ORIGINAL

BEFORE THE

FLORIDA PUBLIC SERVICE COMMISSION

DOCKET NO. 010949-EI

TESTIMONY AND EXHIBIT

OF

R. G. MOORE

GULF POWER

A SOUTHERN COMPANY

GULF POWER COMPANY
Before the Florida Public Service Commission
Prepared Direct Testimony and Exhibit of
Robert G. Moore
Docket No. 010949-EI
In Support of Rate Relief
Date of Filing: September 10, 2001

Q. Please state your name, business address, and occupation.

A. My name is Robert G. Moore and my business address is One Energy Place, Pensacola, Florida 32520. I am Vice President of Power Generation and Transmission at Gulf Power Company.

Q. Please summarize your educational and professional background.

A. I graduated from the University of Alabama in 1973 with a Bachelor of Science Degree in Mechanical Engineering. I joined Alabama Power Company in 1973 as a junior engineer at Plant Barry in Mobile, Alabama. In 1978, I transferred to Mississippi Power Company where I held various positions of increasing responsibility including Plant Manager – Plant Daniel, and Plant Manager – Plant Watson. I transferred to Georgia Power Company in 1993 as Plant Manager – Plant Bowen. In 1997, I was elected to my present position as Vice President of Gulf Power Company.

Q. What are your areas of responsibility within Gulf Power Company?

A. I have responsibility for the Power Generation, Fuel, Environmental Affairs, Procurement and Materials, and Transmission and System Control functions at Gulf Power Company. This includes the generation

and transmission of electricity, fuel supply, environmental services, intercompany interchange contract administration, and procurement of materials and contract services.

Q. Have you prepared an exhibit that contains information to which you will refer in your testimony?

A. Yes. Schedule 1 is an index to the other schedules in my exhibit. Each schedule of this exhibit was prepared under my supervision and direction.

Counsel: We ask that Mr. Moore's Exhibit (RGM-1), comprised of 11 schedules, be marked for identification as Exhibit ____(RGM-1)

Q. Are you the sponsor of certain Minimum Filing Requirements (MFRs)?

A. Yes. The MFRs that I am sponsoring, in part or in whole, are listed on Schedule 11 of my exhibit.

Q. What is the purpose of your testimony in this proceeding?

A. I will present evidence related to Smith Unit 3, the Company's new combined cycle 574 megawatt generating unit scheduled to go into commercial operation on or before June 1, 2002, other production Operation and Maintenance (O & M) expenses, and construction projects included in our test year to show that the amounts budgeted for these items are reasonable, prudent and necessary. I will address: (1) the capital and O & M requirements of Smith Unit 3, (2) the need for additional O & M dollars to maintain our existing fleet of generating units,

(3) the variance between the O & M Benchmark and the test year for production, (4) the construction budget for power production, and (5) the projected fuel inventory included in working capital.

Q. What are the capital additions to rate base for Smith Unit 3?

A. The Smith Unit 3 project is budgeted at $220.5 million. This includes project design, site preparation, environmental mitigation, generating equipment, start-up costs, taxes, and Allowance for Funds Used During Construction. Schedule 2 of my exhibit is the budget breakdown of the Smith Unit 3 construction costs.

Gulf's load and energy forecast identified a capacity need beginning in the summer of 2002 to serve our customers and maintain an adequate level of generating reserves. Previous market inquiries confirmed that the amount of firm capacity in the market was becoming scarce and more expensive. Gulf knew that it needed to re-evaluate its capacity resource alternatives to meet the Company's needs for 2002 and beyond. Commission Order No. PSC-99-1478-FOF-EI confirmed the need for the addition of Smith Unit 3.

Q. What is the impact on Gulf's production O & M expenses associated with Smith Unit 3?

A. The O & M budget for Smith Unit 3 is $3.4 million in the test year. Schedule 3 of my exhibit provides a summary of the operation and maintenance expenses for Smith Unit 3. The $1.7 million for labor includes an increased staff at Plant Smith of 29 full-time positions needed

to operate and maintain the new unit. Schedule 4 of my exhibit provides a detailed listing of the additional personnel complement associated with Smith Unit 3. The additional $1.6 million is needed to cover contract maintenance labor, including the Long Term Service Agreement (LTSA), and spare parts.

Q. Why did Gulf decide to contract with the equipment manufacturer for the long-term service of Smith Unit 3?

A. The LTSA with the equipment manufacturer allows Gulf access to an experienced group of technical experts with knowledge regarding the specifics of this state of the art generating equipment which is new technology for Gulf. The LTSA enables Gulf to reduce the number of additional full-time maintenance personnel and to hire a minimal staff to operate and maintain the unit. Furthermore, the LTSA provides Gulf with access to a ready supply of discounted parts for all major outages. The customers benefit from the LTSA through reduced costs of staffing, discounts on major parts, and reduced carrying costs on inventory.

Q. Please explain the need for additional O & M dollars to maintain Gulf's existing fleet of generating units.

A. In addition to Smith Unit 3, the other major factors contributing to the higher O & M expenses are increased planned outage costs and other increased maintenance costs applicable to Gulf's existing fleet of generating units. The total production costs in the test year are $83.7 million of which the O & M for Smith Unit 3 is $3.4 million.

Since Gulf's last rate case in 1990, our generating units have aged significantly and have been required to produce more electricity on an annual basis. Generating plants contain a large amount of rotating equipment. This equipment is subject to extremely high stresses due to the high temperatures and pressures at which they operate. Gulf's customers enjoy significant advantages over customers of other electric utilities in that we have chosen coal, a plentiful low-cost fuel, for Gulf's generating plants. However, coal is highly abrasive in nature and causes much more wear on generating plant components than gas or oil, thereby increasing maintenance costs. During the last 12 years, we have worked hard to maintain these units so that they have continued to provide reliable, low cost service to our customers. The fact that our rates are among the lowest in the nation is a testament to the value we provide our customers.

