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 Filed: May 1, 1990

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DIRECT TESTIMONY OF
HELMUTH W. SCHULTZ, III

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Respectfully submitted,

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ON BEHALF OF THE CITIZENS OF FLORIDA

BEFORE THE

FLORIDA PUBLIC SERVICE COMMISSION

GULF POWER COMPANY

DOCKET NO. 891345-EI

I. INTRODUCTION

Q. WHAT IS YOUR NAME, OCCUPATION AND BUSINESS ADDRESS?

A. I am Helmuth W. Schultz III, a Certified Public Accountant, registered in the State of Michigan. I am a partner in the firm of Larkin & Associates, Certified Public Accountants, registered in Michigan, with offices at 15728 Farmington Road, Livonia, Michigan 48154.

Q. HAVE YOU PREPARED AN APPENDIX WHICH DESCRIBES YOUR QUALIFICATIONS AND EXPERIENCE?

A. Yes. I have attached Appendix I which is a summary of my experience and qualifications.

Q. HAVE YOU PREPARED ANY SCHEDULES SUPPORTING THE RECOMMENDATIONS MADE IN YOUR TESTIMONY?

A. Yes. I have prepared OPC Exhibits __(HWS-1) through Exhibit __(HWS-15). These are attached to this testimony and were prepared by me or under my direct supervision.

II. OPERATING INCOME

Q. HAVE YOU PREPARED A SCHEDULE WHICH SUMMARIZES YOUR RECOMMENDED ADJUSTMENTS TO OPERATING INCOME AND EXPENSE?

A. Yes. OPC Exhibit __(HWS-1) presents adjusted net operating income. It starts with the Company's "per book" figures and reflects each step of the adjustment process.

I am also sponsoring OPC Exhibit __(HWS-2) which summarizes my recommended adjustments to test-year operating expenses.

Budgeting Process

Q. MR. SCHULTZ, HAVE YOU REVIEWED THE COMPANY'S 1990 OPERATIONS AND MAINTENANCE EXPENSE BUDGET WHICH IS INCLUDED IN THE TEST YEAR FOR THIS FILING?

A. Yes, I have.

Q. ARE YOU FAMILIAR WITH HOW THIS EXPENSE BUDGET WAS DEVELOPED?

A. Yes. I have reviewed the budgeting process employed by the Company.

In general, the operations and maintenance budget begins with the issuing of a budget message. This budget message provides a budget schedule, and the parameters and assumptions that will be used by the Company in determining the O&M budget. This budget message begins with the Budget Committee establishing the 1990 operations and maintenance budget reference level excluding the direct Energy Conservation Cost Recovery (ECCR) costs, the fuel and purchased power reference levels and the 1990 corporate controlled expenses. The reference level is the 1989 budget, less any nonrecurring expenses, less corporate controlled expenses, less 1989 budgeted personnel additions not added to the complement as of June 30, 1989 and all unapproved vacancies which have not been filled since June 1988. The ECCR costs are budgeted separately. The Company's operations and maintenance budget is divided into 24 in-house planning units, plus units for Plant Daniel, Plant Scherer, and Southern Company Services. Each planning unit is instructed to prepare the 1990 budget at a level which will allow the planning unit to maintain its normal level of operations.

Procedures require all requested expenditures for new or modified activities to be justified on an activity analysis form. This justification is to be in sufficient detail to allow management to make a decision as to whether the new or modified activity should be approved. After the planning units prepare their budgets, the budgets are submitted to the Operations and Maintenance Review Committee for approval. The budgets are then provided to the Budget Committee for final approval.

Q. DO YOU BELIEVE THAT THE PROCESS USED IN PREPARING THE 1990 BUDGET FOLLOWED THE PROCEDURES ESTABLISHED BY THE COMPANY?

A. The Company's procedures appear to have been followed; however, I do not believe the Company's reference levels are properly developed. The reference level for the 1990 budget was to be the 1989 budget, less the following items: non-recurring items, corporate controlled items, 1989 budgeted personnel additions not added to the complement, and vacancies in the complement which have not been authorized to be filled since June 1988. The use of the 1989 budget is my first concern since, in our review of the 1989 budget in Docket No. 88-11667-EI, we discovered that problems existed with its development.

Q. WHAT PROBLEMS WITH THE 1989 BUDGET COULD FLOW INTO THE 1990 BUDGET?

A. The reference level for the 1989 budget was supposed to be the 1988 budget, less nonrecurring and corporate controlled expenses. However, in many instances, the Company's reference level was not the 1988 budget, but an adjusted amount. An attempt was made to trace the approved 1988 budget amount into the 1989 reference level. Even after allowing for nonrecurring and corporate controlled amounts, the 1988 budgeted amounts, as approved, were not used as a reference level for 1989 in 14 of the 21 planning units checked. Examples of differences between the 1988 budget and the 1989 reference level include: (1) the changing of a recurring cost to a nonrecurring cost, (2) shifting other dollars to labor dollars and vice versa, (3) unidentifiable inclusions or exclusions, (4) including items that were not even approved in the 1988 budget, and (5) failure to deduct controlled items that were to be deducted in developing the reference level.

