

State of Florida



Public Service Commission

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

DATE: January 9, 2002
TO: Division of Economic Regulation (L. Romig)
FROM: Division of Auditing and Safety (Vandiver) *W*
RE: Docket No.010949-EI ; Gulf Power Company; Audit the MFRs; Audit Control No. 01-255-1-1

Attached is the final audit report for the utility stated above. I am sending the utility a copy of this memo and the audit report. If the utility desires to file a response to the audit report, it should send the response to the Division of the Commission Clerk and Administrative Services. There are confidential work papers associated with this audit.

DNV/jcp
Attachment

cc: Division of Auditing and Safety (Hoppe, District Offices, File Folder)
Division of Competitive Markets and Enforcement (Harvey)
Division of the Commission Clerk and Administrative Services
Division of General Counsel (Stern)
Office of Public Counsel

Susan D. Ritenour, Assistant Secretary
Gulf Power Company
One Energy Place
Pensacola, FL 32520-0780

DOCUMENT NUMBER-DATE
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FLORIDA PUBLIC SERVICE COMMISSION

*DIVISION OF REGULATORY OVERSIGHT
BUREAU OF AUDITING SERVICES*

Tallahassee District Office

GULF POWER COMPANY

RATE CASE AUDIT

PROJECTED TEST YEAR ENDED MAY 31, 2003

DOCKET NO. 010949-EI
AUDIT CONTROL NO. 01-255-1-1

Handwritten signature of Edward D. Bass II in cursive.

Edward D. Bass II, Audit Manager

Handwritten signature of Mike Buckley in cursive.

Mike Buckley, Audit Staff

Handwritten signature of Barry Davis in cursive.

Barry Davis, Audit Staff

Handwritten signature of Robert T. Moore in cursive.

Bob Moore, Audit Staff

Handwritten signature of Lynn M. Deamer in cursive.

Lynn M. Deamer, Audit Supervisor

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**DIVISION OF REGULATORY OVERSIGHT
AUDITOR'S REPORT**

December 20, 2001

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, 2000 and the projected test year ended May 31, 2003, for Gulf Power Company. The attached schedules were prepared by the utility as part of its petition for rate relief in Docket No. 010949-EI. There is confidential information associated with this audit.

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.

SUMMARY OF SIGNIFICANT FINDINGS

The utility's Minimum Filing Requirements (MFRs) reflect image enhancement advertising expenses for the projected test year ended May 31, 2003. Lobbying expenses and donations were booked to incorrect accounts. Several disclosures are provided for informational purposes.

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.

Scanned - The documents or accounts were read quickly looking for obvious errors.

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

Verify - The item was tested for accuracy and compared to the substantiating documentation.

RATE BASE: Compiled supporting documentation for rate base components for the year ended December 31, 2000. Performed a judgmental sample of plant in service since the last field audit ended December 31, 1998. Compiled accumulated depreciation and traced depreciation rates to Commission orders. Scanned projected plant in service for the 12-month period ended May 31, 2003. Toured the construction site of Plant Smith Unit 3 - Combined Cycle. Performed a judgmental sample of transactions related to the construction of Plant Smith Unit 3 - Combined Cycle. Verified allowance for funds used during construction (AFUDC) rate. Toured two sites included in plant held for future use. Verified adjustments to rate base in accordance with Commission Order No. 23573, issued October 3, 1990. Compiled working capital accounts. Scanned the utility's continuing property records.

NET OPERATING INCOME: Compiled supporting documentation for net operating income components for the year ended December 31, 2000. Performed a judgmental sample of operation and maintenance (O&M) expenses and examined the invoices and other supporting documentation. Compiled advertising expenses included in the year ended December 31, 2000. Recalculated depreciation expense for 1999 and 2000. Compiled support for taxes other than income and income taxes. Verified adjustments to net operating income in accordance with Commission Order No. 23573, issued October 3, 1990.

CAPITAL STRUCTURE: Compiled supporting documentation for capital structure components for the year ended December 31, 2000. Traced principal amounts and interest rates to supporting debt instruments. Verified costs rates used in the computation of the cost of capital. Scanned reconciliation of capital structure with rate base.

