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GULF POWER COMPANY

DOCKET NUMBER 891345-EI

DIRECT TESTIMONY OF SCOTT SEERY

ON BEHALF OF

THE STAFF OF THE FLORIDA PUBLIC SERVICE COMMISSION

DIVISION OF AUDITING AND FINANCIAL ANALYSIS

FILED: APRIL 27, 1990

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DIRECT TESTIMONY OF SCOTT SEERY

Q Please state your name and business address.

A My name is Scott Seery. My business address is 101 East Gaines Street, Tallahassee, Florida, 32399-0850.

Q By whom are you employed and in what capacity?

A I am employed by the Florida Public Service Commission as a regulatory analyst in the Bureau of Finance.

Q Please outline your educational qualifications and experience.

A I received a Bachelor of Science degree in Business Administration, with honors, in 1976 from West Virginia University and a Master of Business Administration degree with a concentration in Finance from the University of South Florida in 1985.

Prior to accepting my current position with the Florida Public Service Commission in January of 1986, I was employed as a buyer for Mercantile Stores Company Incorporated. My responsibilities included purchasing, inventory control, and sales supervision.

Shortly after obtaining my MBA in Finance, I began employment as a regulatory analyst with the Florida Public Service Commission, where my primary responsibilities have consisted of analyzing and evaluating financial, economic, and statistical data relating to rate of return testimony in utility rate proceedings and preparing and presenting recommendations to the Commission based upon this data. I have also researched other related topics and have previously presented cost of equity testimony before the Commission.

I am a member of the Financial Management Association and the National Society of Rate of Return Analysts.

Q What is the purpose of your testimony?

A The purpose of my testimony is to establish the appropriate cost of common equity capital for Gulf Power Company (Gulf Power) for use in determining an appropriate allowed rate of return for Gulf Power.

My testimony will also address the appropriate regulatory treatment of non-utility related assets, temporary cash investments, and continuing cash balances when reconciling rate base and capital structure.

Q What principles provided the legal framework for your determination of a fair rate of return?

A The principles established by the Supreme Court of the United States in <u>Bluefield Waterworks and Improvement Company</u> v. <u>Public Service Commission of West Virginia</u>, 262 U.S. 679 (1923) and <u>Federal Power Commission</u> v. <u>Hope Natural Gas Company</u> 320 U.S. 591 (1944) provided the primary legal basis for my analysis. The Supreme Court held in both the <u>Hope</u> and <u>Bluefield</u> decisions that the return to the equity owner should be commensurate with returns on investments in other enterprises having corresponding risks. The return, moreover, should be sufficient to assure confidence in the financial integrity of the enterprise so as to maintain credit and attract capital.

Q In addition to the principles established by the Hope and Bluefield decisions, what other guidelines did you consider?

A Based upon my understanding of the Hope and Bluefield decisions, a regulated utility should be allowed to recover all costs prudently incurred in the provision of utility service, including an appropriate return on common equity capital. Recovery of all prudently incurred costs, including capital costs, effectively balances the interests of investors and ratepayers. Investors are provided with a return commensurate with returns on investments of comparable risk, while ratepayers pay the true cost for the services provided.

Q How does the allowed return on common equity relate to a balancing of the interests of investors and ratepayers?

A The adequacy of expected earnings can be determined by a comparison of the market price of a firm's common stock to its book value. If the expected return on common equity equals investor requirements, the market-to-book ratio can be expected to approximate one over the long run. If the expected return on book equity exceeds the cost of common equity investors will bid the price of the stock up, such that the market price per share exceeds the book value per share, resulting in a market-to-book ratio above one. The market price will move up or down in response to the level of the utility's expected returns relative to the investor's risk driven, required rate of return. To the extent utility rates reflect a return above that required by investors ratepayers are overcharged. Conversely, if a utility's market-to-book ratio is less than one, external issues of common stock will confiscate shareholders' wealth through the dilution of earnings per share and book value per share. Therefore, regulators should strive to set authorized rates of return that result in market-to-book ratios of approximately 1.0 over the long run.

Q How does your analysis of a fair rate of return on Gulf Power's common equity capital meet these basic legal criteria?

A My analysis of an appropriate rate of return on Gulf Power's common equity capital is based upon an evaluation of return requirements for comparable risk common equity investments as determined through the direct application of capital market valuation models to current financial and economic data. In my opinion, a market based equity pricing analysis satisfies the comparable returns, capital attraction, and financial integrity guidelines established by Hope and Bluefield for determining a fair and reasonable rate of return on common equity capital.

Q What have you concluded is the cost of common equity capital for Gulf Power?

A Based upon the results of my analysis, I conclude the current cost of common equity capital for Gulf Power is 12.10%.

Q Would you describe your general approach to measuring Gulf

Power's equity cost rate?

A In order to properly evaluate the returns obtained through use of a market based equity pricing analysis, I first examined general economic conditions, as well as industry and company factors, which drive capital market return requirements. I then applied two generally accepted market rate of return models to an index of comparable companies as a means to estimate Gulf Power's cost of common equity capital.

Q How do economic conditions impact capital market return requirements?

A The interrelated factors of inflation and interest rates have a significant impact on investor return requirements.

Q Please elaborate.

A Increases in the general level of prices affect interest rates because investors are unwilling to commit their funds unless they are adequately protected against future losses in purchasing power. If investors anticipate a higher rate of inflation they will adjust their return requirements upward to guard against the erosion of purchasing power.

In addition, accelerating inflation and rising interest rates increase the uncertainty surrounding a firm's earnings and dividends. Historically, the utility industry has been particularly vulnerable to the effects of high inflation and high interest rates. During periods of accelerating inflation, earnings deterioration has resulted from rising labor and other operating expenses and also from the substantial impact of increasing plant costs and the associated financing due to the capital intensive nature of the utility industry.

Q Have you examined changes in inflation rates?

A Yes, I have. Schedule 1 shows the level of inflation as measured by the Consumer Price Index.

Q Have you examined changes in interest rates?

A Yes, I have. Page 1 of Schedule 2 is a graph for yields on seasoned "A" rated utility bonds. These bonds averaged approximately 9.77% during 1989 and 10.49% in 1988. The monthly average for March was 9.85%. The yield on the bellwether 30-year Treasury bond averaged 8.44% during 1989. The current yield on the 30-year Treasury bond is 8.96%.

Q Please discuss the current economic environment and current expectations regarding inflation and interest rates.

A The U.S. economy slowed appreciably in the fourth quarter of 1989, impacted by such factors as the earthquake in California, a strike at the Boeing Company, and a reduction in consumer spending. Recently, however, the economy has begun to show some signs of renewed vigor.

In March of this year, the civilian unemployment rate fell to 5.2% after remaining at 5.3% for nine consecutive months. Although payrolls grew by a modest 26,000 people in March, employers hired over 700,000 new workers in the first two months of this year.

The retail sector accounts for approximately one third of the nation's economic activity. Retail sales fell by 0.6% in March after declining 0.3% in February. However, excluding automobile sales, which remain troublesome, retail sales were up 1.1% in January, 1.5% in February, and down 0.4% in March. Given the strong gains posted in both January and February, most economists do not find the slip in March alarming. Further, despite recent surveys that indicate a decline in consumer confidence, many economists believe consumer spending remains strong enough to sustain continued economic growth.

Industrial production increased by 0.7% in March following a 0.6% increase in February. Industrial capacity utilization rose in March to 83.3% from the 82.9% level recorded in February. Analysts said a return to normal temperatures, following an unseasonably warm February, caused a surge in utility output, which, in conjunction with increased automobile production, accounted for the increased production in March. In addition, the latest Commerce Department report indicates that business inventories decreased by 0.4% in February, at the same times sales increased by 1.3%, keeping inventories at manageable levels.

As it has for much of the recent past, the specter of inflation remains on the horizon posing a threat to continued economic expansion. Over the past 12 months, producer prices have increased by 4.4%. However, excluding the typically volatile food and energy costs, prices grew at a more moderate 3.8% pace over the past year. A more widely followed measure of inflation, the Consumer Price Index increased by 0.5% in March, the same rate as in February. The March increase pushes the rate of inflation for the first quarter to an 8.5% annual rate, the highest quarterly rate since the first quarter of 1990. Many economists believe the latest numbers indicate that inflation remains a persistent problem.

Many analysts believe the latest inflation numbers will prevent any easing of interest rates by the Fed. Over the past year, the Fed has been keeping interest rates high in an effort to curb demand and reduce upward pressure on prices. Although higher interest rates have served to slow the economy, many economists believe the Fed has made progress in controlling, but not reducing, inflation.

Q What other economic factors have you considered?

A The trade and budget deficits continue to overshadow the performance of the U.S. economy. The trade deficit narrowed by $2.83 billion in February, to $6.49 billion, the smallest monthly imbalance since December 1983. Imports, which fell by 7.6%, accounted for the marked improvement. However, at the same time, exports fell 1% from the record high reached in January.

A significant reduction in U.S. purchases of foreign oil, reflecting both a decline in prices and a reduction in volume, led the drop in imports. Accompanying the recent progress made in reducing the trade deficit has been a reduction in the gap in the U.S. balance of payments which fell to $105.88 billion in 1989, the lowest level in five years.

