

STATE OF FLORIDA

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TIMOTHY DEVLIN, DIRECTOR  
AUDITING & FINANCIAL ANALYSIS  
(850) 413-6480

**Public Service Commission**

July 30, 1999

Mr. Warren E. Tate  
Gulf Power Company  
One Energy Place  
Pensacola, FL 32520-0780

**Re: Undocketed; Gulf Power Company  
Audit Report; Earnings Review - Historical Year Ended December 31, 1998  
Audit Control No. 99-062-1-1**

Mr. Tate:

The enclosed audit report is forwarded for your review. If you desire to file a response to the audit, please file one with the Division of Records and Reporting so it may be forwarded for consideration by the staff analysts in their review of the audit.

Sincerely,

Denise N. Vandiver  
Bureau Chief - Auditing Services

DNV: sp

- cc:  Division of Records and Reporting
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- Division of Electric and Gas (Jenkins)
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FLORIDA PUBLIC SERVICE COMMISSION

DIVISION OF AUDITING AND FINANCIAL ANALYSIS  
BUREAU OF AUDITING SERVICES

Tallahassee District Office

GULF POWER COMPANY

Earnings Review

HISTORICAL YEAR ENDED December 31, 1998

DOCKET NO. Undocketed

AUDIT CONTROL NO. 99-062-1-1

Michael E. Buckley  
Michael E. Buckley, Audit Manager

Edward D. Bass  
Edward Bass, Audit Staff

Demetrius Lockwood  
Demetrius Lockwood, Audit Staff

Rhonda L. Hicks  
Rhonda Hicks, Audit Supervisor

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**DIVISION OF AUDITING AND FINANCIAL ANALYSIS  
AUDITOR'S REPORT**

**July 30, 1999**

**TO: FLORIDA PUBLIC SERVICE COMMISSION AND OTHER INTERESTED PARTIES**

We have applied the procedures described later in this report to audit the accompanying schedules of Rate Base, Net Operating Income, and Capital Structure for the historical 12-month period ended December 31, 1998, for Gulf Power Company. These schedules were prepared by the utility for its Earnings Surveillance Report. There is no confidential information associated with this audit, and there are no audit staff minority opinions.

This is an internal accounting report prepared after performing a limited scope audit. Accordingly, this report should 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 auditing standards and produce audited financial statements for public use.

In our opinion, the schedules referred to above present fairly, in all material respects, the utility's books and records, maintained in conformity with the accounting practices prescribed by the Florida Public Service Commission. The attached findings discuss all differences and other matters which were noted during our examination.

## SUMMARY OF SIGNIFICANT FINDINGS

Gulf's filings are difficult to audit because of the method of reporting; numerous golf items were expensed above the line by Gulf; developers were paid to install electric water heaters; a statistical sample of meals showed numerous errors; land held for future use was donated or sold at a loss; contributions were made above the line; employee count has decreased 12.6% since 1990; there is a restaurant and bank included in rate base.

## SUMMARY OF SIGNIFICANT PROCEDURES

Our audit was performed by examining, on a test basis, certain transactions and account balances which we believe are sufficient to base our opinion. Our examination did not entail a complete review of all financial transactions of the company. Our more important audit procedures are summarized below. The following definitions apply when used in this report:

**Compiled** - The exhibit amounts were reconciled with the general ledger, and accounts were scanned for error or inconsistency.

**Reviewed** - The exhibit amounts were reconciled with the general ledger. The general ledger account balances were traced to subsidiary ledgers, and selective analytical review procedures were applied.

**Examined** - The exhibit amounts were reconciled with the general ledger. The general ledger account balances were traced to subsidiary ledgers. Selective analytical review procedures were applied, and account balances were tested to the extent further described.

**Verify** - The item was tested for accuracy, and substantiating documentation was examined.

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**RATE BASE:** Obtained Company work papers detailing adjustments; verified accounting adjustments to Rate Base are computed correctly and are consistent with the Company's last rate review; compiled Rate Base components and adjustments; traced adjustments to supporting documentation; compiled Working Capital; compiled plant-in-service; recalculated plant additions and retirements for the period ending December 31, 1998; traced plant-in-service to the General Ledger; performed judgmental sample of additions and retirements to plant-in-service for the years 1996, 1997, and 1998.

**NET OPERATING INCOME:** Examined a statistical sample of Gulf's Operating and Maintenance Expenses. The sample consisted of 209 entries out of a population of 6,353. The population had entries to Employee Analyst Code (EAC) 1999, Meals, and were between \$0 and \$2,500. They were examined for proper classification. All charges above \$2,500 were examined. Recalculated depreciation and amortization for the period ending December 31, 1998 using the rates established per Commission's last Depreciation Study, Order No. PSC-98-0921-FOF-EI. Traced depreciation and amortization balances to the General Ledger.