We are now at the point where we must spend additional money on these units so that they continue to provide this reliable, low cost energy into the future. The requested amount in the test year, which includes production A & G and production O & M, is essential to effectively operate, maintain and support Gulf's entire generating fleet.

Q. Please explain the increase in total production cost from the 2000 historical year to the test year.

A. As shown in Mr. Saxon's Schedule 3, the total increase in production from 2000 is $10.4 million. Of that total, $3.1 million is associated with increased planned outages and $3.4 million are expenses associated with

Smith Unit 3. The remaining $3.9 million in production cost is necessary for Gulf to continue to effectively maintain our generating fleet in a manner that maximizes our equipment and unit availability while maintaining the lowest cost to our customers. These units are 11 years older than in our last rate case; the newest went into commercial operation in 1981. These increased maintenance costs are directly related to the age of the units, coupled with the cumulative effect of a 37 percent increase in total generation. This increased generation translates to a significant amount of additional coal burned in the units since 1990. This, in turn, causes an increase in the wear and tear of boiler components and auxiliary equipment (i.e. coal mills, ash handling equipment, fans, ductwork, etc.)

Q. Please define planned outage and other maintenance cost.

A. In order to better manage our O & M expenses, track costs, and monitor performance results, Gulf has adopted a philosophy of capturing production expenses in the following categories: (1) Baseline, (2) Planned Outage, and (3) Special Projects.

Baseline expenses are the costs required to conduct the day-to-day operation and maintenance of the plant. Planned outage expenses are those that occur in support of periodically scheduled maintenance of major components such as boiler, turbine, generator, or auxiliary equipment. Special Projects expenses are for projects significant in cost, that are tracked individually to enhance cost control and ensure acceptable performance. Although a particular special project may not occur annually, there will be special projects that have to be completed

each year. The level of special project costs included in the test year is representative of the costs that will be incurred in future years. This change in philosophy was initiated to provide a consistent cost methodology to all our power plants. This consistent cost approach also provides Gulf with the ability to better manage our projects, while identifying best practices and opportunities for improvement to enhance the performance of our units.

Q. What is the impact of planned outages on Gulf's production O & M in the test year?

A. The budget for planned outages in the test year is $14.0 million. This compares to $10.9 million in actual planned outage expenses in the year 2000, the most recent complete historical year available at the time of this filing. The increase from calendar year 2000 to the test year is primarily attributed to the overall scope of the planned outages. The major difference in the test year and the historical year is an increase in the scope of the planned outages at Smith Units 1 & 2 and the addition of an outage for Plant Daniel.

The test year budget is more representative of future conditions. As shown on my Schedule 5, the projected average annual planned outage expenses for the five-year period 2002 through 2006 is $15.7 million. Gulf's test year outage budget of $14.0 million is $1.7 million below the projected five-year average.

Q. What is the main performance indicator used by Gulf to determine the effectiveness of its planned outage and maintenance program?

A. Gulf uses Equivalent Forced Outage Rate (EFOR) to gauge the effectiveness of its planned outage and maintenance program. EFOR is one of many standard calculations developed by the North American Electric Reliability Council Generating Availability Data Systems (NERC GADS). Gulf has been a participant in NERC GADS since its inception in 1982. The EFOR calculation takes into account forced outages and deratings on a unit by unit basis. It is the measure of a unit's ability to meet full load when needed by the system.

Q. How does Gulf determine the priority of projects to address EFOR?

A. Gulf has been proactive in implementing several major preventive maintenance programs that have improved the overall effectiveness of scheduling and planning processes. One program is the plant reliability optimization (PRO) program that was developed in partnership with the Electric Power Research Institute (EPRI). PRO is a maintenance process that seeks to produce the appropriate balance between corrective maintenance, preventive maintenance, and predictive maintenance. PRO combines all diagnostic, maintenance, financial, and process data into an effective decision-making tool. The ultimate goal is to perform maintenance at the least cost while maximizing equipment reliability. The EFOR for Gulf's units has declined significantly since 1997, in part, because of efforts that have more effectively targeted preventive maintenance expenditures to those preventive maintenance projects that

have the greatest impact. These EFOR reductions have occurred even though total generation for Gulf's units has increased 25 percent from 1997 to 2000. Schedule 6 of my exhibit provides a detailed outline of Gulf's generation and EFOR for the years 1991 through 2000. The total increase in generation over this period is 37 percent.

Q. What is the effect of not performing the required maintenance?

A. In order to provide reliable and cost effective generation to our customers, Gulf must maintain plant efficiencies and minimize forced outages. Without O & M dollars sufficient to continue our current maintenance practices, the EFOR of the units will be negatively impacted and the customers would ultimately bear the burden of higher costs. In the short-term, higher forced outage rates could require additional market energy purchases in order to meet customer load requirements. For example, market replacement power costs for a one percent higher summer EFOR caused by a single outage (64 hours) on Crist Unit 7 could have cost the customers as much as $10 million in the summer period of 1999. The additional dollars we are requesting in this rate case are more than justified to offset the potential exposure of our customers to the costs associated with increased EFOR.

Q. How does the O & M Benchmark calculation included in Mr. McMillan's testimony for production compare to the test year?

A. As noted by Mr. McMillan, Gulf's total company O & M for the test year is $3.7 million under the O & M Benchmark. The test year budget for

Production O & M expenses is over the Benchmark by $9.4 million. As shown on my Schedule 7, this variance consists of four segments: (1) Production Steam, (2) Production Other, (3) Production Other Power Supply, and (4) Production Related Administrative and General.