Congress enacted legislation in 1989 allowing the national debt level to rise to $3.1 trillion, an amount over three times the $1 trillion mark reached in 1980. Many analysts believe the prospects for near-term improvement in the budget deficit are bleak. However, U.S. Representative Daniel Rostenkowski, Chairman of the U.S. House of Representatives Ways and Means Committee, recently introduced a deficit reduction plan calling for a $511.6 billion reduction over five years (1990-1995). The deficit reduction plan proposes to balance the budget in three years and achieve a budget surplus by fiscal year 1994.

Analysts contend that the continuation of such huge trade and budget deficits erodes confidence in both the dollar and the U.S. economy and, absent productivity gains, will reduce the standard of living in the U.S.

The future course of the economy and of inflation remains unclear. In any case, a component of required yields is compensation for expected inflation, the level of which directly affects the cost of debt and equity. Schedule 3 is a summary of various interest rates and inflation rates. Schedule 3 also shows <u>Blue Chip</u> forecasts for various measures of inflation and interest rates.

In summary, electric stocks remain sensitive to interest rates and inflation. Investor perceptions of higher interest rates would place downward pressure on electric utility stock prices. Conversely, a slowing economy and falling interest rates could cause electric utility stock prices to rise since utility stocks are generally regarded as defensive issues.

Q What financial models did you use to determine the required return on common equity for Gulf Power?

A I used a two-stage, annually compounded discounted cash flow (DCF) model and a risk premium analysis to determine the required return on common equity.

Q How did you apply these models to obtain Gulf Power's cost of common equity capital?

A I conducted a DCF and a risk premium analysis on an index of high quality electric utilities and adjusted tne results for the difference in risk between Gulf Power and the index. Relying on an index of companies, rather than a single company, helps minimize forecasting errors and should provide more reliable information for estimating the cost of common equity.

Q Please describe the investment risk characteristics of the companies that comprise your index.

A The investment risk characteristics for the index are: a Value Line Safety Rank of 1; a Value Line beta of .70; an S&P stock ranking of A; and an S&P and a Moody's bond rating of AA and Aa2, respectively. Schedules 4 provides the investment risk characteristics for the index.

Q Briefly describe the models you used.

A The discounted cash flow model is the most commonly used market based approach for estimating a utility investor's expected return on equity capital. In a DCF analysis, the cost of equity is the discount rate which equates the present value of expected cash flows associated with a share of stock to the present price of the stock.

A risk premium analysis recognizes that equity is riskier than debt. Equity investors thus require a "risk premium" over the cost of debt as compensation for assuming additional risk.

Q Would you provide the equation and define the terms for the discounted cash flow model?

A Yes, I will. This information is provided on Schedule 7. Inherent in this basic model are several simplifying assumptions: 1) dividends are paid annually and grow at a constant rate; 2) the price, Po, is determined on a dividend payment date; and 3) dividends increase once a year starting exactly one year hence.

Q Is Equation (4), Schedule 7, the DCF model you used to determine the cost of common equity capital?

A No, it is not. As mentioned above, the basic DCF model assumes that dividend growth rate is constant over time. If, however, the future growth rate is expected to change, a two-stage or variable growth rate model should be used. Equation (5) on Schedule 8, shows a two-stage DCF model. In the two-stage model, dividend growth is estimated on an individual basis for an initial growth period. Dividends are then assumed to grow infinitely at the expected long-term growth rate.

Q How did you use this model to determine the cost of common equity capital for the index?

A The current stock price (P_0) was determined by averaging the high and the low stock price for March 1990 of each company. I first assumed an initial growth period based upon <u>Value Line's</u> explicit dividend forecasts (n). I used <u>Value Line's</u> forecast of dividends for 1990 and 1993, and assumed a constant rate of growth in between to estimate the expected dividends (D_t) during the initial growth period. The long-term constant rate of growth expected after 1993 (gn) was calculated by the earnings retention method (b x r approach) using <u>Value Line's</u> expected return on equity (r) and expected retention rate (b) for 1993.

Q Does you DCF calculation include an allowance for issuance costs?

A Yes, it does. Historically, utility underwriting expenses associated with issuing common stock have averaged 3 to 4 percent of gross proceeds. Therefore, I believe a 3% adjustment to the DCF calculation to account for issuance costs is appropriate. (See, Pettway, R.H., "A Note on the Flotation Costs of New Equity Capital Issues of Electric Companies", Public Utilities Fortnightly, March 18, 1982 pp. 68-69.) Equation (6), Schedule 8, includes the adjustment for issuance costs.

Q What is the cost of common equity for the index companies based upon your two-stage, annually compounded DCF model?

A Solving Equation (6) on Schedule 8, produces a cost of common equity for the index of 11.00%. Schedule 9 contains the inputs and results of my analysis.

Q Please describe the risk premium analysis.

A The junior position of equity relative to debt adds additional uncertainty to the return of equity owners. Equity owners require compensation for this added risk. A risk premium analysis quantifies this additional compensation and adds it to the cost rate of debt to then estimate the cost of common equity. The equation expressing the basic risk premium model is contained on Schedule 10.

Q How did you begin the risk premium analysis?

A I relied upon the risk premium study prepared by the staff of the Finance Bureau. The analysis first uses the DCF methodology discussed above to estimate the expected market return for the index for each month from April 1980 through March 1990.

Q How is the equity-debt risk premium measured?

A For each month of the period, the expected return on common equity was compared to the then current yield on long-term government bonds, as reported by Moody's, to determine the risk premium for common equity over the yield of long-term government bonds.

Q What is your estimate of the equity-debt risk premium for the index?

A As shown on Schedule 11, the equity-debt risk premium for the index average 3.191% over the period 1980-1990.

Q What measure of debt cost did you add to the risk premium to determine the cost of equity?

A I used the April 1, 1990 <u>Blue Chip Financial Forecasts'</u> (Blue Chip) consensus forecast for long-term government bond yields for the coming year of 8.260%. Blue Chip is a publication that provides interest rate forecasts from 50 leading financial forecasters.

Q What is the risk premium cost of common equity for the index?

A As shown on Schedule 10, combining the average expected yield on long-term government bonds of 8.260% with the equity-debt risk premium of 3.191% results in a risk premium cost of equity of 11.50% (rounded) for the index.

Q Based upon your DCF analysis and your risk premium analysis, what is your conclusion as to the cost of common equity for the index?

A Based upon my DCF and risk premium analyses, I believe the cost of common equity for the index is within the range of 11.00% to 11.50%.

Q Is this result an appropriate measure of the cost of common equity to Gulf Power?

A No, it is not. The cost of common equity for an index of companies possessing the risk characteristics discussed earlier and illustrated on Schedule 4 is, in my estimate, between 11.00% and 11.50%. However, in my opinion, Gulf Power is riskier than the index and should therefore be allowed a higher cost of equity.

Q Have you examined the investment risk characteristics of Gulf Power?

A Yes, I have. Schedule 6 shows Gulf Power's earned returns, coverage ratios, percent AFUDC to net income ratios and percent internally generated funds ratios for the last five years. Schedule 5 provides financial ratios for "A" rated electric utilities and Schedule 4, page 2 of 2, provides the information necessary to compare the AA/Aa electric index to Gulf Power with regard to debt leverage, return on equity, coverage ratio, percent of AFUDC to net income, and percent of internally generated funds.

Q In general, how does the investment risk of Gulf Power compare to that of the electric index?

A Gulf Power is riskier than the electric index. It has a lower bond rating, A/A, as compared to an average Aa/AA for the electric index. This rating is affected by such factors as debt leverage and interest coverage. As shown on Schedules 4, 5, and 6, Gulf Power has significantly higher debt leverage and much lower interest coverage ratios than the index. Additionally, Schedule 5 shows the equity ratio, debt leverage, coverage ratio, and net cash flow to capital spending for Gulf Power and comparable "A" rated electric utilities. Relative to comparable "A" rated utilities Gulf Power has a lower equity ratio, higher debt leverage, and a lower coverage ratio.

Q What adjustment have you made to reflect the difference in risk between Gulf Power and the index?

A First, I used a bond rating differential to estimate the additional return required by an "A" rated electric utility over the "AA" rated index. As indicated on Schedule 12, the average spread between "AA" and "A" bonds has been approximately 30 basis points over the past 60 months. Adding this spread to the index's cost of equity range of 11.00% to 11.50% results in a cost of equity range of 11.30% to 11.80%. I believe that, generally, a bond yield differential is a reasonable method to estimate the difference in the cost of common equity when examining companies of different bond ratings. However, given Gulf Power's lower equity ratio, higher debt leverage, and lower coverage ratio relative to comparable "A" and "AA" rated electric utilities, I believe an additional premium, from the top of the adjusted range, is warranted to arrive at Gulf

Power's cost of common equity.