**CAPITAL STRUCTURE:** Compiled and recalculated 13-month averages for each general ledger account; recalculated the cost rate for long-term debt; agreed the allowed cost rate for equity to the Company's last Commission order governing equity rates; verified short term debt outstanding at year end; verified Company specific adjustments to applicable capital structure items; recomputed Company's weighted cost of capital as of December 31, 1998.

**OTHER:** Read Arthur Andersen financial working papers for Gulf Power for 1998; read 1998 Internal Audit Reports; read all Board of Directors minutes including minutes for meetings of the Committees of the Board of Directors; prepared Trial Balance and agreed to the General Ledger.

## **DISCLOSURES**

### **Disclosure No. 1**

**Subject:** Surveillance Reporting

**Statement of Fact:** Surveillance report schedules filed by Gulf disclose balances reported in its accounts called "system per books". However the amounts reported are determined using "jurisdictional per books" amounts.

"Jurisdictional per books" amounts do not match the amounts recorded in the General Ledger accounts. Calculating "Jurisdictional per books" amounts involve recalculating all elements reported on the financial records, then separating all amounts into Federal and Florida Portions.

Gulf calculates its rate base, net operating income and capital structure after removing: Non Utility Property; Unit Power Sales; and FPSC adjustments. The utility then separates the remaining costs between its wholesale (Federal) and retail (Florida) customers.

**Opinion:** When the utility reports using jurisdictional amounts, it complicates the surveillance process. Jurisdictional amounts reported do not match the financial accounts or supporting documents, nor do they match the mathematical process to arrive at allowable costs.

Gulf's current surveillance report has per book balances which include off book cost allocations. The term "jurisdictional per books" is misleading as the amounts are never formally recorded within a general ledger, and in addition, jurisdictional financial statements are not prepared and distributed.

**Recommendation:** Require Gulf to include with its Surveillance Report, schedules using "per books" amounts for all adjustments and allocations.

**Disclosure No. 2**

**Subject:** Account 912 - Sales Plan

**Statement of Fact:** A judgmental sample of 35 invoices charged to Account 912, Sales Plan, was selected and reviewed.

**Recommendation:** The following amounts are not a necessary expense in providing utility service and should be charged below the line:

<b>Reference No.</b>	<b>Detail</b>	<b>Amount</b>
98196110	Golf Tees, Towels and Umbrellas	\$2,425.24
98261142	Baseball Caps	\$2,239.36
98168126	Golf Balls	\$1,262.72
98362214	Sports Bags	\$1,133.81
98350164	Pecans	\$2,014.71
98168126	Golf Rain Cover	\$1,613.73
98168126	Golf Balls	\$1,843.80
98168126	Wristbands, Ballpoint Pens	\$1,872.38
98168126	Golf Chamois	\$1,742.59
98168126	Sunglasses, Golf Tees, Drink Huggies	\$1,311.35
98168126	Baseball Caps	\$1,722.70
98021126	Candy Sampler	\$1,464.80
98174052	Hats	\$1,439.55
98348080	Error duplicate charge (Credit made in 1999)	\$27,765.63
98320058	Links Golf and Linkside Pub	<u>\$3,352.05</u>
		<u>\$53,204.42</u>

**Disclosure No. 3**

**Subject:** Payments to Install Electric Water Heaters

**Statement of Fact:** Gulf paid Ratepayers and Developers \$51,513.42 to install electric water heaters. Included in this amount was \$11,480.00 to Suntech Resort Developers to install electric instead of gas water heaters in a new residential development. Gulf also advertised in newspapers and gave rebates for replacing existing gas water heaters with electric water heaters.

**Recommendation:** Total charges in 1998 for these rebate payments (Account 912-1188) were:

Cash Rebates	\$41,671.36
Journal Vouchers	7,940.00
Materials	<u>1,902.06</u>
	<u>\$51,513.42</u>

This program promotes electric over gas appliances and is contrary to Gulf's own policy regarding fuel neutrality as well as the Commission's fuel neutrality policy as set forth in Commission Order Numbers 9974 and 12179 issued in Docket Numbers 810050-PU and 830002-PU.