Q. Please discuss the $5.8 million variance in total Production Steam.

A. In 1990, the Commission allowed $5.9 million for boiler and turbine inspections. This results in a Benchmark of $8.2 million as shown on my Schedule 8. In the test year, Gulf's total planned outage costs are $14.0 million for a variance of $5.8 million over the Benchmark. This is due, in part, to the additional maintenance costs associated with the increased amounts of generation required. As previously stated, our generating units have aged significantly and have been required to produce more electricity on an annual basis. Since 1990 there has been a 37 percent increase in total generation as compared to the historical year 2000.

In addition, we now use diagnostic tools that were not readily available in 1990 such as: thermography, boiler mapping, tube sampling, non-destructive examination, and motor signature testing. These tools allow us to locate problems before they actually occur, thereby increasing the maintenance activities performed today. The added costs of these additional maintenance activities are incurred to help reduce EFOR and provide more reliable, low cost generation to our customers. The Benchmark does not recognize this more inclusive outage philosophy used today as compared with 1990.

Q. Please explain how the outage philosophy used today differs from that used in 1990 and the resulting impact on the Benchmark comparison.

A. As I discussed previously in my testimony, Gulf adopted a philosophy of budgeting and tracking production expenses as baseline, planned outage, or special projects. As we currently define them, planned outages include maintenance work performed while the unit is scheduled off line for a specified period. Planned outages include, but are not limited to, work on the boiler, turbine, generator, pulverizer, precipitator, cooling towers, stack, ductwork, and other auxiliary equipment. Year to year budget fluctuations are largely due to scope changes in planned outages and special projects associated with various units within our generating fleet.

The current philosophy of tracking baseline, outage, and special projects costs provides our management with the ability to better manage projects, while identifying best practices and opportunities for improvement to enhance the performance of our units. This was not the case in 1990 when only three major turbine and boiler inspections occurred as shown on my by Schedule 5. Other outages were taken but not identified as major turbine boiler inspections. The associated additional outage dollars were not specifically identified with outages in the 1990 test year. Because of the diagnostic tools available today, outages under our definition are more inclusive in terms of scope of work to be performed during the planned outage. Therefore, comparing the resulting Benchmark amount to the planned outage amount in the test year is not an appropriate comparison.

Q. Please compare Gulf's Production Other O & M expenses for the test year to the Benchmark level.

A. The Production Other segment is $3.8 million over the Benchmark level. This variance is attributed to the additional costs associated with Smith Unit 3 of $3.4 million and annual maintenance cost of $450,000 applicable to the Pea Ridge Cogeneration facility which was added to Gulf's system after the 1990 test year. The amount budgeted for these two facilities is reasonable, necessary, and prudent in order to keep these generating units operating to serve Gulf's customers.

Q. Please compare Gulf's Production Other Power Supply O & M expenses for the test year to the Benchmark level.

A. The test year budget in Production Other Power Supply accounts is $1.1 million over the Benchmark level. Of this variance, $896,000 is directly related to Gulf's share of costs associated with operating the Southern electric system's wholesale energy trading floor. This activity provides: (1) better utilization of the most efficient generating sources, (2) management of reliability power purchases, (3) economic purchases of lowest-cost wholesale power, and (4) wholesale sales of excess system generating capacity. Gulf's customers benefit from greater system reliability and reduced costs.

The remainder of the variance for the Production Other Power Supply segment is related to increased costs of the Power Coordination Center (PCC) which coordinates the bulk power supply operations for Gulf and the other operating companies of the Southern electric system. The

bulk power supply operations provided by the PCC include interchange evaluations, real time generation control, transmission security and sales, and operations planning. FERC regulations related to Orders 888, 889, and 2000 have all been issued since the Benchmark year. Activities associated with compliance with these orders have caused the increase of $208,000 associated with the development and implementation of relevant automated systems. These costs are offset by the benefits that Gulf's customers receive through an enhanced competitive wholesale energy market.

Q. Please compare Gulf's Production Related A & G expenses for the test year to the Benchmark level.

A. As shown on Schedule 7 of my exhibit, the budget for Production Related A & G in the test year is $1.3 million under the Benchmark. This variance is associated with reductions in A & G costs at Plant Daniel of $914,000 and an overall reduction of $871,000 in A & G costs associated with insurance expenses and employee benefits allocated to Production.

Q. Is the $83.7 million included in production the appropriate level of O & M expense to use in setting Gulf's base rates?

A. Yes. As mentioned earlier, Gulf as a company is $3.7 million below the Benchmark established by this Commission. The approved level in the last rate case resulted in a Benchmark level of $74.3 million for production. I have discussed reasons for the variance of $9.4 million from the Benchmark previously in my testimony. The $83.7 million level of

O & M for Production in the test year is reasonable, prudent, and necessary to continue to maintain reliable low cost generation for our customers. Furthermore, the test year O & M level is representative of levels that will continue to be incurred in the future when new rates resulting from this case are in effect.

Q. Please summarize the Production Construction Budget for the period January 1, 2001 through May 31, 2002.

A. The total Production Construction Budget for the period January 1, 2001 through May 31, 2002 is $238.1 million. This includes $188.2 million associated with Smith Unit 3 and $49.8 million of other production-related items. The other production related items include $9.5 million of environmental projects and $5.8 million of Scherer capital expenditures. Mr. Labrato addresses the adjustments used to remove investments and related accumulated depreciation associated with UPS contracts and with amounts recovered through the Environmental Cost Recovery Clauses. The remaining $34.5 million included in the production construction budget is for specific projects at Gulf's generating facilities designed to improve heat rate, prevent forced outages, or otherwise help ensure the availability of efficient, low-cost generation to our customers. Schedule 9 of my exhibit is a listing of all capital projects included in this period for production.

Q. Please summarize the Production Construction Budget for the test year.

A. The test year construction budget for production is $13.0 million. This

includes $677,000 associated with Smith Unit 3, $11.0 million of retrofit items, $1.0 million of environmental projects, and $301,000 of Scherer capital expenditures. All capital projects are designed to improve heat rate, prevent forced outages, or improve plant efficiency. Schedule 10 of my exhibit is a listing of all capital projects for the test year.