As shown on Schedule 14, applying a 12.10% return on common equity, 30 basis points above the top of the adjusted range, results in a pretax times interest earned (TIE) ratio and pretax cost of capital comparable to that which would have been incurred by Gulf Power if their debt leverage and equity ratio were similar to the average of the utilities comprising the "A" rated index. The resulting TIE ratio also compares favorably with other "A" rated electric utilities and with the benchmark guidelines provided by S&P.

Q Why did you use annually compounded, rather than quarterly compounded, models in your analysis to determine the cost of common equity capital to Gulf Power?

A In Docket No. 880558-EI, the Commission expressed their opinion that the specificity obtained by recognizing the effects of compounding to determine the cost of equity was an unnecessary refinement. Therefore, I have conducted an analysis using annually compounded models, the results of which, in my opinion, approximate the appropriate point at which rates should be set to meet investor return requirements.

Q Please continue.

A In my opinion, the use of models that accurately reflect the receipt and timing of cash flows provides a better estimate of the cost of equity. However, using the results derived from a quarterly DCF model without making a ratemaking rate of return adjustment is inconsistent. The ratemaking rate of return adjustment recognizes the time value of money associated with the Company's monthly receipt of revenues. It is inconsistent to selectively recognize the time value associated with the investor's quarterly receipt of dividends, through use of a quarterly model, and then not recognize the time value associated with the Company's monthly receipt of revenues. Ignoring the Company's monthly receipt of revenues, as reflected in the 13-month average equity balance, overestimates the point at which rates should be set.

Q What is your recommendation regarding the appropriate regulatory treatment of non-utility related property and non-regulated subsidiaries?

A I recommend non-utility property and non-regulated subsidiaries be removed from the capital structure directly from equity unless the Company can show, through competent evidence, that to do otherwise would result in a more equitable determination of the cost of capital for regulatory purposes.

Q In making this recommendation are you assuming the investment in non-regulated assets can be traced directly to equity funds?

A No. Assets cannot be associated with specific sources of funds. Funds are fungible.

Q If funds cannot be traced, why do you recommend, in the absence of persuasive evidence to the contrary, non-regulated property and non-regulated subsidiaries be removed from equity?

A I recommend this treatment for two reasons. The first is the basic principle that the cost of capital allowed for ratemaking purposes should be the cost of capital associated with the provision of utility service. The second relates to the signals and incentives sent to the companies.

Q Please continue.

A The cost of capital is the minimum rate of return necessary to attract capital to an investment. It is a function of the risk of the investment. The greater the risk the greater the return investors require.

Regulated entities are of relatively low risk and have correspondingly low costs of capital. There are very few investments a regulated company can make that are of equal or lower risk. Therefore, investments in non-regulated subsidiaries will almost certainly increase a regulated utility's cost of capital. The effects may be difficult to quantify, but the fundamental risk-return relationship points to their existence. It is important that these effects be removed from the Company's overall cost of capital in order that ratepayers are charged only for the cost of capital associated with the provision of regulated service.

Removing the effects of investments in non-utility property can present a more difficult problem. For example, it may be difficult to quantify the cost of capital effects associated with a utility officer's purchase of an automobile for personal use. In this circumstance, I believe the signals and incentives associated with the Commission's policies should be of primary concern. If a utility can finance non-utility property at the utility's cost of capital rather than at market rates, it will have every economic incentive to do so. If this is allowed to occur, ratepayers will be subsidizing, through capital costs, investments not necessary for the provision of regulated service.

Q What is your position as to the appropriate regulatory treatment of cash and temporary cash investment balances?

A In my opinion, the appropriate regulatory treatment of either continuing cash balances or temporary cash investments should depend upon their prudency. If the utility can demonstrate, through competent evidence, that their cash balances or temporary cash investments are necessary for the provision of regulated utility service they should remain in rate base and earn at the utility's overall rate of return. Any earnings generated by these funds should then be used to offset revenue requirements. In general, short-term investments can be expected to earn less that the utility's overall cost of capital. Therefore, a blanket policy of excluding temporary cash investments from rate base could result in an asset, potentially necessary for the provision of regulated service, earning less than a fair rate of return.

However, if the utility fails to demonstrate the prudency of either their temporary cash investments or continuing cash balances, they should be removed directly from equity when reconciling the capital structure with rate base. Such treatment removes the capital structure implications of excessive cash or temporary cash investments. In a competitive environment the cost of poorly managed cash resources cannot be passed through to customers, instead, shareholders bear the cost. Similar treatment by the Commission would mirror the competitive environment and send appropriate signals to utility owners and managers regarding cash balances and working capital allowances.

Q Please summarize your testimony.

A The purpose of my testimony was to determine the appropriate cost of common equity capital for Gulf Power to use in determining an appropriate allowed overall rate of return. I also discussed the appropriate regulatory treatment of non-utility property and non-regulated subsidiaries, temporary cash investments, and continuing cash balances when reconciling rate base and capital structure.

Using the widely accepted discounted cash flow and risk premium methodologies I estimated a cost of common equity range of 11.00% to 11.50% for an index of "Aa/Aa" rated electric utilities. I then adjusted this range to account for the difference in risk between Gulf Power and the index. I determined that Gulf Power's cost of common equity fell within a range of 11.30% to 12.10%. Given Gulf Power's higher debt leverage, lower equity ratio, and lower coverage ratio relative to both the "AA" and "A" indices I examined, it is my opinion that the top of the range, 12.10% best represents Gulf Power's cost of common equity capital. Schedule 15 summarizes my conclusions regarding the cost of common equity capital.

I also recommend that non-utility property and non-regulated subsidiaries be removed from the capital structure directly from equity unless the company can show, through competent evidence, that to do otherwise would result in a more equitable determination of the cost of capital for regulatory purposes. In addition, I recommend that, absent a showing of their prudency, temporary cash investments and continuing cash balances be removed directly from equity when reconciling the capital structure with rate base.

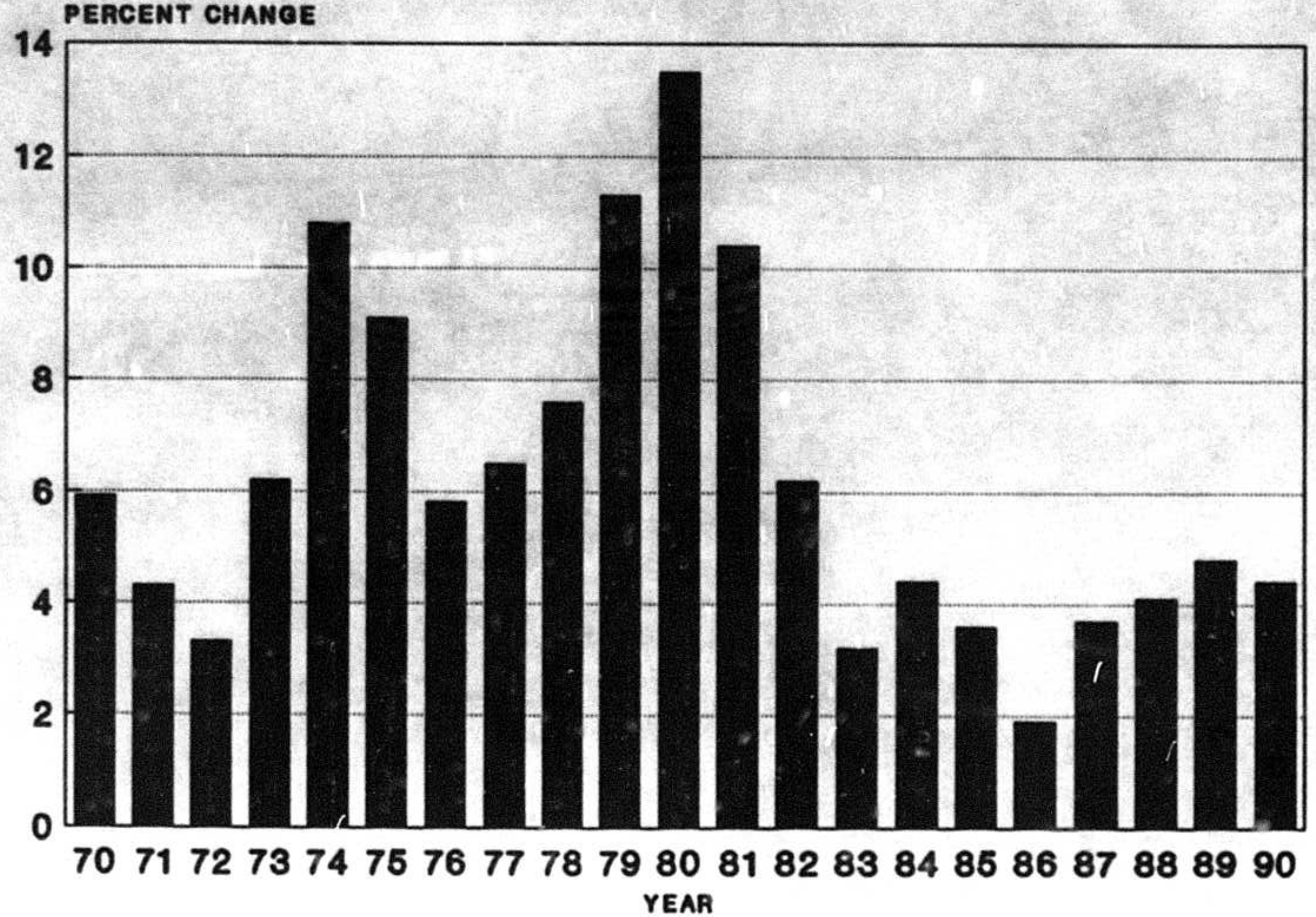
Q Does this conclude your testimony?