**Disclosure No. 4**

**Subject:** Operating & Maintenance Expenses - Meals

**Statement of Fact:** The audit staff conducted a statistical audit sampling of meal expenses. The calculation of the sample size, selection of sample units, and subsequent evaluation of the sample was performed using statistical sampling guidelines. The population consisted of all Employee Analysis Codes (EAC) with the value of 1999, with dollar amounts between \$0 and \$2,500 charged to the general ledger from January 1 to December 31, 1998. Through the use of standard calculations, staff calculated the following criteria; Sum of defined Pop. = \$487,088.27, Pop. Count = 6,353, Z score = 1.65, Confidence Level = 90%, Pop. Std. Dev. = \$181, Desired Precision = \$129,000, Sample size = 209.

The 209 sample units had a total dollar amount of \$13,489.68. The sample units were examined to insure the charges to the Company books and records were properly classified as regulated or non-regulated meal amounts. Findings included meals for nonemployees, batteries, Country Club charges, Out of period charges, Optimist Club meals, air fare, fed ex, donation, capitalization error, etc. Based on our examination of the audited sample results, we calculated the following; Sum of Estimated Population = \$323,657.00, Audited Sample Amt. = \$10,661, Achieved Precision = \$84,509, Audit Std. Dev. = \$118.63, Confidence Level = Lower bound: \$239,148; Midpoint: \$323,657; Upper bound : \$408,166.

**Recommendation:** By using statistical sampling guidelines, we are able to infer the population size from the audited sample amount. We find the Company stated amount of \$487,088.27 is outside the upper bounds of the estimated population of \$408,166.00. As a result, we recommend the Operating and Maintenance expenses for meals be reduced by the difference between them of \$78,922 (\$487,088 - \$408,166).

**Disclosure No. 5**

**Subject:** Meals over \$2,500

**Statement of Fact:** All meals over \$2,500 were examined. One charge was questionable.

**Recommendation:** The Appreciation Dinner for area builders, contractors, developers, and architects charged to Account 908 - 1101, Reference No. 98167077 for \$4,226.91, should not be charged to regulated. This is not a necessary cost to provide utility service.

**Disclosure No. 6**

**Subject:** Plant Held for Future Use

**Statement of Fact:** Four areas of Plant Held for Future Use were disposed of in 1998:

<u>Date</u>	<u>Account 105</u>	<u>Sales Price</u>	<u>Expenses</u>	<u>Gain(Loss)</u>
October 1	\$632,060.67	\$778,890.00	\$47,620.36	\$99,208.97
April 1	\$439,000.00	\$415,000.00	\$ 3,616.50	(\$27,616.50)
December 1	\$ 30,000.00	\$ 0.00	\$ 0.00	(\$30,000.00)
November 1	\$ 189.71	\$ 1,800.00	\$ 0.00	\$ 1,610.29
Total	<u>\$1,101,250.38</u>	<u>\$1,195,690.00</u>	<u>\$51,236.86</u>	<u>\$43,202.76</u>

**Recommendation:** Gain/Loss on Disposal of Plant was credited \$43,202.76. The \$30,000 loss occurred due to a donation of land to Escambia County. This should be charged to Contributions (Account 426).

Land with a book value of \$439,000 was sold to Wendy's at a loss of \$27,616.50. This is prime real estate on a major road. The auditor believes this land should not have been sold at a loss. The analyst should investigate this transaction for prudence.

**Disclosure No. 7**

**Subject:** Contributions

**Statement of Fact:** Gulf contributed \$95,000 in 1998 to The Nature Conservancy for long-leaf pine restoration. Gulf also contributed \$18,500 in 1998 to The University of West Florida for training in energy and environmental issues.

**Recommendation:** The contribution to The Nature Conservancy was charged to Account 506-610, Research and Development. The contribution to The University of West Florida was charged to Account 923-030, Other Outside Services Employed. Both should be charged below the line to Account 426-1, Donations as these are not costs necessary to provide utility service.

**Disclosure No. 8**

**Subject:** Employee Count

**Statement of Fact:** During the last rate case in 1990, Gulf reported 1,587 full time employees including Merchandise Sales employees at year end. In January 1998, Gulf reported 1,403 full and part time employees including Merchandise Sales and SCS employees on site at Gulf.

Observations made at the Bayfront Building revealed numerous empty cubicles and open areas.

**Recommendation:** Gulf's employee count has decreased by 12.6% since 1990. This area left by the departed employees is not needed and should be removed from rate base. Rate Base should be reduced by 12.6%.

**Disclosure No. 9**

**Subject:** Restaurant and Bank

**Statement of Fact:** Gulf rents space in the Bayfront Building to Norma's By The Bay Restaurant. Gulf also donates space in the Bayfront Building to First Union Bank.