Q. What processes do you use to ensure capital dollars are spent effectively?

A. As previously stated, Gulf monitors NERC GADS data as part of the production capital analysis process. Gulf develops plans to address GADS events that continue to be problematic and makes decisions to repair or replace existing equipment. For all capital projects, the Project Evaluation and Prioritization System (PREPS) model is used to determine the economic viability of a project. The PREPS model assigns benefits in terms of dollars to heat rate improvements, reduced forced outage rates, or reduced station service expenses and compares those benefits to the project costs. The normal criteria to implement a capital project are a payback of less than five years and a 1.2 benefit to cost ratio.

Q. How is the Construction Budget managed?

A. Each project is assigned a project manager who is responsible for developing potential solutions and preparing all PREPS analyses. The project manager will develop documentation outlining the scope of the project and work with procurement contract personnel to develop a bid package. From start to finish, the project manager is responsible for all

on-site management including contractor performance and invoice review. The plant manager receives a report from Generation Services each month detailing total capital project expenditures and budget variances for all projects. The plant manager is responsible for explaining all budget variances. At the Company level, the Corporate Planning group requires a detailed explanation quarterly of all budget variances that meet specific variance criteria.

Q. What recovery amount is Gulf requesting for total inventory dollars including fuel stock and in-transit fuel?

A. Gulf is requesting a total fuel inventory of $42.4 million. This includes $29.4 million for fuel stock and $13.0 million for in-transit fuel.

Q. Please describe Gulf's coal inventory policy.

A. Our policy is to maintain plant inventory levels sufficient to safeguard against disruptions in supply and inconsistencies in delivery of coal due to weather conditions and other factors affecting the transportation sector. Preliminary stockpile levels are determined using the Utility Fuel Inventory Model developed by EPRI and the electric utility industry. The model evaluates, among other factors, the economics associated with being forced to procure coal in the spot market versus the costs associated with carrying various levels of inventory. The model results are then considered along with specific plant logistics and other market intelligence in setting inventory target levels for the coming year. These inventory levels are then used in the SES Fuel Optimization and Evaluation System

(FOES) model to develop a fuel budget for all plants in the SES, including Gulf. FOES is used to evaluate the load dispatch of the SES fleet and fuel price forecast. It then generates a fuel budget for each plant. For the test year this evaluation resulted in inventory targets for Gulf's barge-served coal fired plants of approximately 40 normal full load (NFL) days and for its rail-served plants (excluding Scherer), a range from 20 to 37 NFL days.

Q. How does this policy compare to the policy used in the last case?

A. The SES fleet of generating units is dispatched and runs based on the economics associated with marginal fuel prices. Because the marginal prices are constantly changing with the markets, burn projections fluctuate accordingly. Since "burn" is really a moving target, Gulf now employs a "NFL burn day" as a stable Benchmark by which to measure inventory levels. A NFL burn day is equal to the amount of fuel required, at a standard unit per plant heat rate and given fuel-heating value, to run at full load for 24 hours. In the last case, a budget burn or projected test year burn was employed to determine burn days. Based on the latter method of determining burn days, Gulf is requesting 52 days of projected burn, as compared to the last rate case in which the Florida Public Service Commission allowed for 90 projected burn days.

Q. Based on this policy, what is Gulf's forecasted inventory level for the test year?

A. For all Gulf plants (excluding Scherer), the 13 month average of the

monthly ending inventory levels, not including in-transit coal, for May 2002 through May 2003, is a stockpile of 695,829 tons ($26.8 million), or 36 days NFL supply. This compares to a total of 784,887 tons ($37.0 million) allowed in the last rate case.

Q. Have you included in your request for working capital an amount for in-transit coal?

A. Yes. Gulf pays its coal suppliers upon shipment. Therefore, capital is invested in coal that has not yet been received at the plants. The amount of the in-transit coal for the test year is $13.0 million. Since a major portion of Gulf's coal supply is delivered by barge, considerable time is involved in transporting the coal to the plant sites. This investment in coal that is in-transit should be included in the working capital component of Gulf's rate base.

Q. What is Gulf's natural gas inventory forecast for the test year?

A. Gulf's current policy is to maintain a certain portion of its natural gas requirements in storage to provide for pipeline balancing and natural gas interruptions caused by pipeline and compressor station failures, hurricanes, well freezes, etc. Gas storage for balancing is necessary to avoid penalties imposed by pipelines for large swings in daily and hourly demands when the generating unit is economically dispatched or when other sudden changes, like plant outages, cause a swing in demand. Currently, a target inventory level of approximately ten NFL days supply for Smith Unit 3, or 850,000 MMBtus, has been set. Based on the

capacity factor for Smith Unit 3 in the test year, this equates to about 17.5 average burn days. In addition, Gulf maintains approximately ten days burn of natural gas storage for Crist Plant or about 100,000 MMBtus. Gulf has included $2.1 million in working capital for gas storage.

Q. What is Gulf's forecast distillate oil inventory level for the test year?

A. Gulf's projected distillate oil inventory level, including both lighter oil and combustion turbine generating fuel, for the test year (excluding Scherer) is 16,105 barrels. The amount of $487,000 has been included in working capital for distillate oil inventory.

Q. Please summarize your testimony.

A. The construction of the 574 megawatt Smith Unit 3 is a major factor creating Gulf's need for rate relief. Gulf's RFP and subsequent need determination clearly demonstrate that Smith Unit 3 is necessary and the most economical option available to Gulf's customers. The capital addition of Smith Unit 3 of $220.5 million and the associated O & M expenses of $3.4 million are reasonable, prudent and necessary expenses and in the best interests of Gulf's customers.

The Production Construction budget is necessary to continue to improve heat rate, prevent forced outages, or otherwise help ensure the availability of efficient, low-cost generation to our customers. The fuel inventory levels requested in working capital are reasonable and the coal inventory levels fall below the guidelines established in our last rate hearing proceeding.