OTHER: Scanned the utility's board of directors' minutes for the 12-month period ended December 31, 1998 through the second quarter ended June 30, 2001. Scanned the utility's outside auditor's working papers for the 12-month period ended December 31, 2000. Obtained a description of the utility's O&M expense budget process.

EXCEPTIONS

Exception No. 1

Subject: Advertising Expenses

Statement of Fact: The utility's Minimum Filing Requirements (MFRs), Schedule C-26 and general ledger reflect the following advertising expense amounts for the historical year ended December 31, 2000, prior year ended May 31, 2002, and test year ended May 31, 2003.

Account/Description	Historical Year	Prior Year	Test Year
930.100 - General Advertising - Salaries	\$13,000	\$28,000	\$27,000
930.110 - General/Institutional - Production	\$52,000	\$360,000	\$203,000
930.120 - General/Institutional - Media	\$140,000	\$233,000	\$320,000
930.180 - Industry Sponsored Advertising	\$21,000	\$0	\$0
Totals	\$226,000	\$621,000	\$550,000

The utility's MFR Schedule C-3 reflects an adjustment in the amount of \$223,000 ($\$226,000 \times .9822560$ jurisdictional factor) to remove expenses related to image enhancement advertising for the historical year ended December 31, 2000. However, the utility did not make an adjustment to remove these image enhancement advertising expenses from the prior year or test year.

Commission Order No. 6465, issued January 17, 1975, defines advertising which has as its primary objective the enhancement of or preservation of the corporate image of the utility shall be disallowed for ratemaking purposes.

Recommendation: The audit staff has reviewed these image enhancement advertising expenses for the historical year ended December 31, 2000. In accordance with Commission Order No. 6465, issued January 17, 1975, the utility should make an adjustment to remove the projected image enhancement advertising expenses in the amount of \$539,000 ($\$550,000 \times .9803411$ jurisdictional factor) from the test year ended May 31, 2003.

Exception No. 2

Subject: Lobbying Expenses and Donations

Statement of Fact: The utility's books and records reflect the following operation and maintenance (O&M) expenses for the historical year ended December 31, 2000.

Reference Number	Account/Description	Amount
00018027	930.200 - Industry Association Dues	\$7,000
00286116	500.000 - Operation Supervision and Engineering Expenses	\$500
0020549	500.000 - Operation Supervision and Engineering Expenses	\$600

Accounts payable reference number 00018027 reflects the utility's membership dues for Associated Industries of Florida, of which 100 percent is related to lobbying activities. Reference number 00286116 reflects a charitable contribution to St. Andrew Bay Center, and reference number 0020549 reflects a golf tournament donation.

The Uniform System of Accounts, 18 CFR 101 provides the following account classifications: Account 426.1 - Donations, which includes all payments or donations for charitable, social, or community welfare purposes; and Account 426.4 - Expenditures for certain civic, political and related activities, which includes expenditures for the purpose of influencing public opinion with respect to the election or appointment of public officials, referenda, legislation, or ordinances.

Recommendation: In accordance with the Uniform System of Accounts, 18 CFR 101, the utility should make an adjustment to properly classify these O&M expenses for the historical year ended December 31, 2000. The utility's MFRs reflect \$7,000 in membership dues for Associated Industries of Florida for the projected test year ended May 31, 2003. The utility should make an adjustment to properly classify this expense for the projected test year ended May 31, 2003. The utility should review its O&M expenses for the projected test year ended May 31, 2003, to assure expenses are properly classified in accordance with the Uniform System of Accounts, 18 CFR 101.

DISCLOSURES

Disclosure No. 1

Subject: Caryville - Plant Held for Future Use

Statement of Fact: The utility's Minimum Filing Requirements (MFRs), Schedule B-3 reflects \$3,164,000 in total plant held for future use, for the projected test year ended May 31, 2003. One of the properties included in this plant held for future use is the Caryville electric generating plant site with a book value of \$1,356,000. The audit staff toured the Caryville plant site and observed the following.

The Caryville electric generating plant site is located in Washington and Holmes Counties. It is an irregular shaped plot covering over 2,000 acres. The site consists of mostly wooded land, with a small part bordering on the Choctawhatchee River. The land is fenced and posted. The utility has described the land as used to plant, cultivate and harvest timber, and pulpwood. The land is classified as agricultural for property tax purposes.

The utility acquired the site in 1963 and has not yet built on the site.

