandising operations and any other non-utility investment excluded from the Company's jurisdictional rate base for surveillance purposes will be removed from the Company's capital structure either on a pro rata basis (instead of totally from equity) in order to be consistent with the manner in which the Company actually finances such investments or based on a proxy capital structure equivalent to that of a publicly traded company operating in Florida that is primarily engaged in the financing of merchandise sales, whichever produces the greater equity ratio.[3]

---

[3]This item reflects the need to reassess the continued appropriateness of a decision reached nearly 10 years ago in Gulf's last rate case. This reassessment is of the same character as the reassessment reflected in item 5 above.

7. After the close of each calendar year covered by this plan, the amount of any actual revenues contributing to earnings above the revenue sharing point of 12.6% up to a ceiling on ROE of 14.6% (measured after sharing) for that calendar year will be divided into three shares on a 40%, 20%, 40% basis. These shares are to be distributed as follows:

One 40% share of such revenues shall be refunded to Gulf's retail customers during the following calendar year as a credit through the Company's fuel adjustment clause or in such other manner as may be approved by the Commission.

The 20% share of such revenues (such share hereafter referred to as "plan revenues") will be utilized to address certain regulatory issues under this plan as set forth in the remainder of this paragraph. The following items (in priority order) constitute regulatory assets that are to be addressed under this plan:

(a) outstanding balance of deferred returns on the cost of the third floor of the corporate office (approximately $2.9 million) ["Regulatory Asset A"];
(b) outstanding balance of the flow through portion of the FAS 109 regulatory asset (approximately $1.7 million) ["Regulatory Asset B"]; and
(c) outstanding balance of loss on reacquired debt (approximately $18.9 million) ["Regulatory Asset C"].

Plan revenues will first be applied to amortize the remaining balance of Regulatory Asset A. Any remaining plan revenues will be used to supplement the $3.5 million authorized annual accrual (and the incremental accrual referenced in paragraph 3 above) to Gulf Power's accumulated provision for property insurance ("Property Insurance Reserve") until a balance of at least $20 million is achieved. If any additional plan revenues remain after Regulatory Asset A is fully amortized and a balance of at least $20 million in the Property Insurance Reserve has been achieved, such remaining plan revenues will be applied first to amortize Regulatory Asset B and thereafter to amortize Regulatory Asset C. If any additional plan revenues remain after these two regulatory assets have been fully amortized, then such remaining plan revenues will be utilized first to further supplement the authorized annual accrual to the Property Insurance Reserve until a balance of at least $30 million has been achieved[4] and thereafter to amortize any additional regulatory assets as may be approved by the Commission.

---

[4]In Order No. PSC-96-1334-FOF-EI, the Commission established a target of $25 million to $36 million for Gulf Power's Property Insurance Reserve based on a study that had been requested by the Commission for its review.

In exchange for the foregoing, in recognition of the Company's superior performance on key customer service indicators noted in paragraph 3 of the petition, and as an incentive to achieve even further efficiencies in operations of the Company, the Company's shareholders will be entitled to receive the remaining 40% share of actual revenues contributing to earnings above 12.6% up to a net earned jurisdictional return of 14.6% (measured after sharing).

The full amount of any revenues contributing to earnings above a net earned jurisdictional return of 14.6% (measured after sharing) will be deferred for use as directed by the Commission. The Commission will retain jurisdiction over all such deferred revenues.

8. The calculations of the actual jurisdictional ROE for calendar years 1999, 2000 and 2001 will be on an "FPSC Adjusted Basis" using the adjustments approved in Gulf Power's last full base rate proceeding as amended by this plan. Except as noted in the preceding sentence, all actual reasonable and prudent expenses and investment related to Gulf's retail electric jurisdiction will be allowed in the calculation and no annualized or proforma adjustments will be made.

9. The calendar year surveillance reports for 1999, 2000, and 2001 on which the sharing calculations will be based will continue to be filed no later than February 15 of the year following each plan year and will be subject to audit by the FPSC Staff and true-up consistent with paragraph 8 above. The Company will also submit a report on any revenues to be shared for the plan year for the Commission's review and approval.

10. The jurisdictional separation factors to be utilized in the surveillance report calculations referred to in paragraph 8 above will continue to be based on a cost of service study prepared in accordance with the same methodology as the cost of service study used in Gulf's last full base rate adjustment proceeding (Docket 891345-EI) however, the Company will complete an updated study using the surveillance report for the calendar year 1998 as a base period. The updated study will be completed and new separation factors will be available in time to be used in conjunction with the surveillance report calculations referred to in paragraph 8 above.

11. Any revenues deferred pending Commission approval as to final disposition will accrue interest at the 30-day commercial paper rate as specified in Rule 25-6.109, Florida Administrative Code. Such deferred revenues will be assigned a cost rate in the determination of the cost of capital based on the rate used in the interest accrual for deferred balances consistent with the Commission's decision on this issue in Docket No. 950379-EI for Tampa Electric Company.