Gulf's production operations continue to provide low cost, reliable electricity to our customers, while at the same time the demand has increased significantly. The availability of Gulf's generating units and low EFOR are clear indications that Gulf has developed an effective program that will continue to provide our customers with reliable service. Gulf is committed to maintaining our generating facilities through the effective use of resources. Gulf's production construction and O & M costs are carefully controlled and utilized in a manner to ensure high availability and low EFOR. The $83.7 million budgeted for power production O & M in the test year are reasonable, prudent, and necessary expenses and are representative of levels that will continue to be incurred in the future when new rates resulting from this case are in effect. Gulf is committed to continual improvement of our maintenance and operations practices so that our customers will be best served and their long-term electric costs will continue to be among the lowest in the nation.

The results, as reflected in Gulf's record associated with EFOR, are a clear indication that the planned outage and maintenance practices of Gulf are efficient and effective. With the increasing age of our generating facilities and a 37 percent increase in generation for those units, Gulf has reached a point where we can no longer continue to maintain a reasonable level of reliability without the level of O & M and capital expenditures requested in the test year.

Q. Does this conclude your testimony?

A. Yes.

AFFIDAVIT

STATE OF FLORIDA)
)
COUNTY OF ESCAMBIA)

Docket No. 010949-EI

Before the undersigned authority, personally appeared Robert G. Moore, who being first duly sworn, deposes, and says that he is the Power Generation and Transmission Vice President of Gulf Power Company, a Maine corporation, and that the foregoing is true and correct to the best of his knowledge, information, and belief.

Robert G. Moore
Power Generation and Transmission
Vice President

Sworn to and subscribed before me by Robert G. Moore who is personally known to me this 7th day of September, 2001.

Jackie L. Whipple
Notary Public, State of Florida at Large

Jackie L Whipple
My Commission DD041506
Expires August 23, 2005

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Schedule 2

Smith Unit 3 Construction Costs
($000)

Engineering/Project management	$5,645
Major generator and balance of plant equip.	121,878
Construction	53,319
Switchyard and step up-transformer	10,400
Training	1,685
Natural gas conditioning station	1,600
Start-up gas transportation	4,900
Start-up natural gas costs	3,000
Unit start-up costs	1,660
Environmental licensing costs	1,751
Wetland mitigation	649
AFUDC & administration	14,008
Total Project	$220,495

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Schedule 3

Smith Unit 3 Operation and Maintenance Expenses
($000)

Gulf Labor	$1,709
Contract Labor	226
Materials	1,219
Long Term Maintenance Agreement	222
Total Budget	$3,376

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Schedule 4

Smith Unit 3 Personnel Complement

10	Plant Equipment Operators
5	Team Leaders - Operations
2	Welder Mechanics
2	Chemical and Results Technicians
2	Electricians
2	Instrument and Control Technicians
1	Storekeeper
1	Utilityperson
1	Cost Analyst
1	Control Analyst
1	Planner
1	Administrative Assistant
29	Total

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Schedule 5

Planned Outage Costs

	Benchmark 1990	Actual 2000	Test Year Budget	2002 Budget	2003 Budget	2004 Budget	2005 Budget	2006 Budget
CRIST								
Unit 1		22,564	0	0	0	0	0	0
Unit2		108,423	0	0	0	0	0	0
Unit 3		1,466	0	0	0	0	0	0
Unit 4		1,773,183	1,142,425	1,142,425	2,000,645	602,809	1,243,472	4,005,417
Unit 5		716,655	1,305,121	1,305,121	1,763,396	780,640	4,380,135	735,914
Unit 6	4,400,000	1,683,913	1,490,521	5,840,626	1,490,521	1,732,458	1,366,383	2,082,756
Unit 7		1,797,674	1,772,229	2,621,267	1,772,229	6,698,387	1,246,582	1,582,925
Crist Common		498,586	605,000	418,000	250,000	35,000	50,000	100,000
Total	4,400,000	6,602,464	6,315,296	11,327,439	7,276,791	9,849,294	8,286,572	8,507,012
SMITH								
Unit 1		494,363	2,055,149	471,200	2,230,698	1,132,519	504,609	515,870
Unit 2		551,509	1,023,955	2,136,616	465,305	1,158,147	486,617	5,457,733
Unit A		0	0					
Combined Cycle Unit		0	226,350	225,000	230,400	235,598	240,952	246,330
Smith Common		83,420	0	0	0	127,825	0	0
Total	0	1,129,292	3,305,454	2,832,816	2,926,403	2,654,089	1,232,178	6,219,933
SCHOLZ								
Unit 1		20,938	551,200	1,100,000	204,800	209,420	214,180	218,960
Unit 2	940,000	778,206	201,200	200,000	204,800	209,420	214,180	218,960
Scholz Common		50,459	0	0	0	0	0	0
Total	940,000	849,603	752,400	1,300,000	409,600	418,840	428,360	437,920
TOTAL TERRITORIAL PLANTS	**5,340,000**	**8,581,359**	**10,373,150**	**15,460,255**	**10,612,794**	**12,922,223**	**9,947,110**	**15,164,865**
Daniel Total	555,500	2,338,165	3,606,668	4,361,180	4,213,769	2,077,512	1,970,694	2,014,640
TOTAL PLANTS w/o Scherer	**5,895,500**	**10,919,524**	**13,979,818**	**19,821,435**	**14,826,563**	**14,999,735**	**11,917,804**	**17,179,505**

5 year average 2002 through 2006 $15,749,008

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Schedule 6

Gulf's Generation and EFOR

Year	Gulf Territorial Net Generation (MWh)	Gulf Territorial Equivalent Forced Outage Rate EFOR (%)
1991	8,560,572	7.87
1992	9,331,162	8.67
1993	8,639,713	8.08
1994	8,358,733	4.20
1995	8,467,755	4.77
1996	8,753,146	3.20
1997	9,358,847	7.06
1998	10,896,377	9.60
1999	11,676,299	5.59
2000	11,712,825	2.50