**Recommendation:** Rate Base should be reduced by the value of the floor space for the restaurant and bank. Norma's By The Bay has 7,287.774 Square Feet and The First Union Bank has 243.5 Square Feet. The Bayfront Building has 259,730 Square Feet of space and a book value of \$27,543,215. Therefore, Rate Base should be reduced \$776,148 for the restaurant and \$25,933 for the bank.

Total Accumulated Depreciation for the Bayfront Building is \$5,821,843. Accumulated Depreciation should be reduced by \$163,319 for the restaurant and \$5,457 for the bank.

Rent income from the restaurant of \$1,260 per month is recorded above the line and the bank pays no rent. Gulf could not separate the costs of operating and maintaining the restaurant and bank. The costs are included with total building expenses above the line.

**Disclosure No. 10**

**Subject:** Long-term debt weighted cost and cost rates

**Statement of Fact:** The reported cost rates and weighted cost for long-term debt per company and staff are as follows:

<b>Per Company Long-term debt Weighted Cost</b>	<b>Per Staff Calculation Long-term debt Weighted Cost</b>	<b>Variance</b>
Average - 1.90	Average - 1.94	.04
Year-end - 1.92	Year-end - 1.96	.04

<b>Per Company Long-term debt Cost Rate</b>	<b>Per Staff Calculation Long-term debt Cost Rate</b>	<b>Variance</b>
Average - 6.60	Average - 6.74	.14
Year-end - 6.66	Year-end - 6.79	.13

**Recommendation:** The audit staff recommends the Company submit revised schedules to the Commission.

**Disclosure No. 11**

**Subject:** Plant In Service - Additions

**Statement of Fact:** A judgmental sample of 177 plant addition invoices charged to Account 106, Electric Plant In Service, was selected and reviewed for the historical years ended December 31, 1996, 1997, and 1998.

**Recommendation:** The following amounts should be removed from Plant In Service and charged to expense, since they are maintenance costs. The years and reference numbers are provided below.

<b>Year</b>	<b>Reference No.</b>	<b>Detail</b>	<b>Amount</b>
1996	95321150	Towing for Gulf's Company Vehicle	\$ 75.00
1996	95341123	Towing for Gulf's Company Vehicle	93.75
1997	96353140	Paint and Repair Corporate Vehicle	4,898.25
1997	97169237	Tire Assy Foam Fill Replacement	<u>1,101.33</u>
<b>Total</b>			<u><b>\$6,168.33</b></u>

GULF POWER COMPANY  
YEAR END RATE OF RETURN  
RATE BASE  
DECEMBER '88

SCHEDULE 3  
PAGE 1 OF 3

	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
<b>SYSTEM PER BOOKS</b>	1,807,067,931	784,111,728	1,022,956,205	2,833,184	34,863,173	0	1,080,882,533	45,722,474	1,108,375,067
<b>JURISDICTIONAL PER BOOKS</b>	1,574,760,058	702,410,558	872,349,088	2,828,439	34,045,589	0	808,021,088	33,184,264	842,263,388
<b>FPSC ADJUSTMENTS</b>									
ENVIRONMENTAL RECOVERY CLAUSE	(64,138,721)	(9,825,540)	(54,511,181)		0		(54,511,181)	885,030	(53,810,181)
INT BEARING CWIP & SCHERER CWIP					(600,378)		(600,378)		(600,378)
ENERGY CONSERVATION CLAUSE	(22,078)	(9,462)	(12,818)		0		(12,818)	0	(12,818)
LOANS TO EMPLOYEES AND RETIREES								(1,038,562)	(1,038,562)
INTEREST AND DIVIDENDS RECEIVABLE								(13,357)	(13,357)
TEMPORARY CASH INVESTMENTS								(5,867,250)	(5,867,250)
FUEL RELATED DEFERRED DEBITS								(3,887,872)	(3,887,872)
FLAME RESISTANT CLOTHING								2,621	2,621
CORPORATE OFFICE - 3RD FLOOR	(3,840,807)	(337,682)	(3,503,145)				(3,503,145)	(2,158,653)	(5,661,798)
FUEL RELATED DEFERRED CREDITS								4,913	4,913
COAL INVENTORY ADJUSTMENT								0	0
HEAVY OIL INVENTORY ADJUSTMENT								0	0
LIGHT OIL INVENTORY ADJUSTMENT								0	0
SALE OF RAILCARS								548,485	548,485
GSU SETTLEMENT								0	0
<b>TOTAL FPSC ADJUSTMENTS</b>	<b>(67,999,006)</b>	<b>(9,972,864)</b>	<b>(58,028,842)</b>	<b>0</b>	<b>(600,378)</b>	<b>0</b>	<b>(58,827,320)</b>	<b>(11,314,845)</b>	<b>(68,841,885)</b>
<b>FPSC ADJUSTED</b>	<b>1,506,760,050</b>	<b>692,437,904</b>	<b>814,322,146</b>	<b>2,828,439</b>	<b>33,445,191</b>	<b>0</b>	<b>850,383,778</b>	<b>21,869,619</b>	<b>872,263,388</b>
<b>PRO FORMA REVENUE AND ANNUALIZATION ADJUSTMENTS</b>									
<b>TOTAL PRO FORMA ADJUSTMENTS</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>PRO FORMA ADJUSTED</b>	<b>1,506,760,050</b>	<b>692,437,904</b>	<b>814,322,146</b>	<b>2,828,439</b>	<b>33,445,191</b>	<b>0</b>	<b>850,383,778</b>	<b>21,869,619</b>	<b>872,263,388</b>