The Company begins its budget process by sending a budget message to its planning units that establishes guidelines and rules to be followed in preparing their budgets. Before the planning units even received the budget message, the Company modified the rules outlined in its message. Of the five modifications that I have previously mentioned, only one was identified in the budget message as being an appropriate modification to the budgeting process. This modification was the shifting of the sales tax expense budgeted in 1988 from a recurring to a nonrecurring item.

While none of the modifications above were noted in the development of the 1990 budget, the 1989 problems are incorporated in the 1990 reference level.

Q. HOW DO THESE MODIFICATIONS IN THE BUDGETING PROCESS AFFECT THE USE OF THE COMPANY'S BUDGET AS THE SOURCE FOR TEST YEAR DATA USED TO ESTABLISH RATES?

A. I believe it lessens the credibility of the Company's budgeting process. In some cases, the modifications are proper and have no adverse effect on the budget. However, in other cases, the modifications do not appear to be proper. I believe the credibility of the budgeting process must be considered, particularly when the budget itself is being used as the test year in determining rates.

Q. MR. SCHULTZ, WHAT WERE SOME SPECIFIC EXAMPLES OF INAPPROPRIATE MODIFICATIONS TO THE 1989 BUDGET PROCESS MADE BY THE COMPANY?

A. The Power Delivery Planning Unit, the Security Planning Unit, and the Public Relations Planning Unit all had labor and other dollars shifting back and forth. For each of these planning units the total dollars remained the same, but there was a shift among the categories without justification. Any shifting of dollars between different cost categories should be justified, otherwise the budget amounts lose their identity.

Unidentifiable adjustments included a deletion of $31,736 from the Central Division budget reference level, and an addition of $32,711 to the Western Division.

It appears that a $4,567 amount for uncollectibles which was included in the Eastern Division should have been excluded. This amount was deducted during the 1988 approval process but somehow was inexplicably included in the reference level for 1989.

It is of concern that the Company's budget process was modified without justification. These modifications, though immaterial in respect to dollars, still have an impact on future budgets and also represent a weakness in the budget process.

Q. DID YOU NOTE OTHER MODIFICATIONS WHICH HAD A GREATER IMPACT?

A. Yes. Proper budgeting procedure requires the planning units to remove controlled costs from the prior year's budget in developing the current year's reference level. Once the current year's budget base (i.e., expenses excluding controlled and/or nonrecurring costs) is determined, the controlled costs are calculated and added to the planning units' budgets. During the 1989 budget review, at least two of the planning units inappropriately included 1988 controlled expenses in their 1989 budgets. One planning unit, Employee Relations, had a material error that has resulted in an overstatement of the reference level.

<u>Employee Relations</u>

Q. PLEASE EXPLAIN THE PROBLEM IN THE EMPLOYEE RELATIONS PLANNING UNIT.

A. The Employee Relations Planning Unit included 1988 controlled expenses in its 1989 reference level budget, specifically, three adjustments to the 1988 budget which were related to employee benefits. Employee benefits in the past, and in 1989, were treated as controlled expenses. Therefore, I believe these items should have been deducted in determining the reference level for 1989. The net impact of these three adjustments was $663,523.

The Employee Relations Planning Unit also failed to remove the full amount of the 1988 controlled costs from its 1989 reference level in two cases. The amount for pensions, which are controlled costs that were deducted in determining the reference level for 1989, was $48,673 less than the 1988 budget amount. For the employee savings plan, the amount deducted in determining the reference level for 1989 was $16,630 less than the 1988 budget amount.

The 1989 reference level for the Employee Relations Planning Unit was, therefore, overstated by a total of $728,826.

In prior years these benefit costs do not appear to have been included in the budget base for employee relations, prior to the addition of nonrecurring or controlled expenses for the current year. For 1989 these costs are included in the budget base, and additional pension and employee savings plan costs have also been added as a controlled expense.

The 1987 operations and maintenance budget was $135,280 in the "other" category. This excluded ECCR, nonrecurring and controlled expenses for employee relations. In 1988 the "other" category budget for employee relations, was $114,534, exclusive of controlled, nonrecurring and ECCR expenses. However, in 1989, exclusive of nonrecurring, controlled and ECCR expenses, the "other" budget amount was $1,102,980.

These employee benefit items, have historically been categorized as controlled expenses in the employee relations 1989 reference level. Unless the Company can justify their inclusion, I recommend that the total amount of 1988 employee benefit costs which have been included in the 1989 reference level and in turn flowed into the 1990 reference level be deducted from the budget as an error in the budgeting process.

Q. HAVE YOU PREPARED A SCHEDULE DETAILING YOUR RECOMMENDED ADJUSTMENT?

A. Yes. The calculation of this adjustment to the Employee Relations Planning Unit budget, totalling $728,826, is shown on OPC Exhibit ___(HWS-3).