However, the utility has made several other capacity additions since then which include the acquisition of fifty percent of Plant Daniel, upgrades to Plant Crist and Plant Smith, and the acquisition of land in 1998 for the Mossy Head generating plant site.

The utility's 46KV line cuts through and divides the northern sector in Holmes County and a county maintained road cuts through and divides the southern sector in Washington County.

The land is not currently being used for utility purposes except for a small plot in the southeast sector which houses an antenna for the Southern Company radio/telephone network and the 46KV line.

There is evidence that small portions of the land have been farmed at one time. During the last rate case, a large portion of the land was used as a sod farm. The sod farm operation has ceased and the land is back in timber and pulpwood production as evidenced by large areas of planted pine trees.

The utility entered into an agreement on November 9, 2000, with the Brunson Landing Hunt Club to allow the club to hunt on the Caryville and Mossy Head properties. A copy of the agreement is included in the audit work papers. The hunt club provides liability insurance to cover its activities. The agreement includes an initial term of five years beginning September 1, 2000 and terminating on August 5, 2005, and is renewable. The hunt club is not obligated to pay the utility rent for the years 2001 through 2003. For the years 2004 and 2005 the hunt club will pay the utility an annual rental payment of \$3,600 for use of the land. Since revenues are not to be received until 2004, no revenues are reflected in the test year ended May 31, 2003.

Recommendation: This disclosure is provided for informational purposes.

Disclosure No. 2

Subject: Corporate Office - Third Floor

Statement of Fact: During the company's last rate proceeding, the Commission ordered the utility to remove the cost of the third floor of the corporate office from plant in service. The utility's Minimum Filing Requirements (MFRs), Schedule B-4 reflects an adjustment to remove \$4,031,000 and \$3,721,000 for the historical year and prior year, respectively, from plant in service for the cost of the third floor of the corporate office. However, the utility did not make an adjustment to remove the cost of the third floor of the corporate office in the projected test year ended May 31, 2003. The utility states that the adjustment is no longer needed since the third floor of the corporate office is used and useful for utility operations.

The 1999 audit staff toured the third floor of the corporate office. At that time the utility stated that the third floor is primarily used for storage of records retention; spare office furniture; miscellaneous supplies for the kitchen, print shop, safety and health, and power delivery. It also contains a workshop for building maintenance. Over 90% of the 52,000 square feet of office space is utilized.

The current audit staff toured the third floor of the corporate office and concurs with the utility's statement above.

Recommendation: This disclosure is provided for informational purposes.

Disclosure No. 3

Subject: Corporate Office Restaurant and Bank

Statement of Fact: The utility rents a portion of its corporate office to Norma's Restaurant. In addition, the utility donates office space within its corporate office to Gulf Power Employees Credit Union.

The employee cafeteria currently being leased to Norma's Restaurant serves the function of providing employees with food service. During the 1990 rate case review of the utility's corporate office building, the amount of investment related to the cafeteria space was reviewed and allowed in rate base. Norma's Restaurant opened for business in 1997 to provide cafeteria service for the occupants of the building, catering in the building, and a restaurant open to the general public. By leasing the space to Norma's as a public restaurant rather than operating the cafeteria only for employees through a management company, or operating it with utility employees, the utility has lowered costs through a reduction in the custodial staff that supported catering in the building and eliminating the cafeteria management fee. The utility improved the quality of service to its employees while at the same time reduced its costs and increased lease revenue. Norma's Restaurant is billed a monthly lease payment. These monthly lease payments are recorded in Account 454 - Rent from Electric Property.

The services provided by the credit union are an employee benefit to the utility's employees. Banking services such as check cashing, loans, investments, and other services are available to employees at no cost to the utility. The credit union's office space is donated.

Recommendation: This disclosure is provided for informational purposes.

Disclosure No. 4

Subject: Other Operating Revenues

Statement of Fact: The utility's Minimum Filing Requirements (MFRs), Schedule C-10 reflects the following other operating revenue amounts for the historical year and projected test year.

Account/Description	Historical Year	Test Year	Difference	Percent Change
454 - Rent from Electric Property	\$5,323,000	\$4,837,000	(\$486,000)	9.1%
456 - Other Electric Revenues	\$5,016,000	\$6,248,000	\$1,232,000	24.5%

The decrease in Account 454 - Rent from Electric Property primarily reflects an accounting change to no longer credit miscellaneous revenue for billings made to affiliates for their use of building space and office furniture and equipment. These billings are now being credited to expense to properly offset the building and equipment costs with the amounts being recovered from affiliates.