O & M Benchmark Comparison
($000)

	1990 Allowed	Test Year Benchmark	Budget for Test Year	Variance
Production Steam	$46,945	$65,084	$70,870	$5,786
Production Other	47	65	3,905	3,840
Production Other Power Supply	966	1,339	2,427	1,088
Production Related A & G	5,655	7,840	6,493	(1,347)
Total Production	$53,613	$74,328	$83,695	$9,367

STEAM PRODUCTION

	$000
1990 Allowed	46,945
Test Year Adjusted Benchmark	65,084
Test Year Adjusted Request	70,870
System Benchmark Variance	5,786

Description	1990 Allowed	Test Year Benchmark	Test Year Request	Variance
1. Planned Outages	5,895	8,173	13,980	5,807

In 1990, the Commission allowed $5.9 million for boiler and turbine inspections as adjusted to a Benchmark of $8.2 million as shown on my Schedule 8. In the test year, Gulf's total planned outage costs are $14.0 million or an increase of $5.8 million over the Benchmark. This is due, in part, to the additional maintenance costs associated with the increased amounts of generation required. As previously stated, our generating units have aged significantly and have been required to produce more electricity on an annual basis. Since 1990 there has been a 37 percent increase in total generation as compared to the historical year 2000.

In addition, we now use diagnostic tools that were not readily available in 1990 such as: thermography, boiler mapping, tube sampling, non-destructive examination, and motor signature testing. These tools allow us to locate problems before they actually occur, thereby, increasing the maintenance activities performed today. The added cost of these additional maintenance activities are incurred to help reduce EFOR and provide more reliable, low cost generation to our customers. The Benchmark does not recognize this more inclusive outage philosophy used today as compared with 1990.

PRODUCTION OTHER

	$000
1990 Allowed	47
Test Year Adjusted Benchmark	65
Test Year Adjusted Request	3,905
System Benchmark Variance	3,840

Description	1990 Allowed	Test Year Benchmark	Test Year Request	Variance
1. Smith Unit 3 O & M	0	0	3,376	3,376
2. Pea Ridge	0	0	450	450
				3,826

The major factor creating the need for rate relief is the addition of Smith Unit 3. Gulf will increase staffing at Plant Smith to maintain and operate Smith Unit 3 by 29 full-time positions. The increase of $3.4 million is to provide the necessary resources to operate and maintain Smith Unit 3.

Gulf Power is the owner of a cogeneration facility located on the plant site of one of Gulf's industrial customers. All electric energy produced by Gulf's cogeneration facility is delivered to Gulf's electric grid and the customer hosting Gulf's cogeneration facility then purchases energy back from Gulf. The $450,000 annual expense is the amount Gulf is obligated to pay the equipment manufacturer under an extended service agreement ("ESA") that addresses virtually all maintenance needs for electric generating components of the cogeneration facility. Gulf's financial obligation for the maintenance covered by ESA is fixed at $450,000 for 20 years beginning in 1998.

PRODUCTION OTHER POWER SUPPLY

	$000
1990 Allowed	966
Test Year Adjusted Benchmark	1,339
Test Year Adjusted Request	2,427
System Benchmark Variance	1,088

Description	1990 Allowed	Test Year Benchmark	Test Year Request	Variance
1. SoCo Energy Marketing	0	0	896	896
2.Power Coordination Center	173	239	447	208
				1,104

The variance of $896,000 is directly related to Gulf's share of costs associated with operating the Southern electric system's wholesale energy trading floor. This activity provides: 1) better utilization of the most efficient generating sources; 2) management of reliability power purchases; 3) economic purchases of lowest-cost wholesale power; and 4) wholesale sales of excess system generating capacity. Gulf's customers benefit from greater system reliability and reduced costs.

The variance for the Production Other Power Supply segment is related to increased costs of the Power Coordination Center (PCC) which coordinates the bulk power supply operations for Gulf and the other operating companies of the Southern electric system. The bulk power supply operations provided by the PCC include interchange evaluations, real time generation control, transmission security and sales, and operations planning. FERC regulations related to Orders 888, 889, and 2000 have all been issued since the benchmark year. Activities associated with compliance with these orders have caused the increase of $208,000 associated with the development and implementation of relevant automated systems. These costs are offset by the benefits that Gulf's customers receive through an enhanced competitive wholesale energy market.

PRODUCTION RELATED A & G

	$000
1990 Allowed	5,655
Test Year Adjusted Benchmark	7,840
Test Year Adjusted Request	6,493
System Benchmark Variance	(1,347)

Description	1990 Allowed	Test Year Benchmark	Test Year Request	Variance
1. Plant Daniel A & G	2,698	3,740	2,826	(914)
2. Insurance Expenses & Employee Benefits	2,694	3,736	2,865	(871)
				(1,785)

The decrease in the A & G dollars charged at Daniel is consistent with the overall decrease in A & G expenses, relative to the benchmark, at Mississippi Power Company. Since 1990, there has been a decrease in the number of employees overall at Mississippi Power and that coupled with the initiative to charge cost directly to functional accounts whenever possible has resulted in less A & G expenses related to the Plant Daniel joint ownership agreement.

Production related property insurance was $915,000 in 1990 and only increased slightly in the test year to $935,000, resulting in a $334,000 variance under the Benchmark. Production related employee benefits increased from $1,779,000 in 1990 to $1,930,000, resulting in a $537,000 variance under the benchmark.