Labor Complement and Payroll Taxes

Q. OTHER THAN THE ITEMS YOU HAVE ALREADY DISCUSSED, ARE THERE ANY OTHER AREAS IN THE BUDGETING PROCESS WHICH ARE OF CONCERN TO YOU?

A. Yes, there are. My first concern is the labor cost budgeted for 1990. The Company has established a complement of employees to be used in the budgeting process. For 1989, this complement was 1,626 employees. Of the 1,626 employees, an estimated 26 vacancies were to be subtracted from the complement in the development of the 1990 labor budget. Even with this reduction in the labor complement, the Company still ended up with 1,625 budgeted positions. This is shown in the listing of 1990 budgeted positions and 1990 budgeted labor by planning unit received from the Company on March 22, 1990 as part of the Production of Copies of Selected Planning Unit 1990 Budget Working Papers. If these budgeted positions are not filled permanently at the beginning of the year, then the labor budget will be overstated and able to absorb budget overruns for other costs the unit incurs.

Q. WHAT IS YOUR ASSESSMENT OF THE COMPANY'S 1990 LABOR BUDGET?

A. The Company's labor budget is overstated. The Company has projected an increase in the work force. The Company's workforce has remained relatively stable. A review of the labor statistics from prior years indicates that the Company's 1986 budget included 1,573 full-time employees. At the end of 1986, 1,504 positions were filled. On average, during the year 1986, Gulf had 1,471 employees. In 1987, the Company budgeted for 1,588 employees, yet the year-end employment level was only 1,557 and the average for the year was 1,528. In 1988, the Company budgeted for 1,628 positions, yet the year-end number of employees was

1,561 and the average was 1,564.

For 1989, the Company budgeted 1,626 employees, yet the year-end number of employees was only 1,571 and the average was 1,562.

For 1990, the Company budgeted 1,625 employees. According to the February 1990 monthly operating report, 1,567 employees were on hand at month-end. If added properly, the March 1990 monthly operating report shows 1,575 employees. On the March 1990 report, the Company listed a total of 1,615 employees, but adding the detailed positions produces a total of 1,575.

Q. DIDN'T THE COMPANY MAKE AN ADJUSTMENT TO THE LABOR BUDGET TO ELIMINATE THE SALARIES ASSOCIATED WITH THE VACANCIES?

A. The Company did make a $378,417 adjustment for the "hiring lag". This adjustment, however, is inadequate. The Company considered only 38 vacancies, at an average starting salary for newly hired employees, and only for a portion of the year. For this assumption to be reasonable, the Company would be required to maintain a complement of 1,613 employees throughout the remainder of the year. With only 1,567 employees as of February 1990, and the Company's historical tendency to overstate budgeted employee levels, the attainment of that complement does not seem possible.

Q. HAVE YOU CALCULATED AN ADJUSTMENT RELATED TO THE COMPANY'S OPERATING LABOR BUDGET?

A. Yes. As of February 1990, the company's budgeted complement of employees exceeded the actual number by 58. Using an annualized wage rate as of December 31, 1989, I have determined the Company's operating labor budget is overstated by $990,381 after allowing for the Company's hiring lag of $378,417. The calculation of this operating labor expense overstatement appears on OPC Exhibit ___(HWS-4).

Exhibit ___(HWS-4) also reflects the related payroll tax expense that is overstated by $78,406 as a result of the Company's overbudgeting of labor dollars. This labor adjustment is conservative since it was calculated using annualized salary amounts which do not include overtime. Additionally, the Company has shown in MFR Schedule C-57, page 87, that its budgeted test-year labor expense has exceeded the Company's calculated benchmark in the areas of steam production and administrative and general, by $1,736,000, cumulatively.

Q. MR. SCHULTZ, ARE THERE ANY OTHER PROBLEMS WITH THE LABOR BUDGETING PROCESS?

A. The Company has a model for determining the budgeted payroll for its planning units; however, some planning units choose not to use this model and, instead, calculate the payroll dollars using their own methods. This does not necessarily mean that calculations performed using methods other than the model are incorrect, but it does show that there is a lack of consistency in the operation of the Company's formal budgeting process.

Q. HAVE YOU FOUND PROBLEMS WITH THE BUDGETING PROCESS RELATED TO "OTHER" DOLLARS?

A. Yes. Although inconsistent methods among planning units are used in developing the labor budget, the Company does attempt to verify the total labor budget amount by checking calculations either within the units or by using the model. It appears however, that a similar verification of the total cost budgeted in the "other" category is not performed. In addition, some of the reference levels themselves for the "other" category are questionable.

Q. PLEASE EXPLAIN.

A. The Company's reference level is theoretically the 1989 approved budget. Any additions or adjustments to the reference level should be justified on the Company's "B4" Forms. Therefore, if the Company happens to be over or under the budget which had been established at a certain level in the prior year, the reference level could remain unadjusted and would not reflect any over or under budgeting in the prior year. An example of an item that could affect the budget reference level would be a variance in the budgeted and actual inflation rates. Over the years, this variance could become significant.