A Yes, it does.

LISTING OF EXHIBITS

THE CONSUMER PRICE INDEX

ANNUAL AVERAGE



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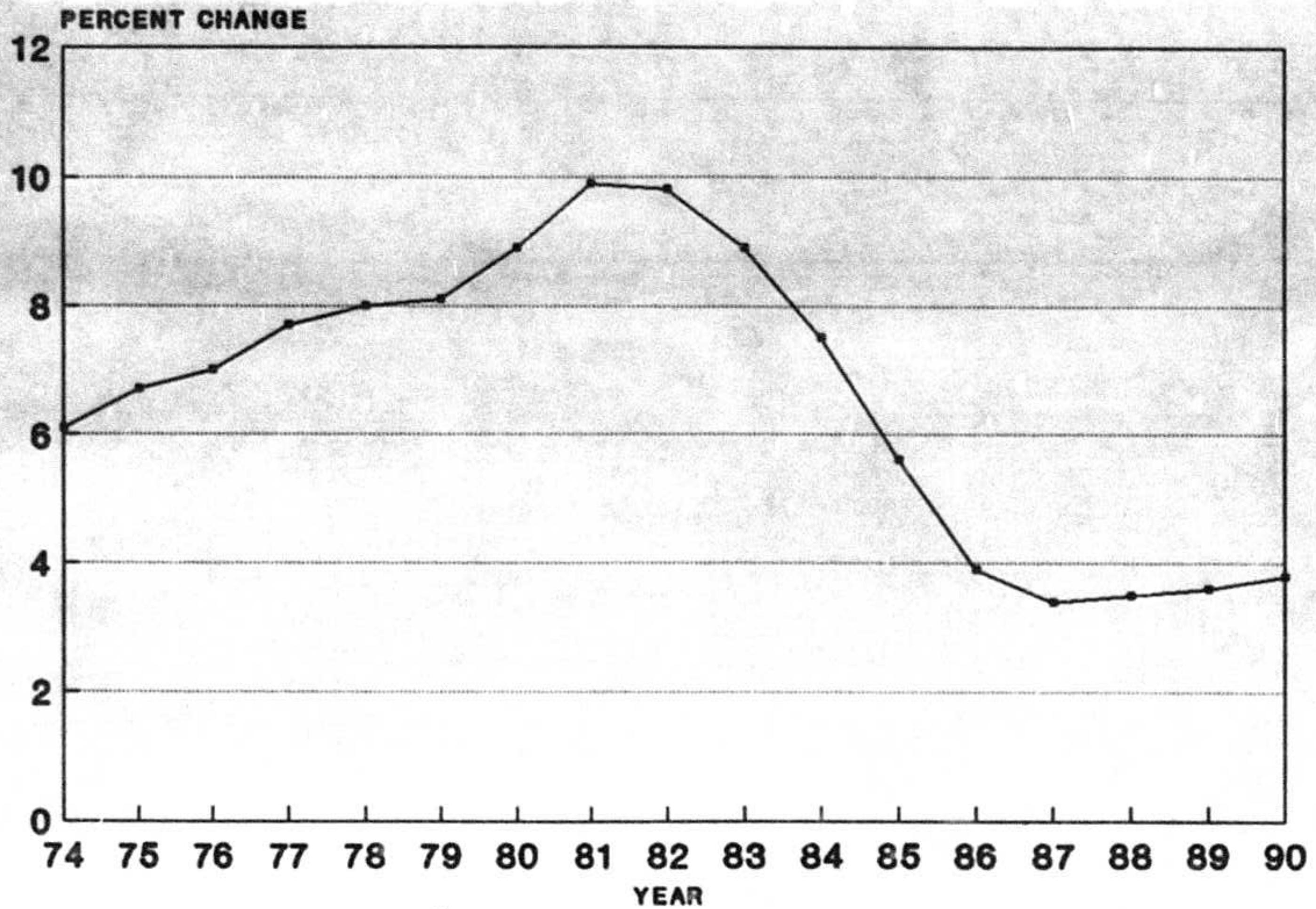
THE CONSUMER PRICE INDEX

FIVE YEAR MOVING AVERAGE



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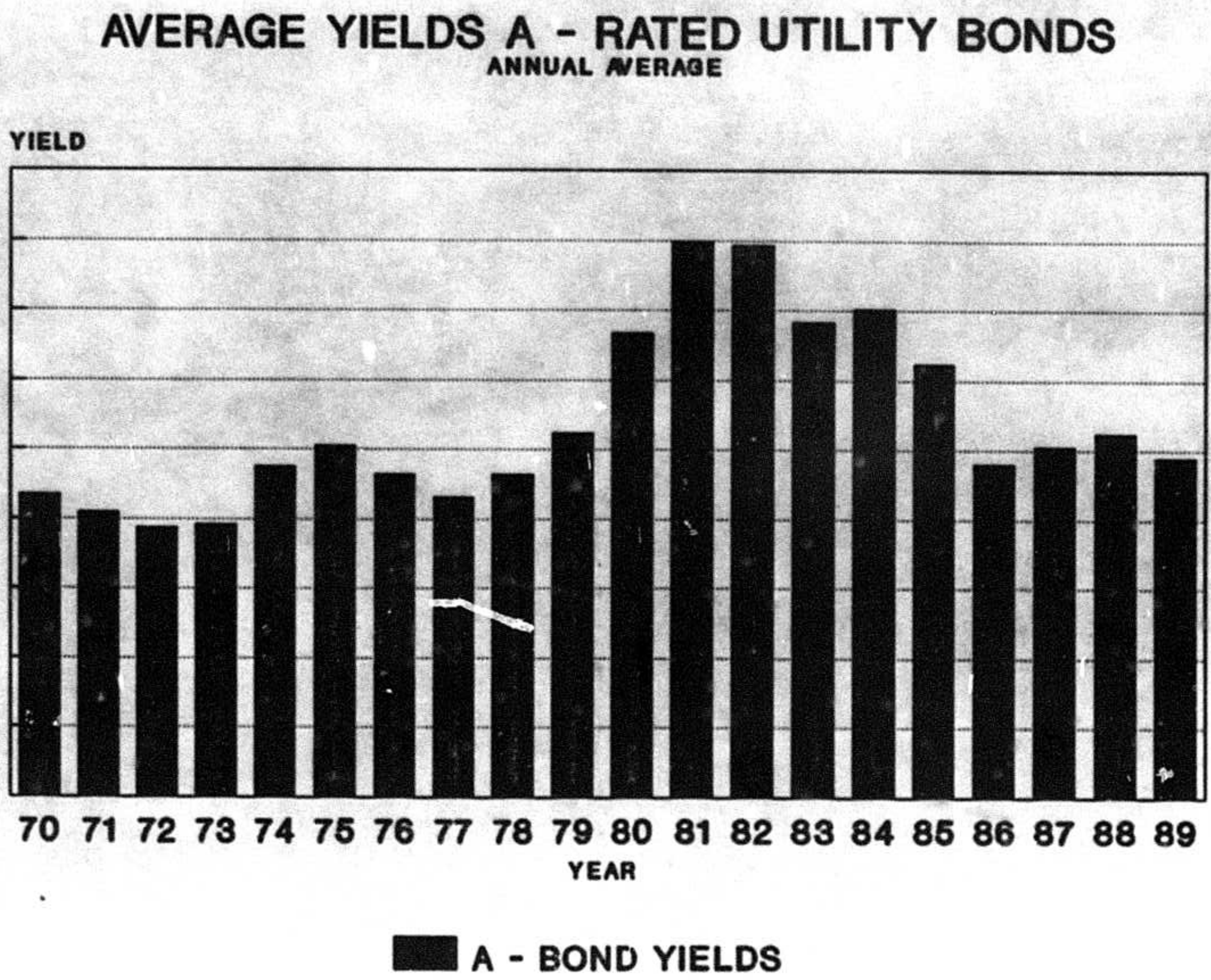
CONSUMER PRICE INDEX

YEAR	ANNUAL AVERAGE	FIVE YEAR MOVING AVG.
1990E	4.4	3.8
1989	4.8	3.6
1988	4.1	3.5
1987	3.7	3.4
1986	1.9	3.9
1985	3.6	5.6
1984	4.4	7.5
1983	3.2	8.9
1982	6.2	9.8
1981	10.4	9.9
1980	13.5	8.9
1979	11.3	8.1
1978	7.6	8.0
1977	6.5	7.7
1976	5.8	7.0
1975	9.1	6.7
1974	10.8	6.1
1973	6.2	
1972	3.3	
1971	4.3	
1970	5.9	