GULF POWER COMPANY  
AVERAGE RATE OF RETURN  
RATE BASE  
DECEMBER '98

SCHEDULE 2  
PAGE 1 OF 3

	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
<b>SYSTEM PER BOOKS</b>	1,781,052,235	761,980,037	1,019,091,298	3,414,746	29,104,910	0	1,051,810,954	45,722,474	1,097,333,428
<b>JURISDICTIONAL PER BOOKS</b>	1,550,286,548	663,013,659	887,272,887	3,193,581	28,421,213	0	898,887,681	33,840,721	932,737,402
<b>FPSC ADJUSTMENTS</b>									
ENVIRONMENTAL RECOVERY CLAUSE	(63,980,781)	(8,436,368)	(55,554,413)		(82,315)		(55,838,728)	895,030	(54,741,066)
INT BEARING CWIP & SCHERER CWIP					(480,915)		(480,915)		(480,915)
ENERGY CONSERVATION CLAUSE	(22,078)	(7,865)	(14,183)		0		(14,183)	0	(14,183)
LOANS TO EMPLOYEES / RETIREES								(1,039,582)	(1,039,582)
INTEREST AND DIVIDENDS RECEIVABLE								(13,357)	(13,357)
TEMPORARY CASH INVESTMENTS								(5,887,250)	(5,887,250)
FUEL RELATED DEFERRED DEBITS								(3,887,872)	(3,887,872)
FLAME RESISTANT CLOTHING								2,621	2,621
CORPORATE OFFICE - 3RD FLOOR	(3,840,807)	(337,882)	(3,503,145)				(3,503,148)	(2,158,653)	(5,661,798)
FUEL RELATED DEFERRED CREDITS								4,913	4,913
COAL INVENTORY ADJUSTMENT								0	0
HEAVY OIL INVENTORY ADJUSTMENT								0	0
LIGHT OIL INVENTORY ADJUSTMENT								0	0
SALE OF RAILCARS								848,488	848,488
GSU SETTLEMENT								0	0
<b>TOTAL FPSC ADJUSTMENTS</b>	<b>(67,863,668)</b>	<b>(9,781,916)</b>	<b>(58,071,781)</b>	<b>0</b>	<b>(543,230)</b>	<b>0</b>	<b>(59,814,861)</b>	<b>(11,314,645)</b>	<b>(70,929,828)</b>
<b>FPSC ADJUSTED</b>	<b>1,482,432,880</b>	<b>674,231,744</b>	<b>808,201,138</b>	<b>3,193,581</b>	<b>27,877,983</b>	<b>0</b>	<b>839,272,700</b>	<b>22,535,076</b>	<b>861,807,776</b>
<b>PRO FORMA REVENUE AND ANNUALIZATION ADJUSTMENTS</b>									
<b>TOTAL PRO FORMA ADJUSTMENTS</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>PRO FORMA ADJUSTED</b>	<b>1,482,432,880</b>	<b>674,231,744</b>	<b>808,201,138</b>	<b>3,193,581</b>	<b>27,877,983</b>	<b>0</b>	<b>839,272,700</b>	<b>22,535,076</b>	<b>861,807,776</b>