A review of the Company's budgeting process and the budgeting forms indicate that in compiling the 1990 budget, adjustments increasing the reference level were predominant while few adjustments were made decreasing the reference level. The adjustments were for projected expansions of current programs or expenses, new programs, inflation and some reductions of program costs. Few, if any, adjustments to the reference level were attributable to a variance in the prior year budget-to-actual comparison. There does not seem to be any summary available that details total expenses by type and reconciles them back to the budget amount. For example, the labor budget was developed using a reference level plus adjustments. It appeared to be supported by a calculation of the total labor costs through the model or through a calculation performed within the planning unit on its own. In contrast, in the category for other costs budgeted, the Company begins with the reference level and, in most cases, appear only to justify the changes. Except for Plant Crist, only portions of the necessary documentation were provided to us in support of total budget costs in the "other" category.

Q. PLEASE GIVE AN EXAMPLE OF A QUESTIONABLE REFERENCE LEVEL.

A. A good example of a questionable reference level involves the Employee Relations Planning Unit which was discussed previously. In the 1988 budget, the "other" category budget amount was $114,534. When sent for approval, this amount was reduced by $49,479. This reduction left $65,055 as the approved amount in the 1988 budget for the "other" category. According to the Company's "budget message" instructions for the budgeting process, this $65,055 amount should have been the reference level for employee relations for the 1989 budget. The Company's "B3" forms, which identify the reference level and adjustments, show a 1990 reference level amount of $793,881. The Company's "B4" forms, are supposed to be used to substantiate adjustments to the reference levels. The "B4" forms show the 1989 reference level amount for the Employee Relations Planning Unit to be $428,645. This is for the portion of the reference level being adjusted alone. It therefore appears the Company increased the reference level by <u>at least</u> $363,590 without any justification, and this increase is carried forward to 1990.

The Company's budget procedures require the planning unit to justify changes in this year's budget over last year's budget. However, the planning units are not required to rejustify their prior year's budget level. Rather, the prior year's budget, which is an accumulation of programs or costs, some of which may no longer exist, is merely carried forward.

Q. PLEASE CONTINUE IN YOUR DISCUSSION OF THE BUDGETING PROCESS.

A. The next area to be discussed is the corporate controlled items included in the budgeting process, and I used the term "control" loosely. It is my understanding that corporate controlled items are those costs allocated to the various planning units for which the planning units are not to be held accountable. The underlying assumption is that these are costs that cannot be controlled by the planning units themselves. These are costs that either are not normal or recurring or costs that must be determined in total for the Company, as opposed to being determined individually by the planning units.

Q. PLEASE DISCUSS THE SPECIFIC CORPORATE CONTROLLED COSTS INCLUDED IN THE 1990 BUDGET.

A. These items are discussed in the following sections of testimony.

<u>Turbine & Boiler Inspections</u>

Q. IS THE 1990 BUDGETED TEST YEAR AMOUNT FOR TURBINE AND BOILER INSPECTIONS REASONABLE?

A. No, it is not. The Company has budgeted $5,340,000 for turbine and boiler inspections in 1990.

These inspections follow a cyclical pattern. In some years, expenses will be at relatively low levels; in others, periodic maintenance and inspection expense will be higher. Therefore, expenses incurred in one year will not necessarily be representative of what will occur in the following year.

Q. ARE YOU RECOMMENDING AN ADJUSTMENT FOR TURBINE AND BOILER INSPECTION COSTS?

A. Yes. On Exhibit___(HWS-5), I computed the average actual cost of turbine and boiler inspections for the five-year period 1984-1989. I have taken the actual expense in each of these years and restated that expense for inflation. This has enabled me to compute a historical average stated in current dollars which can be compared to the 1990 expense using the same basis of measurement. As shown on Line 10, the actual annual average expense for turbine & boiler inspections was $4,421,065. The Company's budgeted amount for 1990 of $5,340,000 is unreasonable and unrepresentative when compared with historical data. The $918,935 in excess of the annual actual average expense should be disallowed.

On Lines 12-17 and 19, I have computed average annual forecasted turbine and boiler inspections expense for the years 1990-1994 to be $3,835,000. Even when using the forecasted average, which is by definition less accurate than an actual average, the 1990 test year amount is $1,505,000 in excess of the average five-year forecasted amount.

I am therefore recommending an adjustment to reduce turbine and boiler inspections expense by $918,935, the amount by which the budget exceeds the actual, inflated annual average. I have used the actual average in making this adjustment because it is a more reliable indicator of the true expense than the forecasted data.