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Schedule 8

PRODUCTION STEAM EXPENSE SUMMARY

BENCHMARK ($000)			TEST YEAR ($000)		TEST YEAR vs BENCHMARK
ITEM [1]	1990 ALLOWED	BENCHMARK	ITEM [1]	O & M	VARIANCE
TURBINE & BOILER INSPECTIONS	5,895	8,173	PLANNED OUTAGE	13,980	5,807
			BASELINE	54,164	
			SPECIAL PROJECT	2,726	
OTHER	41,050	56,911	OTHER	56,890	(21)
TOTAL	46,945	65,084	**TOTAL**	70,870	5,786

[1] Category definitions have changed since 1990. See testimony for details.

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Schedule 9
Page 1 of 2

Generation Construction Budget
January 1, 2001 Through May 31, 2002

PROJECT DESCRIPTION		
NEW GENERATION		
LANSING SMITH UNIT NO. 3 - COMBINED CYCLE UNIT		
Production		**$188,232,000**
Transmission		**9,715,990**
ENVIRONMENTAL		
RATA CEM TEST TRL MONITORS		30,000
CEMS REPLACEMENT		200,000
CRIST - CEMS REPLACEMENT		125,000
CRIST - CEMS REPLACEMENT		125,000
CRIST - CEMS REPLACEMENT		84,375
CRIST - CEMS REPLACEMENT		84,375
SCHOLZ 1 & 2 - FLOW MONITOR REPLACEMENTS		160,000
SMITH 1 - CEMS REPLACEMENT		125,000
SMITH 2 - CEMS REPLACEMENT		125,000
SMITH 1&2 CONVERSION OF SHIELD WATER SUPPLY		53,000
INSTALL RAW WATER WELL FLOWMETERS		9,325
DANIEL 2 - UPGRADE PRECIPITATOR INTERNALS		5,603,272
SMITH 1 - LOW NOX - GNOCIS		1,200,000
SMITH 1&2 DUST SUPRESSION SYSTEM		150,000
BOTTOM ASH HYDROBIN REPLACEMENT		1,200,000
CRIST UNITS 4-7 FLYASH LANDFILL ZONE 3A DEVEL		200,000
CRIST 1-5 - COOLING TOWER FAN CONTROLS		50,000
UNIT 6 & 7 COOLING TOWER CHEMICAL FEED SYSTEM		18,970
	$	9,543,317
RETROFIT		
CRIST - MISC STEAM PLANT ADDITIONS	$	873,750
CRIST - MISC STEAM PLANT ADDITIONS		97,085
CRIST - UNIT 6 CONDENSER CLEANING SYSTEM		250,000
CRIST - UNIT 7 CONDENSER CLEANING SYSTEM		250,000
CRIST 1-7 - NEW RAW WATER SUPPLY WELL		(71)
CRIST 1-7 - NO. 3 DEMINERALIZER CONTROLS		300,000
CRIST 1-7 TURBINE ROOF		1,200,000
CRIST 4 - REPLACE AIR HEATER BASKETS		8,069
CRIST 4 & 5 - VACUUM PUMP		300,000
CRIST 4-7 - BELT CHANGEOUTS		150,000
CRIST 4-7 - FUEL HANDLING GEARBOX		100,000
CRIST 4-7 - TRACTOR		1,000,200
CRIST 4-7 - TRACTOR BLADE		65,000
CRIST 5 - REPLACE AIR HEATER BASKETS		400,000
CRIST 5 - REPLACE FINISHING SUPEREHEATER		700,000
CRIST 5 - REPLACE REHEATER		1,000,000
CRIST 6 - REPLACE BOILER CONTROLS		2,700,000
CRIST 6 - REPLACE BOILER LINKAGES AND TURBINE CONTROLS		800,000
CRIST 6 - REPLACE COLD END AIR HEATER BASKETS		200,000
CRIST 6 - SUPERHEATER		2,400,000

CRIST 7 - REHEATER	$	1,300,000
CRIST 7 - REPLACE COAL FEEDERS		550,000
CRIST 7 - REPLACE UPPER ECONOMIZER		1,700,000
DANIEL - WATER TREATMENT PLANT		2,747
DANIEL 1 - ACOUSTICAL LEAK DETECTORS		38,395
DANIEL 1 - AIR PREHEATER SONIC BLOWERS		206,339
DANIEL 1 - WESTINGHOUSE CONTROL SYSTEM		443,472
DANIEL 1 MISC OUTAGE		39,354
DANIEL 2 - AIR PREHEATER SONIC BLOWERS		201,955
DANIEL 2 ACOUSTICAL LEAK DETECTORS		38,395
DANIEL 2 MISC OUTAGE		10,104
DANIEL 2 NOZZLE BLOCK		206,369
DANIEL 2 WESTINGHOUSE WDPF CONTROLS SYSTEM		1,982,930
DANIEL 2-REPLACE COAL MILL PIPING		55,246
DANIEL COMMON WAREHOUSE REMODELING		348,000
DANIEL DOZIER REPLACEMENT		400,000
DANIEL LAB CONTROLS		86,154
DANIEL UNIT 2 REHEATER REPLACEMENT		2,675,000
DANIEL-MISC. STEAM PLANT ADDITIONS &		18,957
PLANT DANIEL COMMON DEGASIFIER FOR THE DEMINERALIZER		70,000
PORTABLE MANLIFT		200,000
PURCHASE AND INSTALL E-CRANE COAL UNLOADER		2,500,000
REPLACE FOUR (4) SUMP PUMPS		310,000
REPLACE MOBILE CRANE		250,000
REPLACE TWO CAT FORKLIFTS AND TWO CROWN STOCK PICKERS		89,270
REPLACE UNIT 6 VACUUM PUMPS		360,000
REPLACE UNITS 4-6 CONVEYOR SYSTEM SWITCHGEAR FOR FUEL HANDL		140,000
SCHOLZ ASH LINE REPLACEMENT		100,000
SCHOLZ-MISC. STEAM PLANT ADDITION		141,670
SCHOLZ-MISC. STEAM PLANT ADDITION		14,165
SMITH - MISC. STEAM PLANT ADDITIO		315,335
SMITH - MISC. STEAM PLANT ADDITIO		56,665
SMITH - MISC. STEAM PLANT ADDITIO		20,835
SMITH 1-3 - AIR COMPRESSOR		60,000
SMITH 2-REPLACE CONDENSER WATER BOXE		1,300,000
SMITH 2-RETUBE CONDENSER		805,000
SMITH COAL HANDLING DOZIER REPLACEMENT		1,200,000
UNIT #2 AIR HEATER BASKET REPLACEMENT		550,000
	$	34,482,823
SCHERER		
SCHERER 3 - INSTALL WATER CANNON	$	246,500
SCHERER 3 - REPLACE BOILER CONTROLS		669,750
SCHERER-MISC. ADDITIONS & IMPROVEMEN		332,895
SCHERER 3 - CLEAN AIR ADDITIONS		4,361,000
SCHERER 3 & 4 - PRECIPITATOR PAD DRAIN		123,000
SCHERER 3 & 4 DUST CONTROL EQUIPMENT		68,375
	$	5,801,520
TOTAL	$	247,775,650
Less Smith Unit 3 Transmission		-9,715,990
TOTAL GENERATION CONSTRUCTION BUDGET	$	238,059,660