The increase in Account 456 - Other Electric Revenues reflects an increase in revenues related to the utility's share of wheeling and transmission service related transactions and cogeneration service charges.

This paragraph contains proprietary and confidential information.

Recommendation: This disclosure is provided for informational purposes.

Disclosure No. 5

Subject: Operation and Maintenance (O&M) Expense Budget Process

Statement of Fact: The utility provided the following description of its O&M expense budget process. The utility's Chief Financial Officer (CFO) reviews budgeted revenues forecasted for the period and communicates a budget message that outlines the goals and objectives of the utility and gives guidelines to the planning units for development of their budgets and forecasts. The budget message issued by the CFO includes an inflation rate. The rate of inflation provided for the 2003 forecast was 2.4 percent. Southern Company Services utilizing forecast data obtained from Regional Financial Associates (RFA), now known as Economy.com, Inc., develops these rates of inflation. The budget message also includes customer growth rates provided by the Marketing Department. The customer growth rate provided for preparing the O&M budget was 1.7 percent for 2003. Salary escalation rates are furnished annually by Human Resources and sent by separate correspondence to the manager of the planning unit. The labor escalation rate used for the 2003 forecast was 4 percent.

The utility has 29 planning units that roll up into 5 functional areas to develop the utility's O&M expense budget. Each planning unit receives the budget message which contains the inflation rates and customer growth rates. The planning units are not required to use the inflation rates or customer growth rates provided in the budget message. This information provided in the budget message is used as a guideline or reference tool for the planning units. These planning units use a modified zero base budgeting methodology. This methodology allows the planning units the flexibility to build their budget program by program each year. Some planning units that have little variation from the prior year may use the prior year approved budget and adjust the dollars for escalation and/or new programs

Each planning unit develops its budget by FERC Sub account. If the planning unit can develop the amount to budget for a specific O&M expense, the developed amount becomes the budgeted amount for that specific O&M expense. Each planning unit maintains supporting documentation for these developed amounts. If the planning unit is unable to develop the budgeted amount for a given expenditure, then the inflation rate or customer growth rate provided in the budget message may be used. Therefore, it is possible that a FERC Sub account could contain known developed amounts and amounts adjusted by inflation rates and/or customer growth rates provided in the budget message.

Corporate Planning reviews submittals for compliance with the company guidelines and compiles the data for review by the CFO and leadership team. Any changes are documented and then the approved budget is sent to the planning units. Each planning unit monitors their budget to actual comparison using the accounting reporting on-line system referred to as Southern Financial Information Access System (SOFIA). Quarterly reports are required that explain any variance plus or minus 10 percent and the variance amount is greater than or equal to plus or minus \$25,000. Year-end projections are also received from each planning unit.

Recommendation: This disclosure is provided for informational purposes.

FLORIDA PUBLIC SERVICE COMMISSION

Type of data shown:

Company: GULF POWER COMPANY

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

Projected Test Year Ended 05/31/2003

Prior Year Ended 05/31/2002

XX Historical Year Ended 12/31/2000

Witness: R. R. Labrato

Docket No. 010949-EI

**Adjusted 13-Month Average Rate Base
(THOUSANDS)**

Line No.	Rate Base Components	(1) Total Company per Books	(2) Non-Electric Utility	(3) Electric Utility (1) + (2)	(4) Commission Adjustments Made in Last Case as Applicable (Sch. B-5)	(5) Adjusted per Commission (3)+(4)	(6) Company Adjustments (Sch. B-6)	(7) Total Utility with Commission & Company Adjustments (5) + (6)	(8) Unit Power Sales Rate Base	(9) Total Utility Adjusted for UPS (7) - (8)	(10) Jurisdictional Rate Base Factor	(11) Jurisdictional Utility Adjusted Per Company & Commission (9) x (10)
1	Plant-in-Service	1,864,766	(2,036)	1,862,730	(71,865)	1,790,865	0	1,790,865	182,956	1,607,909	0.9759203	1,569,191
2	Accumulated Provision for Depreciation & Amortization	848,998	(840)	848,158	(14,106)	834,052	0	834,052	68,307	765,745	0.9747363	746,399
3	Net Plant-in-Service (1) - (2)	1,015,768	(1,196)	1,014,572	(57,759)	956,813	0	956,813	114,649	842,164	0.9769974	822,792
4	Plant Held for Future Use	3,156	0	3,156	0	3,156	0	3,156	0	3,156	0.9687105	3,057
5	Construction Work-in-Progress	52,764	0	52,764	(9,850)	42,914	0	42,914	334	42,580	0.9687672	41,249
6	Plant Acquisition Adjustment	5,477	0	5,477	0	5,477	0	5,477	5,477	0	-	0
7	Net Utility Plant (3)+(4)+(5)+(6)	1,077,165	(1,196)	1,075,969	(67,609)	1,008,360	0	1,008,360	120,460	887,900	0.9765717	867,098
8	Working Capital Allowance	46,087	(8,312)	37,775	(8,925)	28,850	0	28,850	1,396	27,454	0.9606615	26,374
9	Other Rate Base	0	0	0	0	0	0	0	0	0	-	0
10	Total Rate Base (7) + (8) + (9)	1,123,252	(9,508)	1,113,744	(76,534)	1,037,210	0	1,037,210	121,856	915,354		893,472
11	Operating Income	88,235		88,235	(5,920)	82,315	169	82,484	8,109	74,375		73,329
12	Rate of Return (11)/(10)	7.86%		7.92%		7.94%		7.95%		8.13%		8.21%

EXHIBIT

FLORIDA PUBLIC SERVICE COMMISSION

Explanation : Provide the calculation of jurisdictional net operating income for the test year and the prior year.

Type of Data Shown:

___ Projected Test Year Ended 5/31/03

___ Prior Year Ended 5/31/02

XX Historical Year Ended 12/31/00

Witness: R.R. Labrato

COMPANY: GULF POWER COMPANY

DOCKET NO: 010949-EI

(000s)

Adjusted Jurisdictional Net Operating Income Calculation for the Twelve Months Ended 12/31/00

Line No.	Description	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)
		Total Company per Books	Non-Electric Utility	Electric Utility (1) - (2)	Commission Adjustments (Sch. C-3)	Utility Adjusted per Commission (3) + (4)	Company Adjustments (Sch. C-3)	Total Adjusted Utility (5) + (6)	Unit Power Sales Net Operating Income	Total Adjusted Utility net of UPS (7) - (8)	Jurisdictional Separation Factor	Jurisdictional Amount (9) x (10)
Operating Revenues:												
1	Sales of Electricity	682,523		682,523	(312,230)	370,293	0	370,293	20,270	350,023	0.9809241	343,346
2	Other Operating Revenues	31,794		31,794	(19,076)	12,718		12,718		12,718	0.9809017	12,475
3	Total Operating Revenues	714,317	0	714,317	(331,306)	383,011	0	383,011	20,270	362,741	0.9809230	355,821
Operating Expenses:												
4	Operation - Fuel	211,768		211,768	(211,768)	0		0		0	-	0
5	Interchange	76,343		76,343	(76,343)	0		0		0	0.0000000	0
6	Other Operation & Maintenance	183,549		183,549	(13,045)	170,504	(275)	170,229	5,032	165,197	0.9788737	161,707
7	Depreciation & Amortization	68,705		68,705	(2,304)	66,401	0	66,401	4,354	62,047	0.9752798	60,513
8	Amortization of Investment Credit	(1,834)		(1,834)		(1,834)		(1,834)	(335)	(1,499)	0.9753169	(1,462)
9	Taxes Other Than Income Taxes	55,904		55,904	(22,997)	32,907	0	32,907	760	32,147	0.9831135	31,605
Income Taxes												
10	Federal	38,383		38,383	919	39,302	91	39,393	2,827	36,566	0.9811038	35,875
11	State	6,020		6,020	152	6,172	15	6,187	470	5,717	1.0435315	5,966
Deferred Income Taxes - Net												
12	Federal	(11,365)		(11,365)		(11,365)		(11,365)	(812)	(10,553)	0.9917550	(10,466)
13	State	(1,391)		(1,391)		(1,391)		(1,391)	(135)	(1,256)	0.9917550	(1,246)
14	Investment Tax Credit	0		0		0		0		0	-	0
15	Total Operating Expenses	626,082	0	626,082	(325,386)	300,696	(169)	300,527	12,161	288,366	0.9796298	282,492
16	Net Operating Income	88,235	0	88,235	(5,920)	82,315	169	82,484	8,109	74,375	0.9859372	73,329