SOURCE: VALUE LINE



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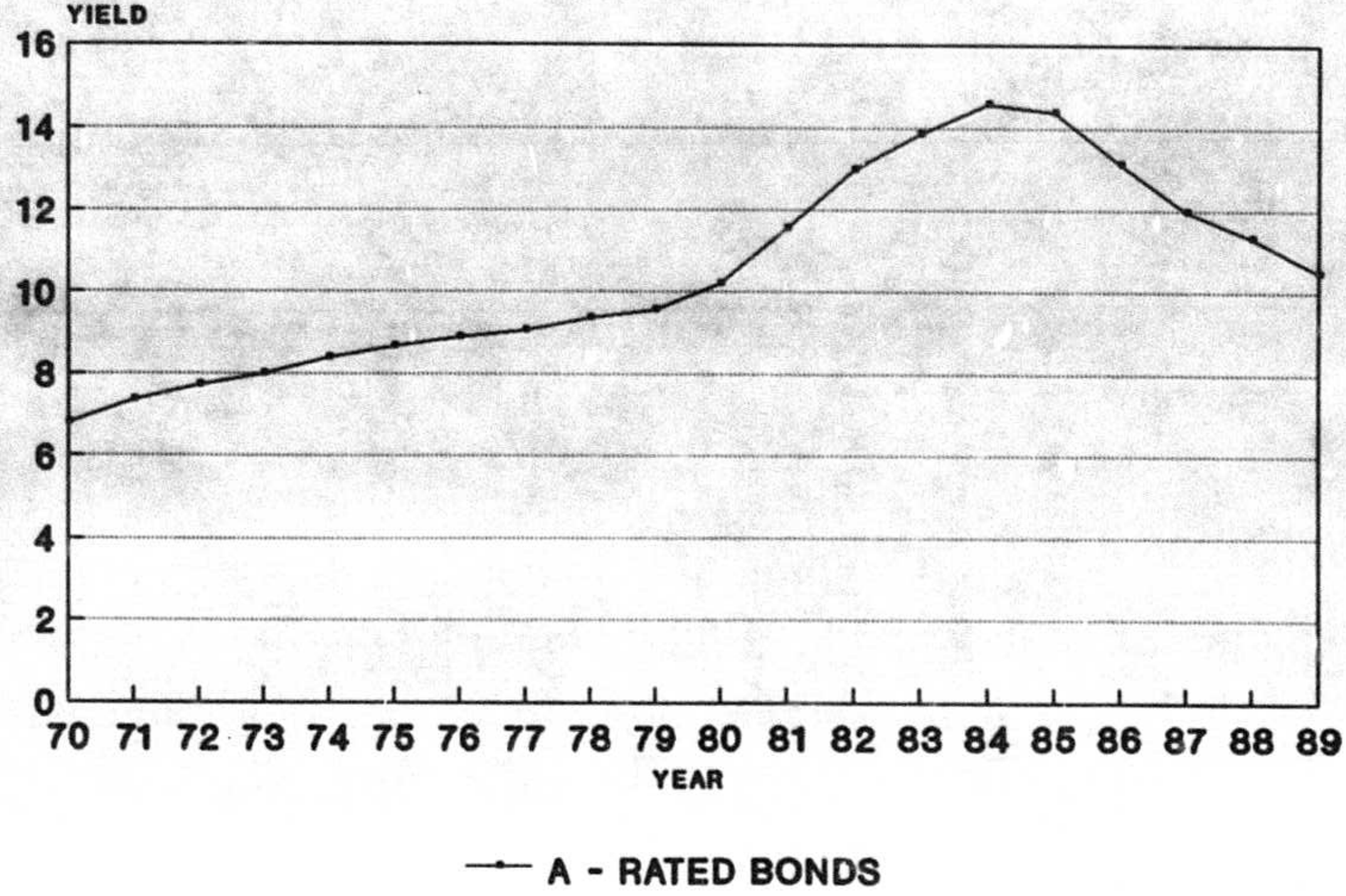
AVERAGE YIELDS A - RATED UTILITY BONDS
FIVE YEAR MOVING AVERAGE



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AVERAGE YIELDS ON A-RATED PUBLIC UTILITY BONDS

YEAR	ANNUAL AVERAGE	FIVE YEAR MOVING AVG.
1989	9.77%	10.48%
1988	10.49%	11.33%
1987	10.10%	11.97%
1986	9.58%	13.12%
1985	12.47%	14.39%
1984	14.03%	14.57%
1983	13.66%	13.86%
1982	15.86%	12.99%
1981	15.95%	11.54%
1980	13.34%	10.20%
1979	10.49%	9.55%
1978	9.29%	9.36%
1977	8.61%	9.07%
1976	9.29%	8.89%
1975	10.09%	8.66%
1974	9.50%	8.38%
1973	7.84%	7.99%
1972	7.72%	7.72%
1971	8.16%	7.35%
1970	8.69%	6.80%

SOURCE: MOODY'S BOND SURVEY

INTEREST RATES

	Annual Averages 1987(1)	1988(1)	1989(1)	Average March 1990(1)	Blue Chip Forecast Second Quarter 1990(2)	Third Quarter 1990(2)	Fourth Quarter 1990(2)	First Quarter 1990(2)
Aaa Utility	9.52%	10.05%	9.32%	9.48%				
Aa Utility	9.77%	10.26%	9.56%	9.60%				
A Utility	10.10%	10.49%	9.77%	9.85%	9.70%	9.50%	9.50%	9.50%
Baa Utility	10.53%	11.00%	9.97%	10.06%				
Prime Rate	8.10%	9.44%	10.83%	10.00%	9.90%	9.80%	9.70%	9.70%
Commercial Paper (30 day)	6.70%	7.72%	9.05%	8.32%	8.10%	8.10%	8.00%	8.00%
Long Term Treasury Yield	8.70%	9.04%	8.51%	8.73%	8.30%	8.20%	8.20%	8.20%

INFLATION RATES(3)

	Annual Averages 1987(4)	1988(4)	1989(4)	Latest Actual(2) 3/29/90	Blue Chip Forecast Second Quarter 1990(2)	Third Quarter 1990(2)	Fourth Quarter 1990(2)	First Quarter 1990(2)
Consumer Price Index	3.70%	4.10%	4.80%	3.90%	4.10%	4.20%	4.30%	4.30%
GNP Deflator	3.30%	3.40%	4.20%	3.20%	3.90%	3.90%	4.10%	4.00%

STOCK MARKET PERFORMANCE

	12/31/88	12/29/89	Percent Change	4/25/90	Percent Change(5)
S & P 500	277.72	353.4	27.25%	330.36	-6.52%
Dow Jones Industrial Average	2168.57	2753.2	26.96%	2654.50	-3.58%
Dow Jones Utility Average	186.28	235.04	26.18%	206.05	-12.33%

(1) Moody's Bond Survey, 4/16/90
(2) Blue Chip Financial Forecasts, April 1, 1990
(3) % change from prior years
(4) Value Line, 4/20/90
(5) Not Annualized
(6) Wall Street Journal, 4/25/90

Aa/AA RATED ELECTRIC UTILITIES

	S&P Stock Rank	Value Line Safety Rank	Value Line Beta	Moody's Bond Rating	S&P Bond Rating	Equity Ratio
Allegheny Power	A	1	.70	Aa3	AA-	47.0%
Baltimore G & E	A	1	.75	Aa3	AA-	43.0%
Consolidated Ed	A+	1	.75	Aa1	AA	54.0%
Duke Power	A	1	.75	Aa2	AA-	49.5%
Iowa Ill G & E	A	1	.60	Aa2	AA	45.0%
IPALCO	A-	1	.70	Aa2	AA	54.5%
Kansas P & L	A	1	.70	Aa3	AA-	49.0%
Northern States	A	1	.75	Aa1	AA	49.5%
Oklahoma G & E	A-	1	.65	Aa2	AA	49.0%
Orange&Rockland	A	1	.70	Aa2	AA-	43.5%
South Cal Ed	A	1	.75	Aa2	AA	45.5%
Southwest P. S.	A	1	.75	Aa2	AA	49.5%
TECO	A	1	.60	Aa2	AA	53.5%
Average	A	1	.70	Aa2	AA	48.7%

Sources:
Standard & Poor's Stock Guide, 4/90
Standard & Poor's Bond Guide, 4/90
Moody's Public Utility Manual, 1989
Value Line Ratings and Report, Ed.1 - 3/23/90, Ed.5 - 4/20/90, and Ed. 11 - 3/2/90