Plant Daniel Expenses

Q. PLEASE DISCUSS THE NEXT AREA OF CORPORATE EXPENSES IN THE COMPANY'S BUDGET.

A. I would like to discuss the "controlled expenses" associated with Plant Daniel and Plant Scherer, particularly those costs related to Plant Daniel. The Company considers the costs for Plant Daniel and Plant Scherer to be so-called corporate "controlled" items. I believe "controlled" is the key word in these cases because the budget for Plant Daniel is controlled by Mississippi Power Company, and the budget for Plant Scherer is developed by Georgia Power Company. In the deposition of Mr. Gilbert, Docket No. 881167-EI, on February 21, 1989, an inquiry was made concerning the budgeting process for Plant Daniel and Plant Scherer. On page 64, line 2 of that deposition transcript, Mr. Gilbert stated:

> "...--Georgia Power Company and Mississippi Power Company has [sic] their own budgeting process. So they've got approvals within this process. We have input to them. They've got their own review and approval of the plant now, Plant Daniel and Plant Scherer expenses. So it's gone through an approval process. It's just external to ours."

Later in the deposition, Mr. Gilbert was asked who prepares and approves these budgets. Mr. Gilbert indicated the budget for Plant Daniel was approved by Mississippi Power. (See line 22 of page 64.) Mr. Gilbert was then asked:

> They're not submitting anything for approval really. I guess Gulf Power would assume that all the right questions have been asked and everything has been tightened down as close as it can be tightened?

On page 65, Mr. Gilbert responded to this question stating:

> We have a contract with Mississippi Power Company by which we have fifty percent ownership. They're our agent. They operate the plant. Theoretically, under that contract of agreement out in the

> real world, you would probably not have a whole lot of say-so about how that plant is run if your contracting for somebody to be an agent. We do have a committee that we have input to that allows us to have some say-so in the operation of those plants. On times we have told them, we don't want to do that, and at times they have said to us, well, we recognize that and we're not going to do it. Other times they as agent have said that, we feel this is the best decision that needs to be made and as agent we've got to do this.
>
> So we do not control those. We have input. And that would be similar for pensions and fringe benefits. Although Gulf's management has input into them and certainly sits on the committee, there are times when the decision is made to the--outside the process. And as far as budget process is concerned, that's a fixed cost at that point. You don't decide not to pay twenty-five percent of the Daniel expenditures because after the fact that it wasn't a good decision. Contractually, you're obligated to pay that cost. So when you get to that point in the budgeting process, it is almost like a fixed cost.

It is my understanding that Gulf Power Company has a limited amount of input into the budgeting process for Plant Daniel. The Company is provided with a budget by Mississippi Power Company for Plant Daniel that it must accept, "almost like a fixed cost." The costs being charged by Mississippi Power to Gulf, therefore, are not reviewed from the standpoint of whether they are proper in light of the standards of the Florida Commission and whether such costs should be borne by Florida ratepayers.

It is also my understanding that the Company does not audit the costs of Mississippi Power Company for Plant Daniel to verify the propriety of the expenses charged to Gulf Power Company. Therefore, even though the

Company may feel that the audit of Mississippi Power billings performed by the Internal Auditors of Southern Company Services is a means of assuring compliance, I don't believe that independence and objectivity exist in this affiliated relationship.

Mr. Gilbert suggested that "out in the real world you would probably not have a whole lot of say so about how that plant is run." However, I believe in these circumstances, where Gulf Power is a fifty percent owner, that some provision should be made so that the costs charged by Mississippi Power for Gulf Power's half of the cost for operation of the plant could be audited and subject to adjustment if improper by Florida Commission standards or excessive.

During the typical rate proceeding, this Commission may find costs that a utility incurs or spends that are not properly chargeable to ratepayers. Without an adequate review, it is not possible to ascertain whether Mississippi Power incurs and charges Gulf for similar costs that would not be acceptable to this Commission. Some of the costs that Mississippi Power is charging to Gulf Power through the Plant Daniel budget may be inappropriate for this rate case.

Q. WHAT ADJUSTMENT ARE YOU PROPOSING?

A. I am recommending that the $646,000 variance between the Company's budgeted amount for 1990 of $6,572,000 and the 1990 benchmark of $5,926,000 as shown on MFR Schedule C-57, page 44 of 94, be deducted from the Company's O&M budget. This adjustment results in the Company appropriately reflecting its budgeted amount for Plant Daniel at the benchmark level. It also provides an effective means of controlling the costs charged to Florida ratepayers for Plant Daniel, since the Company does not seem to be able to control these costs on its own.

Plant Daniel Transmission Line Rentals

Q. PLEASE DISCUSS THE NEXT CORPORATE BUDGET ITEM.

A. In Order 14030, the Commission deducted $425,000 from the budget of Gulf Power to reduce the proposed budget to a benchmark level of $962,000. The Company, in this case, has added back the $425,000 previously deducted by the Commission in deriving its benchmark amount for Plant Daniel transmission line rentals. The Company included this amount in the base to be multiplied by the escalation factor for 1984 to 1990 to arrive at the new 1990 benchmark. The Company's calculated 1989 benchmark of $1,729,000 exceeds its budgeted amount for Plant Daniel line rentals of $1,195,324. However, if the Company were not allowed to add back the $425,000 disallowed in the prior case, the 1990 benchmark for Plant Daniel would be $1,199,000, which is $3,676 more than the $1,195,324 amount budgeted. Therefore, the Company's adjustment to the benchmark amount is not necessary for Plant Daniel and should not be allowed because of the cushion it would provide the Company.