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FLORIDA PUBLIC SERVICE COMMISSION

EXPLANATION: Provide the company's 13-month average cost of capital for:

Type of Data Shown:

COMPANY: GULF POWER COMPANY

1) the test year,

 Projected Test Year Ended 5/31/03

2) the prior year if the test year is projected, and

 Prior Year Ended 5/31/02

3) the test year of the last rate case

 Historical Year Ended 12/31/00

DOCKET NO. 010949-EI

Witness: R. R. Labrato

EXHIBIT

Line No.	Class of Capital	(A) Company Total per Books	(B) Direct Adjust- ments (1)	(C) Non- Utility Adjustments (2)	(D) Other Rate Base Adjusts.	(E) Balance Sheet Items Excluded From Rate Base	(F) System Adjusted	(G) Less: Unit Power Sales	(H) System net of UPS	(I) Juris- dictional Factor	(J) Juris- dictional Capital Structure	(K) Ratio	(L) Cost Rate	(M) Weighted Cost Rate
<u>Historical Year Ended 12/31/00</u>														
1	Long-Term Debt	350,566	-	-	(23,608)	-	326,958	44,605	282,353	0.9757712	275,512	30.84	6.93	2.14
2	Long-Term Note	-	-	-	-	-	-	-	-	0.9757712	-	0.00	0.00	0.00
3	Short-Term Debt	39,846	-	-	(3,075)	-	36,771	-	36,771	0.9757712	35,880	4.02	6.49	0.26
4	Preferred Stock	86,429	(2,880)	-	(5,936)	-	77,613	6,620	70,993	0.9757712	69,273	7.75	5.03	0.39
5	Common Equity	416,829	10,834	(9,963)	(29,985)	-	387,715	29,098	358,617	0.9757712	349,928	39.16	13.00	5.09
6	Customer Deposits	13,162	-	-	(1,016)	-	12,146	-	12,146	1.0000000	12,146	1.36	5.91	0.08
7	Deferred Taxes	182,169	-	-	(11,236)	-	170,933	36,534	134,399	0.9757712	131,144	14.68	-	0.00
8	Investment Credit - Zero Cost	-	-	-	-	-	-	-	-	0.9757712	-	0.00	-	0.00
9	Investment Credit - Weighted Cost	26,752	-	-	(1,678)	-	25,074	4,999	20,075	0.9757712	19,589	2.19	9.80	0.21
10	Total	1,115,753	7,954	(9,963)	(76,534)	-	1,037,210	121,856	915,354	-	893,472	100.00	-	8.17

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

FLORIDA PUBLIC SERVICE COMMISSION

Company: GULF POWER COMPANY

Docket No. 010949-EI

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

Type of data shown:

XX Projected Test Year Ended 05/31/2003

Prior Year Ended 05/31/2002

Historical Year Ended 12/31/2000

Witness: R. R. Labrato

Adjusted 13-Month Average Rate Base
(THOUSANDS)