Aa/AA Rated Electric Utility Quality Measurements

	Total Debt/ Total Capital	Return on Equity	TIE without AFUDC	AFUDC as a % of Net Income	Percentage Internally Generated Funds
Allegheny Power.	43.0%	12.5%	3.98X	3.5%	76.8%
Baltimore G&E	46.3%	12.0%	3.29X	12.5%	56.7%
Consolidated Ed.	38.6%	12.5%	4.82X	3.0%	89.1%
Duke Power	40.9%	13.5%	3.81X	20.5%	45.9%
Iowa-Ill. G&E	50.3%	13.0%	4.17X	5.0%	83.0%
IPALCO	47.4%	13.5%	3.97X	2.0%	127.5%
Kansas P&L	49.3%	11.5%	3.28X	1.0%	50.0%
Northern States	40.7%	13.5%	4.38X	4.0%	64.0%
Oklahoma G&E	49.9%	14.5%	3.50X	3.0%	107.2%
Orange & Rockland	52.0%	12.0%	3.05X	3.5%	75.3%
Southern Cal. Ed.	53.8%	14.5%	2.88X	2.0%	84.8%
Southwest P.S.	44.0%	15.8%	4.29X	1.0%	218.8%
Tampa Electric	40.8%	14.5%	4.16X	2.5%	94.0%
Average	45.9%	13.33%	3.81X	4.88%	90.24%
Gulf Power	53.6%	10.81%	2.72X	(1.60%)	105.10%

Source:
Value Line Ratings and Reports - Ed.1, 12/22/89, Ed. 5, 1/19/90, Ed. 11, 3/2/90 - for period ending 12/31/89.
Standard and Poor's Credit Review - 10/20/89 - for period ending 6/30/89.
Gulf Power MFRS
FPSC Surveillance Reports

A/A Rated Electric Utility Financial Ratio Summary

	Common Equity/ Total Capital	Total Debt/ Total Capital	Pretax Interest Coverage**	Net Cash Flow/ Capital Spending
Appalachian Pwr.	43.9%	47.8%	3.39X	104.0%
Carolina Pwr.	41.6%	51.7%	3.07X	112.7%
Cen. La. Elec.	42.8%	53.5%	2.75X	88.0%
Delmarva Power	41.9%	51.5%	2.71X	56.0%
Emp. Distric El	50.0%	46.1%	3.53X	59.5%
Gen. Pub. Utils.*	44.4%	46.2%	3.44X	69.2%
Idaho Power	47.4%	47.8%	2.93X	107.4%
Iowa P & L Co.	36.1%	61.6%	3.14X	79.0%
Kan. City P&L	41.6%	53.5%	2.64X	154.8%
Otter Tail Pwr.	51.9%	38.6%	5.15X	163.9%
Pacificorp	43.3%	52.5%	2.77X	153.6%
Pacific G&E	44.0%	48.8%	2.63X	76.3%
Portland General	43.0%	48.3%	3.06X	163.9%
Puget Sound P&L	42.7%	49.1%	2.79X	112.4%
South Car. E&G	44.1%	50.4%	3.07X	69.7%
Union Electric	41.4%	52.1%	3.77X	197.1%
Va. El. Power	37.4%	52.8%	2.59X	66.9%
Wash. Wtr. Pwr.	41.6%	48.8%	3.00X	123.0%
Average	43.3%	50.1%	3.14X	108.7%
Gulf Power	38.94%	53.6%	2.72X	105.1%

*Reflects combined operations of electric utility units.
**Without AFUDC.

Source:
Standard & Poor's Credit Review, 10/20/89, period ending 6/30/89.
Gulf Power MFRS - period ending 12/31/89.
FPSC Surveillance Reports

GULF POWER COMPANY
QUALITY MEASUREMENTS

	1985	1986	1987	1988	1989
Overall Earned Rate of Return	9.83%	9.62%	8.74%	8.46%	7.59%
Return on Equity	15.27%	15.07%	13.80%	13.64%	10.89%
Times Interest Earned with AFUDC	3.20X	3.26X	2.98X	2.98X	2.70X
Times Interest Earned without AFUDC	2.85X	2.86X	2.93X	2.95X	2.72X
Percentage AFUDC/Net Income	23.77%	26.33%	3.75%	2.00%	(1.60%)**
Percentage Internally Generated Funds	71.52%	83.07%	98.49%	22.00%*	105.10%
Percentage Long-Term Debt/ Investor Capital	52.77%	52.54%	51.24%	50.54%	50.30%

Source: FPSC Monthly Surveillance Reports

* Excluding the one time effect of the buyout of the Peabody coal contracts the number is 110%.

**Reflects FERC decision relating to reversal of previously accrued AFUDC.

DCF MODEL EQUATION

(1) $$P_o = \frac{D_1}{(1+K)} + \frac{D_2}{(1+K)^2} + \frac{D_3}{(1+K)^3} + \ . \ . \ . \ + \frac{D^{\infty}}{(1+K)^{\infty}}$$

Where: D_t = Dividend paid at the end of period t

K = Investor's required rate of return (the market cost of equity)

P_o = The current price of the stock

Assuming a constant growth in dividends and g K, Equation (1) can be rewritten as:

(2) $$P_o = \frac{D_1}{(1+K)} + \frac{D_1(1+g)^1}{(1+K)^2} + \frac{D_1(1+g)^2}{(1+K)^3} + . \ . \ . + \frac{D_1(1+g)^{n-1}}{(1+K)^n}$$

Which can be reduced to:

(3) $$P_o = \frac{D_1}{K-g}$$

Which, after rearranging terms, results in the familiar infinite horizon, constant growth, annual DCF model:

(4) $$K = \frac{D_1}{P_o} + g$$

TWO-STAGE, ANNUALLY COMPOUNDED DCF MODEL

$$(5) \qquad P_o = \sum_{t=1}^{n} \frac{D_t}{(1+K)^t} + \left(\frac{D_n(1+g_n)}{K-g_n}\right)\left(\frac{1}{(1+K)}\right)^n$$

Where:

P_o = The current stock price

D_t = The dividends expected during the period of non-constant growth

K = Investor's required rate of return (the market cost of equity)

n = The years of non-constant growth

D_n = The dividend expected in year n

g_n = The constant rate of growth expected after year n

ISSUANCE COSTS ADJUSTMENT

$$(6) \qquad P_o(1-FC) = \sum_{t=1}^{n} \frac{D_t}{(1+K)^t} + \left(\frac{D_n(1+g_n)}{K-g_n}\right)\left(\frac{1}{(1+k)}\right)^n$$

Where:

FC = Flotation Costs

Two-Stage, Annually Compounded Discounted Cash Flow Analysis

	EXPECTED DIVIDENDS				EXPECTED EPS	EXPECTED ROE	EXPECTED DIVIDEND GROWTH	AVERAGE STOCK PRICE
COMPANY	1990	1991	1992	1993	1993	1993	1993+	MAR 90
ALLEGHENY POWER	3.20	3.30	3.40	3.50	4.60	13.50	1.0323	39.9375
BALTIMORE G&E	2.18	2.33	2.48	2.65	3.90	13.50	1.0433	30.6250
CONS. EDISON	1.82	1.91	2.00	2.10	2.90	13.50	1.0372	26.0625
DUKE POWER	3.20	3.38	3.56	3.76	5.85	13.00	1.0464	53.8750
IOWA ILL. G&E	3.34	3.39	3.45	3.50	4.50	12.50	1.0278	43.6250
IPALCO	1.80	1.88	1.96	2.05	2.75	12.50	1.0318	24.8750
KANSAS P&L	1.80	1.85	1.90	1.95	2.75	13.50	1.0393	22.6250
NORTHERN STS.	2.28	2.38	2.49	2.60	3.75	13.50	1.0414	36.6250
OKLAHOMA G&E	2.51	2.60	2.70	2.80	3.50	15.00	1.0300	36.1875
ORANGE & ROCK	2.35	2.45	2.55	2.65	3.80	13.00	1.0393	30.6250
SCE	2.62	2.73	2.84	2.95	4.15	14.00	1.0405	38.2500
SOUTHWEST P.S.	2.20	2.28	2.36	2.45	2.75	15.00	1.0164	29.5000
TECO	1.61	1.70	1.80	1.90	2.80	14.50	1.0466	28.8125
Average Dividend	2.38	2.48	2.58	2.68	3.69	13.62	1.0363	33.9712

The cost of equity is calculated using a Two-Stage, Annually Compounded Discounted Cash Flow Model:

$$P_o * (1-fc) = \sum_{t=1}^{n} D_t/(1+k)^t + (D_n*(1+g_n)/(k-g_n) * (1/(1+k))^n$$

Solving the above equation for k using: P_o = \$33.97, fc = 3%, and n = 4

Provides a cost of common equity of: **11.00%**

1. Data obtained or calculated from information provided in Value Line Ratings and Reports, Ed. 1, 3/23/90, Ed. 5, 4/20/90, and Ed. 11, 3/2/90.
2. The average stock price is the average of the high and low stock price for March 1990, S&P Stock Guide, April 1990.

RISK PREMIUM COST OF EQUITY

K_e = Risk Premium + Expected Risk-Free Rate + Bond Yield Differential

K_e = 3.191 + 8.260

K_e = 11.50% (Rounded)

Note

1. The expected risk-free rate is the forecasted long-term treasury yield obtained from "Blue Chip Financial Forecast", April 1, 1990.

