



Public Service Commission
CAPITAL CIRCLE OFFICE CENTER • 2540 SHUMARD OAK BOULEVARD
TALLAHASSEE, FLORIDA 32399-0850

-M-E-M-O-R-A-N-D-U-M-

RECEIVED FPSC
31 OCT 25 AM 11:59
COMMISSION CLERK

DATE: OCTOBER 25, 2001

TO: DIRECTOR, DIVISION OF THE COMMISSION CLERK &
ADMINISTRATIVE SERVICES (BAYÓ)

FROM: DIVISION OF ECONOMIC REGULATION (L. ROMIG, E. DRAPER) *LR DM ESD*
DIVISION OF LEGAL SERVICES (STERN, ELIAS) *MKS RVE JMD W/OX*
DIVISION OF SAFETY & ELECTRIC RELIABILITY (BOHRMANN) *TB TS*

RE: DOCKET NO. 010949-EI - REQUEST FOR RATE INCREASE BY GULF POWER COMPANY

AGENDA: 11/06/01 - REGULAR AGENDA - DECISION ON SUSPENSION OF RATES - INTERESTED PERSONS MAY PARTICIPATE

CRITICAL DATES: 60-DAY SUSPENSION DATE: NOVEMBER 9, 2001

SPECIAL INSTRUCTIONS: NONE

FILE NAME AND LOCATION: S:\PSC\ECR\WP\010949.RCM

CASE BACKGROUND

This proceeding commenced on September 10, 2001, with the filing of a petition for a permanent rate increase by Gulf Power Company (Gulf or the company). Gulf requested an increase in its retail rates and charges to generate \$69,867,000 in additional gross annual revenues which would allow the Company to earn an overall rate of return of 8.64% or a 13.00% return on equity (range of 12.00% to 14.00%). The company based its request on a projected test year of June 1, 2002 through May 31, 2003. The Company stated in its petition that this test year was used because it best represents expected future operations after Smith Unit 3 begins operation. The test year includes the first full twelve months of operation after this major investment goes into service. The addition of this unit is the primary driver for the Company's requested increase, accounting for approximately \$48 million of the \$69.9 million increase.

DOCUMENT NUMBER-DATE

13550 OCT 25 01

FPSC-COMMISSION CLERK

DOCKET NO. 010949-EI
DATE: October 25, 2001

The Commission by Order No. PSC-99-2131-S-EI, issued May 20, 1999, in Docket No. 990947-EI approved a stipulation that established a revenue sharing plan. Included in the stipulation was a provision whereby the Company could not request an increase in base rates before the earlier of the commercial in-service date for Smith Unit 3 or December 31, 2002, the expiration date of the Stipulation. Gulf is not requesting interim rate relief but has specifically asked that all or a portion of the requested increase of \$69,867,000 be granted beginning on the commercial in-service date of Smith Unit 3 pending a final decision on this petition. This recommendation only addresses the suspension of the proposed rates. The issue concerning the implementation of the proposed rates beginning with the in-service date of Smith Unit 3 will be addressed in a subsequent recommendation.

The Company's current retail rates and charges were essentially established in Docket No. 891345-EI, by Order No. 23573, issued October 3, 1990, based on a 1990 projected test year and a 13-month average rate base, ending December 31, 1990. The Commission established an overall rate of return at 8.10%. This included a target return on equity of 12.55% within a range of 11.55% to 13.55%. The Commission by Order No. PSC-93-0771-FOF-EI dated May 20, 1993, in Docket No. 930139-EI approved a stipulation for a new authorized return on equity of 12.0% within a range of 11.0% to 13.0%. On October 8, 1999, the Commission lowered Gulf's return on equity to 11.5% within a range of 10.5% to 12.5% for the duration of the stipulation approved in Docket No. 990947-EI.

DISCUSSION OF ISSUES

ISSUE 1: Should the \$69,867,000 permanent base rate increase and its associated tariff revisions requested by Gulf Power Company be suspended pending a final decision in this docket?

RECOMMENDATION: Yes. Staff recommends that the \$69,867,000 permanent base rate increase and its associated tariff revisions requested by Gulf be suspended pending a final decision in this docket. (L. ROMIG)

STAFF ANALYSIS: Gulf filed its petition, testimony, and minimum filing requirements (MFR) on September 10, 2001. The Company has requested a total permanent base rate increase of \$69,867,000 based on a projected test year ending May 31, 2003.

Historically, especially when a projected test year has been involved, the Commission has suspended the requested permanent rate schedules in order to adequately and thoroughly examine the basis for the new rates. The suspension of the rate increase is authorized by Section 366.06(3), Florida Statutes, which provides:

Pending a final order by the commission in any rate proceeding under this section, the commission may withhold consent to the operation of all or any portion of the new rate schedules, delivering to the utility requesting such increase, within 60 days, a reason or written statement of good cause for withholding its consent.

Inasmuch as Gulf's requested permanent rate relief is based on a projected test year, Staff recommends that the Commission suspend the requested permanent rate schedules to allow Staff and any intervenors sufficient time to adequately investigate whether the request for permanent rate relief is appropriate.

DOCKET NO. 010949-EI
DATE: October 25, 2001

ISSUE 2: Should this docket be closed?

RECOMMENDATION: No. This docket should remain open to process the revenue increase request of the company. (STERN)

STAFF ANALYSIS: This docket should remain open pending the Commission's final resolution of the company's requested rate increase.