Line No.	Rate Base Components	(1) Total Company per Books	(2) Non- Electric Utility	(3) Electric Utility (1) + (2)	(4) Commission Adjustments Made in Last Case as Applicable (Sch. B-5)	(5) Adjusted per Commission (3)+(4)	(6) Company Adjustments (Sch. B-6)	(7) Total Utility with Commission & Company Adjustments (5) + (6)	(8) Unit Power Sales Rate Base	(9) Total Utility Adjusted for UPS (7) - (8)	(10) Jurisdictional Rate Base Factor	(11) Jurisdictional Utility Adjusted Per Company & Commission (9) x (10)
1	Plant-in-Service	2,277,763	(289)	2,277,474	(73,188)	2,204,286	0	2,204,286	189,273	2,015,013	0.9759203	1,966,492
2	Accumulated Provision for Depreciation & Amortization	972,552	(115)	972,437	(19,947)	952,490	2,953	955,443	79,207	876,236	0.9747363	854,099
3	Net Plant-In-Service (1) - (2)	1,305,211	(174)	1,305,037	(53,241)	1,251,796	(2,953)	1,248,843	110,066	1,138,777	0.9768313	1,112,393
4	Plant Held for Future Use	3,164	0	3,164	0	3,164	0	3,164	0	3,164	0.9687105	3,065
5	Construction Work-in-Progress	28,264	0	28,264	(11,528)	16,736	0	16,736	375	16,361	0.9687672	15,850
6	Plant Acquisition Adjustment	4,861	0	4,861	0	4,861	0	4,861	4,861	0	-	0
7	Net Utility Plant (3)+(4)+(5)+(6)	1,341,500	(174)	1,341,326	(64,769)	1,276,557	(2,953)	1,273,604	115,302	1,158,302	0.9766952	1,131,308
8	Working Capital Allowance	67,951	(55)	67,896	1,026	68,922	0	68,922	(420)	69,342	0.9690231	67,194
9	Other Rate Base	0	0	0	0	0	0	0	0	0	-	0
10	Total Rate Base (7) + (8) + (9)	1,409,451	(229)	1,409,222	(63,743)	1,345,479	(2,953)	1,342,526	114,882	1,227,644		1,198,502
11	Operating Income	80,185		80,185	(6,666)	73,519	(4,137)	69,382	7,724	61,658		61,378
12	Rate of Return (11)/(10)	5.69%		5.69%		5.46%		5.17%		5.02%		5.12%

EXHIBIT

FLORIDA PUBLIC SERVICE COMMISSION

Explanation : Provide the calculation of jurisdictional net operating income for the test year and the prior year.

Type of Data Shown:

Projected Test Year Ended 5/31/03

Prior Year Ended 5/31/02

Historical Year Ended 12/31/00

Witness: R.R. Labrato

COMPANY: GULF POWER COMPANY

DOCKET : 010949-EI

(000s)

Adjusted Jurisdictional Net Operating Income Calculation for the Twelve Months Ended 5/31/2003

Line No.	Description	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)
		Total Company per Books	Non-Electric Utility	Electric Utility (1) - (2)	Commission Adjustments (Sch. C-3)	Adjusted per Commission (3) + (4)	Company Adjustments (Sch. C-3)	Total Adjusted Utility (5) + (6)	Unit Power Sales Net Operating Income	Total Adjusted Utility net of UPS (7) - (8)	Jurisdictional Separation Factor	Jurisdictional Amount (9) x (10)
Operating Revenues:												
1	Sales of Electricity	733,472		733,472	(346,645)	386,827	0	386,827	21,903	364,924	0.9834870	358,898
2	Other Operating Revenues	33,019		33,019	(18,934)	14,085		14,085		14,085	0.9809017	13,816
3	Total Operating Revenues	766,491	0	766,491	(365,579)	400,912	0	400,912	21,903	379,009	0.9833909	372,714
Operating Expenses:												
4	Operation - Fuel	308,818		308,818	(308,818)	0		0		0	-	
5	Interchange	17,653		17,653	(17,653)	0		0		0	0.0000000	0
6	Other Operation & Maintenance	201,325		201,325	(8,313)	193,012	559	193,571	7,217	186,354	0.9788843	182,419
7	Depreciation & Amortization	82,237		82,237	(2,645)	79,592	4,324	83,916	4,386	79,530	0.9752798	77,564
8	Amortization of Investment Credit	(1,831)		(1,831)		(1,831)		(1,831)	(332)	(1,499)	0.9753169	(1,462)
9	Taxes Other Than Income Taxes	59,746		59,746	(23,330)	36,416	1,853	38,269	665	37,604	0.9831135	36,969
Income Taxes												
10	Federal	21,765		21,765	1,583	23,348	(2,228)	21,120	2,656	18,464	1.0349328	19,109
11	State	3,594		3,594	263	3,857	(371)	3,486	442	3,044	1.0348226	3,150
Deferred Income Taxes - Net												
12	Federal	(6,296)		(6,296)		(6,296)		(6,296)	(733)	(5,563)	1.0434932	(5,805)
13	State	(705)		(705)		(705)		(705)	(122)	(583)	1.0434932	(608)
14	Investment Tax Credit	0		0		0		0		0	-	0
15	Total Operating Expenses	686,306	0	686,306	(358,913)	327,393	4,137	331,530	14,179	317,351	0.9810462	311,336
16	Net Operating Income	80,185	0	80,185	(6,666)	73,519	(4,137)	69,382	7,724	61,658	0.9954588	61,378