ESTIMATED MONTHLY RISK PREMIUMS
AA/Aa ELECTRIC UTILITY INDEX
MAY 1980 - APRIL 1990

YEAR	MONTH	Cost of Equity Electric	Risk Free Rate	Risk Premium
1980	MAY	16.686	11.220	5.466
	JUN	15.912	10.150	5.762
	JUL	15.475	9.740	5.735
	AUG	15.735	10.200	5.535
	SEP	16.375	10.940	5.435
	OCT	16.314	11.360	4.954
	NOV	16.923	11.630	5.293
	DEC	17.492	12.300	5.192
1981	JAN	17.354	12.350	5.004
	FEB	17.180	12.050	5.130
	MAR	17.805	12.680	5.125
	APR	17.572	12.590	4.982
	MAY	17.630	13.080	4.550
	JUN	17.793	13.440	4.353
	JUL	16.890	12.820	4.070
	AUG	17.095	13.490	3.605
	SEP	16.845	14.050	2.795
	OCT	17.280	14.590	2.690
	NOV	17.220	14.590	2.630
	DEC	16.513	13.080	3.433
1982	JAN	16.450	13.280	3.170
	FEB	16.750	14.160	2.590
	MAR	16.546	14.070	2.476
	APR	15.817	13.370	2.447
	MAY	15.627	13.240	2.387
	JUN	15.650	13.050	2.600
	JUL	16.030	13.750	2.280
	AUG	16.263	13.400	2.863
	SEP	15.865	12.540	3.325
	OCT	15.302	11.860	3.442
	NOV	15.058	10.840	4.218
	DEC	15.354	10.460	4.894
1983	JAN	15.584	10.600	4.984
	FEB	15.287	10.640	4.647
	MAR	15.350	10.890	4.460
	APR	14.880	10.650	4.230
	MAY	14.946	10.490	4.456
	JUN	14.860	10.520	4.340
	JUL	14.846	10.950	3.896
	AUG	15.080	11.440	3.640
	SEP	15.133	11.780	3.353

ESTIMATED MONTHLY RISK PREMIUMS

YEAR	MONTH	Cost of Equity Electric	Risk Free Rate	Risk Premium
	OCT	14.723	11.620	3.103
	NOV	14.230	11.550	2.680
	DEC	13.970	11.680	2.290
1984	JAN	14.220	11.810	2.410
	FEB	14.385	11.650	2.735
	MAR	14.764	11.810	2.954
	APR	14.860	12.280	2.580
	MAY	14.970	12.580	2.390
	JUN	15.048	13.320	1.728
	JUL	15.330	13.430	1.900
	AUG	15.198	13.240	1.958
	SEP	14.895	12.630	2.265
	OCT	14.490	12.340	2.150
	NOV	14.027	12.000	2.027
	DEC	14.058	11.550	2.508
1985	JAN	13.984	11.510	2.474
	FEB	13.898	11.460	2.438
	MAR	14.050	11.560	2.490
	APR	13.902	11.920	1.982
	MAY	13.522	11.550	1.972
	JUN	13.360	11.080	2.280
	JUL	13.056	10.480	2.576
	AUG	13.340	10.620	2.720
	SEP	13.836	10.700	3.136
	OCT	13.832	10.780	3.052
	NOV	13.784	10.660	3.124
	DEC	13.484	10.190	3.294
1986	JAN	12.926	9.680	3.246
	FEB	12.810	9.590	3.220
	MAR	12.405	9.260	3.145
	APR	11.934	8.150	3.784
	MAY	11.975	7.580	4.395
	JUN	11.877	8.130	3.747
	JUL	11.632	8.270	3.362
	AUG	11.036	7.880	3.156
	SEP	10.683	7.740	2.943
	OCT	10.998	8.100	2.898
	NOV	11.094	8.060	3.034
	DEC	10.968	7.820	3.148
1987	JAN	10.731	7.660	3.071
	FEB	10.649	7.620	3.029
	MAR	10.798	7.710	3.088
	APR	11.000	7.640	3.360
	MAY	11.652	8.350	3.302
	JUN	11.668	8.850	2.818

ESTIMATED MONTHLY RISK PREMIUMS

YEAR	MONTH	Cost of Equity Electric	Risk Free Rate	Risk Premium
	JUL	11.378	8.570	2.708
	AUG	11.515	8.770	2.745
	SEP	11.453	9.060	2.393
	OCT	11.477	9.670	1.807
	NOV	11.925	9.730	2.195
	DEC	11.787	9.100	2.687
1988	JAN	12.000	9.230	2.770
	FEB	11.692	8.930	2.762
	MAR	11.435	8.480	2.955
	APR	11.632	8.640	2.992
	MAY	11.918	8.970	2.948
	JUN	11.932	9.300	2.632
	JUL	11.486	9.110	2.376
	AUG	11.774	9.280	2.494
	SEP	11.907	9.420	2.487
	OCT	11.820	9.140	2.680
	NOV	11.690	8.960	2.730
	DEC	11.790	9.090	2.700
1989	JAN	11.710	9.100	2.610
	FEB	11.785	9.050	2.735
	MAR	11.964	9.150	2.814
	APR	11.822	9.310	2.512
	MAY	11.792	9.170	2.622
	JUNE	11.572	8.930	2.642
	JUL	11.150	8.370	2.780
	AUG	11.038	8.160	2.878
	SEPT	11.003	8.230	2.773
	OCT	11.118	8.290	2.828
	NOV	11.255	8.120	3.135
	DEC	11.036	8.000	3.036
1990	JAN	10.696	8.000	2.696
	FEB	10.936	8.370	2.566
	MAR	11.162	8.630	2.532
	APR	11.043	8.730	2.313
	AVERAGE			3.191