Plant Daniel A&G

Q. DID ANY OTHER PLANT DANIEL DISALLOWANCE FROM THE PRIOR CASE AFFECT THE 1990 BENCHMARK CALCULATION?

A. Yes. In Order 14030, the Commission disallowed $1,573,000 of A&G expense related to Plant Daniel. The Commission found that the A&G expense for the new plant was accounted for in the base O&M; thus, to allow the $1,573,000 expense amount to be included in the budget for Plant Daniel would have resulted in a double count.

The Company added back this disallowance to the base expense amount used in calculating its benchmark for 1990 A&G expense. The total production related A&G expense budgeted by Gulf Power for 1989 is $5,655,000, as shown in MFR Schedule C-53. The Company-calculated benchmark for 1990 is $6,445,000 per the same schedule. The benchmark exceeds the budgeted amount by $790,000. This variance, however, would reverse and the budgeted amount would exceed the benchmark by $1,435,000, as shown on Exhibit ___(HWS-6), if the Company had not inappropriately added back the Plant Daniel A&G expense amount that was disallowed in Order No. 14030 and an amount for Plant Scherer, which I will discuss later in my testimony to its base in calculating the 1990 benchmark.

Q. WHAT ARE YOU RECOMMENDING?

A. I am recommending that the Company's budgeted A&G expense be reduced by $1,172,000 (the proper benchmark variance of $1,435,000 - $263,000 budgeted to Plant Scherer) to adjust the Company's budget to the 1990 benchmark.

I should note that we have been unable to assess the amount of the 1990 A&G expense budget which is specifically applicable to Plant Daniel in terms of its relationship to the 1990 benchmark. This is because the portion of the total 1990 A&G expense benchmark amount which is applicable specifically to Plant Daniel has not been identified. The Commission should investigate the means by which all benchmark amounts could be apportioned to all applicable budget units in order to provide a comparable base for all budget units to which budgeted expenses are allocated. Benchmark variances in either direction from the test year amount should require explanations to establish a better means of monitoring costs.

Plant Scherer - Production Expense

Q. PLEASE DISCUSS THE NEXT "CONTROLLED" EXPENSE AREA IN THE COMPANY'S BUDGET.

A. The next corporate item involves Plant Scherer. As with Plant Daniel, the Company has limited control, if any, over the budgeting process for Plant Scherer. The Plant Scherer budget is given to Gulf Power by Georgia Power Company. Apparently, the Company is expected to adhere to this budget without having had much input in its development.

The 1990 Plant Scherer budget includes $1,957,000 for steam production expenses. The Company has included the same amount in the benchmark for 1990, which is shown on MFR Schedule C-53. I am not convinced that the Company has taken the appropriate steps to determine the propriety of the $2 million included in its budget for Plant Scherer steam production expenses.

Q. ARE YOU RECOMMENDING AN ADJUSTMENT AT THIS TIME?

A. I am not aware of any method to determine the propriety of the amount because of the lack of evidential matter to substantiate it. Therefore, I am not recommending an adjustment at this time. However, I do recommend that the Commission take this lack of supporting evidence into consideration and either set a benchmark level to limit the amount recoverable or require an audit be performed of Georgia Power Company's Plant Scherer costs to determine the propriety of the amount charged to Gulf Power.

Plant Scherer - A&G Expense

Q. ARE THERE OTHER ITEMS IN THE PLANT SCHERER BUDGET WHICH CONCERN YOU?

A. The Plant Scherer budget (hence, the Company's O&M expense) includes $3,000 for "transmission other" expense. The same amount has been included in the benchmark as determined by the Company on Schedule C-53 of the MFRs. The remaining amount included in the Plant Scherer Planning Unit budget is $263,000 for production related A&G expense. Based on the adjustment that the Commission made in Order No. 14030 regarding the inclusion of A&G costs for Plant Daniel, I am recommending that the $263,000 be disallowed as a double count of A&G expenses related to Plant Scherer. This adjustment of $263,000 plus the Plant Daniel production related A&G adjustment of $1,172,000 equal the $1,435,000 by which the production related O&M budget exceeds the benchmark.

Plant Scherer - Transmission Line Rentals

Q. PLEASE DISCUSS THE PLANT SCHERER TRANSMISSION LINE RENTALS.

A. The corporate controlled budget includes $1,822,000 in the Power Delivery Planning Unit budget for Plant Scherer transmission line rentals. I am recommending that the $1,822,000 be disallowed from transmission line rentals. All of Plant Scherer costs should be removed because Plant Scherer capacity is all for unit power sales.

I would like to point out that, even though the Company has adjusted Plant Scherer costs for the portion they claim to be associated with unit power sales, no adjustment by the Company could be identified as pertaining to Transmission Line Rents.