GULF POWER COMPANY  
YEAR END RATE OF RETURN  
DECEMBER '98

	OPERATING REVENUES	O & M FUEL & NET INTERCHANGE	O & M OTHER	DEPRECIATION & AMORTIZATION	TAXES OTHER THAN INCOME	INCOME TAXES CURRENT	DEFERRED INCOME TAXES (NET)	INVESTMENT TAX CREDIT (NET)	GAIN/LOSS ON DISPOSITION	TOTAL OPERATING EXPENSES	NET OPERATING INCOME
SYSTEM PER BOOKS	850,517,548	232,937,828	184,834,848	81,004,540	51,481,881	38,854,000	(4,564,522)	(1,832,138)	(43,202)	562,252,838	88,264,709 (a)
JURISDICTIONAL PER BOOKS	594,058,018	214,722,211	188,564,452	55,378,894	50,118,111	34,811,121	(4,084,783)	(1,482,108)	(41,487)	518,008,223	76,051,792 (a)
<b>LESS FPSC ADJUSTMENTS:</b>											
ENVIRONMENTAL RECOVERY CLAUSE	(7,872,028)		(2,845,248)	1,318,388	(818,898)	(2,247,857)		0		(4,362,844)	(3,578,362)
SCS LOBBYING EXPENSE			(22,073)			8,515				(13,558)	13,558
MARKETING SUPPORT ACTIVITIES			(101,525)			38,183				(62,342)	62,342
NONUTILITY TALLAHASSEE				0		(4,117)				(4,117)	4,117
GAIN/LOSS ON DISPOSITION			0			0			32,885	32,885	(32,885)
CORPORATE INVESTIGATIONS			(15)			0				(9)	9
FRANCHISE FEE REVENUES	(17,082,488)					(8,581,845)				(8,581,845)	(10,480,618)
RETAIL FUEL REVENUES	(210,728,431)					(81,288,482)				(81,288,482)	(128,438,909)
ENERGY CONS. COST RECOV. REVB.	(8,377,883)					(3,817,518)				(3,817,518)	(5,780,365)
INT ON TAX ASSESSMENT			1,320,824			(508,188)				810,625	(810,625)
MANAGEMENT PERKS			(2,881)			1,111				(1,770)	1,770
ECON DEV EXPENSE ALLOWED			854,501			(252,474)				402,027	(402,027)
LIASON EXPENSES			(154,450)		(7,401)	62,434				(89,417)	89,417
AREA DEV & NATIONAL ADVERTISING			(1,114,748)			430,013				(684,731)	684,731
INDUSTRY ASSOCIATION DUES			(32,584)			12,588				(20,015)	20,015
RETAIL FUEL EXPENSES		(208,177,168)				80,880,088				(128,487,080)	128,487,080
ECCR and PPCC EXPENSES		(8,648,056)	(2,448,287)	(3,154)	(83,083)	3,115,807				(4,981,823)	4,981,823
ECON DEV EXPENSE TOTAL			(702,603)	0		270,788				(421,205)	421,205
FRANCHISE FEE					(18,582,588)	6,400,583				(10,181,885)	10,181,885
GROSS REC. FPSC FOR REV. ADJ'S.					(3,088,123)	1,183,944				(1,801,181)	1,801,181
INCOME TAX ADJUSTMENTS						0				0	0
INTEREST SYNCHRONIZATION						2,815,322				2,815,322	(2,815,322)
<b>TOTAL FPSC ADJUSTMENTS</b>	<b>(248,140,806)</b>	<b>(214,722,211)</b>	<b>(5,447,284)</b>	<b>1,318,388</b>	<b>(80,387,048)</b>	<b>538,950</b>	<b>0</b>	<b>0</b>	<b>32,885</b>	<b>(238,878,880)</b>	<b>(8,482,123)</b>
<b>FPSC ADJUSTED</b>	<b>348,817,211</b>	<b>0</b>	<b>183,117,188</b>	<b>56,694,900</b>	<b>29,721,065</b>	<b>36,350,071</b>	<b>(4,084,783)</b>	<b>(1,482,108)</b>	<b>(8,812)</b>	<b>279,327,543</b>	<b>88,588,888</b>
<b>PRO FORMA REV. ANNUAL ADJ</b>											
<b>TOTAL PRO FORMA ADJUSTMENTS</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>PRO FORMA ADJUSTED</b>	<b>348,817,211</b>	<b>0</b>	<b>183,117,188</b>	<b>56,694,900</b>	<b>29,721,065</b>	<b>36,350,071</b>	<b>(4,084,783)</b>	<b>(1,482,108)</b>	<b>(8,812)</b>	<b>279,327,543</b>	<b>88,588,888</b>