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EXHIBIT

FLORIDA PUBLIC SERVICE COMMISSION

EXPLANATION: Provide the company's 13-month average cost of capital for:

Type of Data Shown:

COMPANY: GULF POWER COMPANY

- 1) the test year,
- 2) the prior year if the test year is projected, and
- 3) the test year of the last rate case

 Projected Test Year Ended 5/31/03 Prior Year Ended 5/31/02 Historical Year Ended 12/31/00

DOCKET NO. 010949-EI

Witness: R. R. Labrato

Line No.	Class of Capital	(A) Company Total per Books	(B) Direct Adjust- ments (1)	(C) Non- Utility Adjust- ments (2)	(D) Other Rate Base Adjusts.	(E) Balance Sheet Items Excluded From Rate Base	(F) System Adjusted	(G) Less: Unit Power Sales	(H) System net of UPS	(I) Juris- dictional Factor	(J) Juris- dictional Capital Structure	(K) Ratio	(L) Cost Rate	(M) Weighted Cost Rate
<u>Prior Year Ended 5/31/02</u>														
1	Long-Term Debt	466,459	-	-	(76,847)	-	389,612	44,569	345,043	0.9757906	336,689	34.76	7.04	2.45
2	Long-Term Note	-	-	-	-	-	-	-	-	0.9757906	-	0.00	-	0.00
3	Short-Term Debt	31,502	-	-	(5,738)	-	25,764	-	25,764	0.9757906	25,140	2.60	5.20	0.14
4	Preferred Stock	104,999	(2,771)	-	(17,416)	-	84,812	6,614	78,198	0.9757906	76,305	7.88	5.01	0.39
5	Common Equity	512,204	11,559	(556)	(90,005)	-	433,202	29,074	404,128	0.9757906	394,344	40.71	13.00	5.29
6	Customer Deposits	13,715	-	-	(2,498)	-	11,217	-	11,217	1.0000000	11,217	1.16	5.97	0.07
7	Deferred Taxes	172,175	-	-	(24,931)	-	147,244	35,302	111,942	0.9757906	109,232	11.28	-	0.00
8	Investment Credit - Zero Cost	-	-	-	-	-	-	-	-	0.9757906	-	0.00	-	0.00
9	Investment Credit - Weighted Cost	24,032	-	-	(3,552)	-	20,480	4,531	15,949	0.9757906	15,563	1.61	9.76	0.16
10	Total	1,325,086	8,788	(556)	(220,987)	-	1,112,331	120,090	992,241		968,490	100.00		8.50
<u>Test Year Ended 5/31/03</u>														
11	Long-Term Debt	515,942	-	-	(24,378)	-	491,564	42,884	448,680	0.9760026	437,913	36.54	7.08	2.59
12	Long-Term Note	-	-	-	-	-	-	-	-	0.9760026	-	0.00	0	0.00
13	Short-Term Debt	19,233	-	-	(994)	-	18,239	-	18,239	0.9760026	17,801	1.49	6.02	0.09
14	Preferred Stock	116,613	(2,694)	-	(5,542)	-	108,377	6,364	102,013	0.9760026	99,565	8.31	5.01	0.42
15	Common Equity	547,188	12,869	(683)	(27,385)	-	531,989	27,975	504,014	0.9760026	491,919	41.04	13.00	5.34
16	Customer Deposits	13,969	-	-	(720)	-	13,249	-	13,249	1.0000000	13,249	1.11	5.98	0.07
17	Deferred Taxes	164,672	-	-	(6,757)	-	157,915	33,458	124,457	0.9760026	121,471	10.13	-	0.00
18	Investment Credit - Zero Cost	-	-	-	-	-	-	-	-	0.9760026	-	0.00	-	0.00
19	Investment Credit - Weighted Cost	22,113	-	-	(920)	-	21,193	4,201	16,992	0.9760026	16,584	1.38	9.70	0.13
20	Total	1,399,730	10,175	(683)	(66,696)	-	1,342,526	114,882	1,227,644		1,198,502	100.00		8.64

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