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Witness: R.G. Moore
Exhibit No.___(RGM-1)
Schedule 10

Generation Construction Budget
Test Year

PROJECT DESCRIPTION	
NEW GENERATION	
LANSING SMITH UNIT NO. 3 – COMBINED CYCLE UNIT	**$677,000**
ENVIRONMENTAL	
CRIST - CEMS REPLACEMENT	$206,250
CRIST- INSTALL BOTTOM ASH PYRITE SEPARATION SYS	41,665
RATA CEM TEST TRL MONITORS	60,000
REPLACE BOTTOM ASH HYDROBINS	500,000
DANIEL 2 - UPGRADE PRECIPITATOR INTERNALS	26,164
SMITH 1&2 - CAP ASH LANDFILL CELLS	150,000
	$984,079
RETROFIT	
CRIST - MISC STEAM PLANT ADDITIONS	$650,000
CRIST 6 - CIRCULATING WATER (ONCE THROUGH)	300,000
CRIST - MAJOR MISC ADDITIONS	118,750
CRIST 6-REPLACE INTERMEDIATE & HOT END AIR HEATER BASKETS	541,775
CRIST 7 - REPLACE INTERMEDIATE & HOT END AIR HEATER BASKETS	120,710
CRIST 7 - REPLACE COAL FEEDERS	50,000
CRIST 4-7 - TRACTOR	199,800
CRIST 6-7 - BELT CHANGEOUTS	125,025
PLANT PERFORMANCE NETWORK	104,165
CRIST - COMPRESSOR AND AIR DRYER BUILDING	500,000
PURCHASE AND INSTALL E-CRANE COAL UNLOADER	500,000
REPLACE TWO CAT FORKLIFTS AND TWO CROWN STOCK PICKERS	17,859
SCHOLZ-MISC. STEAM PLANT ADDITION	110,000
SCHOLZ 1 REPLACE AIR HEATER BASKETS	100,000
SCHOLZ REPLACE STATION BATTERIES	80,000
SMITH - MISC. STEAM PLANT ADDITIONS	299,000
SMITH UNIT #1 REPLACE AIR HEATER BASKETS	550,000
SMITH UNIT #1 REPLACE FEEDERS	300,000
SMITH 1 -REPL LP FEEDWATER HEATER	193,750
DANIEL-MISC. STEAM PLANT ADDITIONS &	24,103
DANIEL 1 - REPLACE NOZZLE BLOCK	209,035
DANIEL UNIT 2 - FEEDWATER HEATERS AND DEAERATORS	163,437
DANIEL 1 MISC OUTAGE	17,202
DANIEL 2 MISC OUTAGE	31,011
DANIEL 1 - REPLACE COAL MILL PIPING	61,182
DANIEL 1 - WESTINGHOUSE CONTROL SYSTEM	1,971,562
DANIEL 2 WESTINGHOUSE WDPF CONTROLS SYSTEM	407,978
DANIEL 1 - REPLACE REHEATER	2,675,000
DANIEL - 2 BOTTOM ASH HOPPER	455,653
DANIEL 2-REPLACE COAL MILL PIPING	169,516
	$11,046,513
SCHERER	
SCHERER-MISC. ADDITIONS & IMPROVEMEN	$157,877
SCHERER 3 - REPLACE BOILER CONTROLS	43,750
SCHERER - RUBBER TIRE DOZER	80,250
SCHERER – TRACKED DOZER	19,530
	$301,407
TOTAL PLANTS	**$13,008,999**

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GULF POWER COMPANY
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Exhibit No.___(RGM-1)
Schedule 11

Responsibility for Minimum Filing Requirements

Schedule	Title
A-8	Five Year Analysis – Change in Cost
B-16	Nuclear Fuel Balances
B-17a	System Fuel Inventory
B-17b	Fuel Inventory By Plant
B-18	Capacity Factors
B-19	Accounts Payable Fuel
B-30	Net Production Plant Additions
C-8	Report of Operations Compared to Forecast – Revenue and Expenses
C-12	Budgeted vs. Actual Operating Revenue and Expenses
C-19	Operations and Maintenance Expenses – Test Year
C-20	Operations and Maintenance Expenses – Prior Year
C-21	Detail of Changes in Expenses
C-57	O & M Benchmark Variance By Function
C-65	Outside Professional Services
E-24	Monthly Reserve Margins and Reliability Indices
F-8	NRC Safety Violations
F-9	Forecasting Models
F-18	Nuclear Plant Decommissioning
F-19	Nuclear Plants – Spent Fuel and Waste Storage
F-20	Nuclear Plants – Storage Facilities