(a) THE ADDITION OF EARNINGS FROM AFLDC WOULD INCREASE THE SYSTEM NET BY \$0 AND THE JURISDICTIONAL NET BY \$0

GULF POWER COMPANY  
AVERAGE RATE OF RETURN  
INCOME STATEMENT  
DECEMBER '88

SCHEDULE 2  
PAGE 2 OF 8

	OPERATING REVENUES	O & M FUEL & NET INTERCHANGE	O & M OTHER	DEPRECIATION & AMORTIZATION	TAXES OTHER THAN INCOME	INCOME TAXES CURRENT	DEFERRED INCOME TAXES (NET)	INVESTMENT TAX CREDIT (NET)	GAIN/LOSS ON DISPOSITION	TOTAL OPERATING EXPENSES	NET OPERATING INCOME
SYSTEM PER BOOKS	650,517,546	232,897,828	184,634,648	81,004,640	51,481,881	38,054,000	(4,584,522)	(1,892,138)	(43,202)	582,252,838	68,264,708 (a)
JURISDICTIONAL PER BOOKS	584,088,680	214,722,211	188,584,452	55,378,694	50,198,111	34,787,834	(4,083,107)	(1,482,108)	(41,487)	517,684,682	78,073,887 (a)
<b>LESS FPSC ADJUSTMENTS:</b>											
ENVIRONMENTAL RECOVERY CLAUSE	(7,972,028)		(2,845,248)	1,318,380	(818,888)	(2,247,857)				(4,382,844)	(3,578,382)
SCS LOBBYING EXPENSE			(22,073)			8,515				(13,558)	13,558
MARKETING SUPPORT ACTIVITIES			(101,525)			38,183				(62,342)	62,342
MONSANTO / REV ADJUSTMENT	(10,674)					(4,117)				(4,117)	(8,557)
GAIN/LOSS ON DISPOSITION			0			0			32,885	32,885	(32,885)
CORPORATE INVESTIGATIONS			(15)			8				(7)	8
FRANCHISE FEE REVENUES	(17,082,483)					(8,581,845)				(8,581,845)	(10,480,818)
RETAIL FUEL REVENUES	(210,728,431)					(81,388,482)				(81,388,482)	(128,438,838)
ECCR and PPOC REVENUES	(8,377,885)					(3,817,518)				(3,817,518)	(5,780,368)
INT ON TAX ASSESSMENT			1,320,024			(508,188)				810,825	(810,825)
MANAGEMENT PERKS			(2,881)			1,111				(1,770)	1,770
ECON DEV EXPENSE ALLOWED			654,501			(252,474)				402,027	(402,027)
LIABON EXPENSES			(184,480)		(7,401)	88,434				(88,417)	88,417
AREA DE V & NATIONAL ADVERTISING			(1,114,744)			430,013				(684,731)	684,731
INDUSTRY ASSOCIATION DUES			(32,584)			12,688				(20,018)	20,018
RETAIL FUEL EXPENSES		(208,177,154)				80,880,088				(128,487,066)	128,487,066
ECCR and PPOC EXPENSES		(5,548,058)	(2,448,287)	(3,184)	(83,053)	3,115,807				(4,881,823)	4,881,823
ECON DEV EXPENSE TOTAL			(702,008)			270,788				(431,220)	431,220
FRANCHISE FEE						(18,582,588)				(18,181,985)	18,181,985
GROSS REC. FPSC FOR REV. ADJ'S						(3,085,125)	1,183,844			(1,801,181)	1,801,181
INCOME TAX ADJUSTMENTS										0	0
INTEREST SYNCHRONIZATION							3,208,788			3,208,788	(3,208,788)
<b>TOTAL FPSC ADJUSTMENTS</b>	<b>(245,151,478)</b>	<b>(214,782,211)</b>	<b>(5,447,284)</b>	<b>1,318,288</b>	<b>(20,387,048)</b>	<b>932,387</b>	<b>0</b>	<b>0</b>	<b>32,885</b>	<b>(238,285,233)</b>	<b>(8,888,248)</b>
FPSC ADJUSTED	348,817,211	0	183,117,188	58,894,800	29,721,085	38,730,331	(4,083,107)	(1,482,108)	(8,812)	278,708,438	68,207,752
PRO FORMA REV. ANNUAL ADJ											
TOTAL PRO FORMA ADJUSTMENTS	0	0	0	0	0	0	0	0	0	0	0
PRO FORMA ADJUSTED	348,817,211	0	183,117,188	58,894,800	29,721,085	38,730,331	(4,083,107)	(1,482,108)	(8,812)	278,708,438	68,207,752
(a) THE ADDITION OF EARNINGS FROM AFUDC WOULD INCREASE THE SYSTEM NOI BY 80 AND THE JURISDICTIONAL NOI BY 80											
CURRENT MO. SYSTEM PER BOOKS	45,881,848	11,847,297	18,513,319	4,512,898	3,588,810	101,077	1,522,354	(182,878)	30,000	48,880,818	4,881,888
CURRENT MO. JURIS PER BOOKS	40,535,800	13,281,628	18,438,357	4,083,822	3,514,852	(183,878)	1,288,345	(121,881)	28,818	38,313,328	2,222,274