Southern Company Services

Q. PLEASE DISCUSS THE NEXT CONTROLLED BUDGET ITEM.

A. The next controlled item is the Southern Company Services budget. Again, this is a budget prepared by an associated company, in this case Southern Company Services, and given to Gulf Power. Again, we ask how much input does the Company have in the development of this budget. Gulf Power has indicated in the Company's response to Interrogatory OPC

1-53 that it does engage in some communication with Southern Company Services to discuss this budget:

> Proactive management control stems from the annual budgeting process. <u>Southern Company Services, Inc. prepares</u> estimates of its billings to Gulf Power Company and other affiliated companies of the Southern electric system through an extensive, interactive annual planning and budgeting process. In its planning phase, functional groups from Southern Company Services, Inc. receive input from the operating companies. (Emphasis added).

The Company states further that:

> Another form of management control over activities of Southern Company Services, Inc. is the work order authorization procedure. A <u>service to be performed on behalf of Gulf Power Company by Southern Company Services, Inc.</u> is first authorized through the establishment of a work order. This authorization is made through the completion of a work order request form. This form includes a description of the type of service to be rendered and its scope, and is approved by Gulf Power Company management who have requested and authorized the service. The work order is also approved by management of the service company function responsible for providing the requested service. (Emphasis added).

The majority of the discussions that take place appear to be limited to the activities specifically requested by Gulf Power for Southern Company Services to perform. The Southern Company Services budget also includes costs which are incurred for services performed in general for all the participants in the Southern Company System. Such costs are apportioned to Gulf Power based on a set percentage. These costs are not subjected to the same scrutiny by the Company as that of the costs of a specifically requested item. The question that should be asked is: Are these necessary expenses for Gulf Power and are they expenses that this

Commission would normally allow to be passed through to the ratepayer?

Because the Southern Company Services planning unit O&M budget makes up approximately $15 million, which is in excess of 10% of the total O&M budget, the budget should be subject to an audit or a detail review of the costs being charged to the ratepayer. There is no assurance that all the costs being flowed through from the Southern Company Services billings to Gulf Power are providing a benefit to the ratepayer. Without an audit of these costs by an independent party, the only alternative to curb expenses is the Commission's use of the benchmark analysis, as has been done in the past.

Q. HAVE YOU REVIEWED THE BUDGETED COSTS OF SOUTHERN COMPANY SERVICES IN CONJUNCTION WITH OTHER RATE CASES?

A. Yes. Larkin & Associates was retained by the Georgia Public Service Commission in 1986 and 1987 to perform a review of Georgia Power Company's budget. Georgia Power is a sister company of Gulf Power. In that engagement, we reviewed and evaluated the budgeting process of Georgia Power which included Southern Company Services' budget items charged to Georgia Power. Our review included an attempt to substantiate these budget line items from Southern Company Services' workpapers. However, we were unable to substantiate the budget line items because no Southern Company Services workpapers were available for review. Unless Southern Company Services can now substantiate the development of its budgets for Gulf Power or any other system affiliate, I would think it appropriate to question the costs included in the Southern Company Services budget.

Again, the question arises as to how some of the costs flow through to Gulf Power from Southern Company Services and the propriety of such costs. Additionally, some of the functions that are performed by Southern Company Services for all the sister companies should be questioned as to whether duplicate functions exist at these sister companies, including Gulf Power.

Q. ARE THERE OTHER REASONS WHY YOU BELIEVE THAT THE SUPPORT UNDERLYING THE SOUTHERN COMPANY SERVICES BUDGET IS INADEQUATE?

A. I question the extent of support that exists for the amounts that are included in the budget for Gulf Power by Southern Company Services since I have not been provided with details concerning such charges. Support, even in a form similar to that for the other planning units excluding Plant Daniel and Plant Scherer, is lacking. Public Counsel's First Request for Production of Documents, Item No. 12, stated:

> For any planning units that don't use the above forms in the previous questions, please provide the 1990 budget detail that is prepared or supplied to the Company in lieu of Forms B-3, B-4, B-5, B-6, B-7, and approval letters.

Basically, the information requested was for detail supporting the costs included in the 1990 budget for these units; justification for additional costs over the prior year's budget which is supposed to be contained on Form B-4; justification for capitalized costs, which is contained on Form B-5; and the allocations of costs to locations and FERC accounts, which are performed on Forms B-6 and B-7.

The Company's response for Southern Company Services was a 21 page listing of work orders that total $18,253,795. Besides the brief description for each of the work orders listed, there is no detail as to why the budget amount is different than 1989 or why it is necessary to increase or decrease the budgeted amounts.

The Public Counsel's First Request to Produce Documents, Item No. 13, stated: "Please provide copies of all Approval Letters for each Planning Unit for the 1990 budget."

In the Company's response, no approval letter was received for Southern Company Services, Plant Daniel, or Plant Scherer. Therefore, it is my assumption that the Company's response to Public Counsel's Fifth

Request for Production of Documents in Docket 881167-EI, Item No. 47, applies here. The Company's response was:

> The Budget Committee approves the budgeted expenses for Plant Daniel, Plant Scherer, and Southern Company Services in their Budget Approval Meeting. <u>No approval letters are issued for these planning units</u>. (Emphasis added).