BOND YIELD DIFFERENTIALS

Moody's Bond Survey/Public Utility Bond Yield Averages

YEAR	MONTH	Aa2	SPREAD	Aa3	SPREAD	A1	SPREAD	A2	SPREAD	A3	SPREAD	Baa1	SPREAD	Baa2
	MAR	9.60	0.08	9.68	0.08	9.77	0.08	9.85	0.07	9.92	0.07	9.99	0.07	10.06
	FEB	9.57	0.06	9.63	0.06	9.70	0.06	9.76	0.07	9.83	0.07	9.89	0.07	9.96
1990	JAN	9.39	0.06	9.45	0.06	9.50	0.06	9.56	0.06	9.62	0.06	9.68	0.06	9.74
	DEC	9.26	0.06	9.32	0.06	9.38	0.06	9.44	0.05	9.49	0.05	9.55	0.05	9.60
	NOV	9.25	0.09	9.34	0.09	9.42	0.09	9.51	0.04	9.55	0.04	9.60	0.04	9.64
	OCT	9.28	0.09	9.37	0.09	9.45	0.09	9.54	0.03	9.57	0.03	9.61	0.03	9.64
	SEP	9.35	0.08	9.43	0.08	9.50	0.08	9.58	0.04	9.62	0.04	9.66	0.04	9.70
	AUG	9.27	0.08	9.35	0.08	9.44	0.08	9.52	0.04	9.56	0.04	9.60	0.04	9.64
	JUL	9.23	0.09	9.32	0.09	9.41	0.09	9.50	0.05	9.55	0.05	9.59	0.05	9.64
	JUN	9.37	0.09	9.46	0.09	9.55	0.09	9.64	0.05	9.69	0.05	9.75	0.05	9.80
	MAY	9.79	0.07	9.86	0.07	9.92	0.07	9.99	0.10	10.09	0.10	10.19	0.10	10.29
	APR	10.02	0.05	10.07	0.05	10.13	0.05	10.18	0.10	10.28	0.10	10.39	0.10	10.49
	MAR	10.05	0.06	10.11	0.06	10.17	0.06	10.23	0.09	10.32	0.09	10.41	0.09	10.50
	FEB	9.93	0.05	9.98	0.05	10.02	0.05	10.07	0.10	10.17	0.10	10.28	0.10	10.38
1989	JAN	9.89	0.06	9.95	0.06	10.02	0.06	10.08	0.10	10.18	0.10	10.28	0.10	10.38
	DEC	9.90	0.05	9.95	0.05	10.01	0.05	10.06	0.13	10.19	0.13	10.31	0.13	10.44
	NOV	9.79	0.06	9.85	0.06	9.91	0.06	9.97	0.11	10.08	0.11	10.20	0.11	10.31
	OCT	9.80	0.03	9.83	0.03	9.87	0.03	9.90	0.15	10.05	0.15	10.20	0.15	10.35
	SEP	10.34	0.09	10.43	0.09	10.52	0.09	10.61	0.17	10.78	0.17	10.96	0.17	11.13
	AUG	10.85	0.11	10.96	0.11	11.06	0.11	11.17	0.17	11.34	0.17	11.52	0.17	11.69
	JUL	10.76	0.09	10.85	0.09	10.95	0.09	11.04	0.16	11.20	0.16	11.36	0.16	11.52
	JUN	10.52	0.09	10.61	0.09	10.70	0.09	10.79	0.16	10.95	0.16	11.11	0.16	11.27
	MAY	10.53	0.09	10.62	0.09	10.72	0.09	10.81	0.19	11.00	0.19	11.19	0.19	11.38
	APR	10.29	0.08	10.37	0.08	10.46	0.08	10.54	0.23	10.77	0.23	11.00	0.23	11.23
	MAR	9.92	0.06	9.98	0.06	10.03	0.06	10.09	0.20	10.29	0.20	10.49	0.20	10.69
	FEB	9.91	0.06	9.97	0.06	10.04	0.06	10.10	0.18	10.28	0.18	10.47	0.18	10.65
1988	JAN	10.52	0.08	10.60	0.08	10.68	0.08	10.76	0.19	10.95	0.19	11.15	0.19	11.34
	DEC	10.78	0.07	10.85	0.07	10.91	0.07	10.98	0.19	11.17	0.19	11.36	0.19	11.55
	NOV	10.62	0.07	10.69	0.07	10.75	0.07	10.82	0.19	11.01	0.19	11.21	0.19	11.40
	OCT	11.11	0.08	11.19	0.08	11.26	0.08	11.34	0.19	11.53	0.19	11.72	0.19	11.91
	SEP	10.66	0.19	10.85	0.19	11.03	0.19	11.22	0.12	11.34	0.12	11.46	0.12	11.58
	AUG	10.05	0.13	10.18	0.13	10.32	0.13	10.45	0.15	10.60	0.15	10.75	0.15	10.90
	JUL	9.70	0.15	9.85	0.15	10.00	0.15	10.15	0.16	10.31	0.16	10.46	0.16	10.62
	JUN	9.61	0.14	9.75	0.14	9.88	0.14	10.02	0.15	10.17	0.15	10.31	0.15	10.46
	MAY	9.63	0.09	9.72	0.09	9.82	0.09	9.91	0.16	10.07	0.16	10.24	0.16	10.40
	APR	9.15	0.08	9.23	0.08	9.30	0.08	9.38	0.16	9.54	0.16	9.69	0.16	9.85
	MAR	8.64	0.10	8.74	0.10	8.83	0.10	8.93	0.09	9.02	0.09	9.10	0.09	9.19
	FEB	8.69	0.10	8.79	0.10	8.90	0.10	9.00	0.08	9.08	0.08	9.16	0.08	9.24
1987	JAN	8.62	0.11	8.73	0.11	8.84	0.11	8.95	0.11	9.06	0.11	9.16	0.11	9.27
	DEC	8.81	0.10	8.91	0.10	9.02	0.10	9.12	0.12	9.24	0.12	9.37	0.12	9.49
	NOV	9.01	0.09	9.10	0.09	9.19	0.09	9.28	0.14	9.42	0.14	9.55	0.14	9.69
	OCT	9.24	0.09	9.33	0.09	9.43	0.09	9.52	0.14	9.66	0.14	9.81	0.14	9.95
	SEP	9.28	0.08	9.36	0.08	9.44	0.08	9.52	0.15	9.67	0.15	9.81	0.15	9.96
	AUG	9.03	0.09	9.12	0.09	9.20	0.09	9.29	0.14	9.43	0.14	9.56	0.14	9.70
	JUL	9.05	0.11	9.16	0.11	9.26	0.11	9.37	0.11	9.48	0.11	9.58	0.11	9.69
	JUN	9.36	0.09	9.45	0.09	9.53	0.09	9.62	0.14	9.76	0.14	9.89	0.14	10.03
	MAY	9.38	0.07	9.45	0.07	9.52	0.07	9.59	0.14	9.73	0.14	9.88	0.14	10.02
	APR	8.87	0.09	8.96	0.09	9.05	0.09	9.14	0.16	9.30	0.16	9.47	0.16	9.63
	MAR	9.16	0.11	9.27	0.11	9.37	0.11	9.48	0.14	9.62	0.14	9.77	0.14	9.91
	FEB	9.98	0.09	10.07	0.09	10.17	0.09	10.26	0.16	10.42	0.16	10.58	0.16	10.74
1986	JAN	10.44	0.12	10.56	0.12	10.67	0.12	10.79	0.15	10.94	0.15	11.09	0.15	11.24
	DEC	10.57	0.13	10.70	0.13	10.84	0.13	10.97	0.17	11.14	0.17	11.31	0.17	11.48
	NOV	11.10	0.13	11.23	0.13	11.36	0.13	11.49	0.18	11.67	0.18	11.86	0.18	12.04
	OCT	11.61	0.13	11.74	0.13	11.88	0.13	12.01	0.17	12.18	0.17	12.35	0.17	12.52
	SEP	11.68	0.15	11.83	0.15	11.98	[illegible]	12.13	0.20	12.33	0.20	12.52	0.20	12.72
	AUG	11.65	0.16	11.81	0.16	11.97	0.16	12.13	0.20	12.33	0.20	12.53	0.20	12.73
	JUL	11.55	0.17	11.72	0.17	11.90	0.17	12.07	0.21	12.28	0.21	12.49	0.21	12.70
	JUN	11.68	0.15	11.83	0.15	11.98	0.15	12.13	0.18	12.31	0.18	12.48	0.18	12.66
	MAY	12.65	0.16	12.81	0.16	12.96	0.16	13.12	0.17	13.29	0.17	13.45	0.17	13.62
1985	APR	13.17	0.15	13.32	0.15	13.46	0.15	13.61	0.17	13.78	0.17	13.94	0.17	14.11
		Aa2	SPREAD	Aa3	SPREAD	A1	SPREAD	A2	SPREAD	A3	SPREAD	Baa1	SPREAD	Baa2
AVERAGE			0.095		0.095		0.095		0.135		0.135		0.135	

Standard & Poor's Financial Benchmarks

Financial Benchmarks for Electric Utility Senior Debt Ratings

	AAA	AA	A	BBB
Total Debt/ Permanent Capital	Less than 41%	39% - 46%	44% - 52%	50% - 58%
Pretax Interest Coverage - Cash	More than 4.5X	3.5X - 5X	2.5X - 4X	1.5X - 3X
Net Cash Flow/ Permanent Capital	More than 10%	7% - 11%	5% - 8%	2.5% - 6%

Source: Standard & Poor's Utility Ratings Update, September 30,1988

Comparison of Gulf Power Company's Overall Cost of Capital
and Tie Ratio for Given Equity Ratios and Cost Rates

39.89% Equity (1), 12.10% Allowed Return on Equity

Gulf Power Company
Test Year Ended 12/31/90

	Company Total Per Books	% of Total	Cost	Weighted Cost	Pre-Tax Weighted Cost
Short-Term Debt	$4,432	0.37%	8.00%	0.03%	0.03%
Long-Term Debt	$481,823	40.50%	8.72%	3.53%	3.53%
Common Equity	$367,404	30.88%	12.10%	3.74%	5.99%
Preferred Stock	$67,432	5.67%	7.75%	0.44%	0.70%
Customer Deposits	$15,775	1.33%	7.65%	0.10%	0.10%
Inv.Tax Credits - Zero Cost	$858	0.07%	0.00%	0.00%	0.00%
Inv.Tax Credits - Wtd. Cost	$48,068	4.04%	10.00%	0.40%	0.65%
Deferred Taxes	$203,823	17.13%	0.00%	0.00%	0.00%
	$1,189,615	100.00%		8.24%	11.01%
				TIE Ratio	3.00

43.28% Equity (1), 11.65% Allowed Return on Equity

Gulf Power Company
Test Year Ended 12/31/90

	Company Total Per Books	% of Total	Cost	Weighted Cost	Pre-Tax Weighted Cost
Short-Term Debt	$29,659	2.49%	8.00%	0.20%	0.20%
Long-Term Debt	$431,439	36.27%	8.72%	3.16%	3.16%
Common Equity	$398,648	33.51%	11.65%	3.90%	6.26%
Preferred Stock	$61,345	5.16%	7.75%	0.40%	0.64%
Customer Deposits	$15,775	1.33%	7.65%	0.10%	0.10%
Inv.Tax Credits - Zero Cost	$858	0.07%	0.00%	0.00%	0.00%
Inv.Tax Credits - Wtd. Cost	$48,068	4.04%	9.96%	0.40%	0.65%
Deferred Taxes	$203,823	17.13%	0.00%	0.00%	0.00%
	$1,189,615	100.00%		8.17%	11.01%
				TIE Ratio	3.18

(1) Equity as a percent of total investor sources of capital.

Summary of Cost of Equity Analysis

	DCF Analysis	Risk Premium Analysis
Cost of Equity for AA Electric Utility Index	11.00%	11.50%
Risk Adjustment - Bond Yield Differential to Move to an A rated Electric Utility	.30%	.30%
Cost of Equity for A Rated Electric Utility	11.30%	11.80%
Recommended return on Common Equity for Gulf Power Company	12.10%	

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

In re: Petition of Gulf Power Company) for an increase in its rates and) charges.)	DOCKET NO. 891345-EI

CERTIFICATE OF SERVICE

I HEREBY CERTIFY that a true and correct copy of the Direct Testimony of Scott Seery has been served by First Class U. S. Mail, postage prepaid, on Edison Holland, Jr., Esquire (Gulf Power Company), Beggs and Lane, Post Office Box 12950, Pensacola, Florida 32576, with copies to the following parties of record, this 27 day of April, 1990:

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