GULF POWER COMPANY  
CAPITAL STRUCTURE  
FISC ADJUSTED BASIS  
DECEMBER '88

SCHEDULE 4

AVERAGE	SYSTEM PER BOOKS	NETAL PER BOOKS	ADJUSTMENTS		ADJUSTED NETAL	RATIO (%)	LOW POINT		MIDPOINT		HIGH POINT	
			PRO RATA	SPECIFIC			COST RATE (%)	WEIGHTED COST (%)	COST RATE (%)	WEIGHTED COST (%)	COST RATE (%)	WEIGHTED COST (%)
				0								
LONG TERM DEBT	324,888,017	270,058,384	(19,832,358)	(1,812,888)	248,514,848	28.84	6.80	1.80	6.80	1.80	6.80	1.80
SHORT TERM DEBT	18,738,682	18,288,788	(1,354,828)	0	18,888,078	1.88	5.70	0.11	5.70	0.11	5.70	0.11
PREFERRED STOCK	88,884,282	77,448,881	(8,750,281)	0	71,888,300	8.32	5.15	0.43	5.15	0.43	5.15	0.43
CUSTOMER DEPOSITS	12,181,888	12,884,888	(883,788)	0	11,801,112	1.38	5.88	0.05	5.88	0.05	5.88	0.05
COMMON EQUITY	428,182,111	278,812,842	(28,848,288)	(283,877)	348,784,870	40.58	11.00	4.48	12.00	4.87	13.00	5.28
DEFERRED INCOME TAXES	181,473,772	188,888,887	(8,872,232)	0	118,388,388	13.88						
FASB 108 DEFERRED TAXES	28,884,888	23,887,288	(1,787,188)	0	21,328,188	2.47						
TAX CREDITS - ZERO COST	0	0	0	0	0	0.00						
TAX CREDITS - WEIGHTED COST	30,483,848	24,281,154	(1,788,883)	0	22,484,281	2.88	6.74	0.23	6.88	0.24	6.78	0.25
<b>TOTAL</b>	<b>1,888,447,882</b>	<b>828,737,482</b>	<b>(88,112,888)</b>	<b>(1,818,888)</b>	<b>881,887,778</b>	<b>100.00</b>		<b>7.21%</b>		<b>7.82%</b>		<b>8.88</b>

YEAR-END	SYSTEM PER BOOKS	NETAL PER BOOKS	ADJUSTMENTS		ADJUSTED NETAL	RATIO (%)	LOW POINT		MIDPOINT		HIGH POINT	
			PRO RATA	SPECIFIC			COST RATE (%)	WEIGHTED COST (%)	COST RATE (%)	WEIGHTED COST (%)	COST RATE (%)	WEIGHTED COST (%)
				0								
LONG TERM DEBT	328,782,788	272,881,282	(28,182,248)	0	251,888,137	28.87	6.88	1.82	6.88	1.82	6.88	1.82
SHORT TERM DEBT	31,888,888	30,888,438	(2,288,188)	0	28,488,227	3.28	5.28	0.17	5.28	0.17	5.28	0.17
PREFERRED STOCK	83,348,884	74,482,884	(8,828,418)	0	88,827,448	7.88	5.01	0.48	5.01	0.48	5.01	0.48
CUSTOMER DEPOSITS	12,888,812	12,233,222	(888,248)	0	11,324,877	1.38	6.88	0.08	6.88	0.08	6.88	0.08
COMMON EQUITY	438,848,412	278,788,277	(27,882,888)	0	347,888,221	38.88	11.00	4.38	12.00	4.78	13.00	5.18
DEFERRED INCOME TAXES	188,883,238	131,883,228	(8,788,888)	0	122,184,258	14.01						
FASB 108 DEFERRED TAXES	27,158,888	21,881,171	(1,881,871)	0	18,888,288	2.28						
TAX C/4 (HTB) - ZERO COST	0	0	0	0	0	0.00						
TAX C/4 (HTB) - WEIGHTED COST	28,831,818	23,883,883	(1,741,888)	0	21,782,888	2.48	6.78	0.22	6.87	0.23	6.78	0.24
<b>TOTAL</b>	<b>1,188,883,282</b>	<b>842,888,282</b>	<b>(88,841,888)</b>	<b>0</b>	<b>878,883,282</b>	<b>100.00</b>		<b>7.18</b>		<b>7.88</b>		<b>8.88</b>

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