Apparently, there is no detailed budget information for Plant Daniel, Plant Scherer, or Southern Company Services other than the dollar figures and FERC account distributions provided. The Company in its response to Public Counsel's First Set of Interrogatories, Item No. 28 showed an increase of $764,737 ($14,954,931 - $14,190,194) in its O&M expense budget. No justification was provided for any increases of the current budget over the prior year.

Additionally, OPC asked for a budget-to-actual variance summary for Southern Company Services. An analysis of the 1989 variances indicated that the actual expense was under budget by approximately $418,000. After adjusting for the $396,851 variance for the tax investigation, the 1989 actual expense was approximately $814,000 under budget.

Q. WHAT IS YOUR RECOMMENDATION REGARDING THE SOUTHERN COMPANY SERVICES COSTS INCLUDED IN GULF POWER'S 1990 BUDGET?

A. Considering the fact actual for 1989 was less than budget and that no detail explanations have been provided that justify the developed budget amounts, I believe that an adjustment is warranted. A $907,000 benchmark excess is shown on MFR Schedule C-57, page 3. This is the difference between the 1990 Southern Company Services' budget for steam production of $2,354,000 and the 1990 benchmark as determined by the Company of $1,447,000. Because of the lack of support for the Southern Company Services specific budget amounts, I am recommending that $617,595 as shown on line 5 of Exhibit ___(HWS-7), page 1 of 3, be disallowed in the O&M budget.

Q. PLEASE EXPLAIN YOUR ADJUSTMENT FOR SCS SERVICES TO GULF.

A. This adjustment has four parts. The first part removes certain research projects and studies because they are duplicative of the type of research Gulf pays for through Electric Power Research Institute (EPRI) dues. This adjustment is shown on Exhibit ___(HWS-7), page 2 of 3, and results in the disallowance of $324,000.

The second part of the adjustment removes the cost of SCS Services which have been budgeted at amounts substantially in excess of actual average costs for such services. This adjustment is necessary to assure that the SCS-related charges are reflected in the test year at a reasonable level, and to counteract the Company's demonstrated tendency to overstate the amount of such costs in its budgets. The adjustment is shown on Exhibit ___(HWS-7), page 3 of 3, and reduces O&M expense by $153,595.

The next part of the adjustment pertains to the Company's justification for the benchmark variance of $44,000 for Generating Plant Electrical System Application is provided on MFR Schedule C-57, page 31. The Company's justification is as follows:

> These SCS Services are for the continued research and engineering evaluations of new generators, exciters, transformers, voltage regulators and other electrical equipment used in electric generating plants. This work also provides for investigation of problems with Gulf's existing equipment problems at other utilities with equipment in place on Gulf's units.
>
> It is essential that this expertise be maintained at Southern Company Services to provide for analysis and trouble shooting of problems on Gulf's units and to provide for replacement of equipment at Gulf's electric generating plants. Gulf's plant personnel and engineering personnel in the corporate office do not possess the expertise to meet these essential requirements.

As a follow up, Interrogatory OPC 4-231 requested the Company to:

> Provide a list of Gulf plant personnel and engineering personnel and their respective qualifications and identify to what extent Southern Company Services' personnel are more qualified.

The Company's response to identifying the extent SCS personnel are more qualified, is as follows:

> Gulf cannot, due to its size, justify employing personnel in such a specialized area. Southern Company Services, by intent, is staffed to supply personnel who specialize in such areas to provide technical assistance to the entire Southern Company System, therefore reducing any duplication in the Southern Company System.

Nowhere in this response is any statement that specifies why SCS personnel are more qualified. Therefore, unless a more adequate justification can be provided, I am recommending the disallowance of the $44,000 for Generating Plant Electrical System Application.

The final part of the SCS Services adjustment is the SCS Services System Planning budget of $167,000 exceeds the 1990 benchmark of $71,000 by $96,000. The Company has attempted to justify this variance with various descriptions on planning activities performed by Southern Company Services for the Southern System. However, the Company does not provide any quantifiable justification for adjusting the benchmark. I am recommending the $96,000 variance be disallowed. If the Company can provide on a activity-by- activity basis a variance and an adequate justification for why the Southern System costs allocated to Gulf Power for system planning have increased over the benchmark, then I may be willing to reconsider my recommendation.

Additionally, MFR Schedule C-57, page 3, lists a benchmark excess of $210,000 for Research and Development. This variance includes Atmospheric Fluidized Bed Combustion Research and Development budget of $52,000 and the Living Lakes, Inc. budget for $65,000. This is Gulf Power's allocation for Southern Company costs which are considered duplicative and/or unnecesssary. I am recommending that the $117,000 for these projects be deducted as part of the steam production for a total of $734,595 as shown on Exhibit ___(HWS-7), page 1.

Finally, I recommend that the Commission make a line-by-line review of the other Southern Company Services budget amounts and compare them to what the benchmark would be for those specific line items, as opposed to looking at total Company budget/benchmark comparisons.

Uncollectible Expense

Q. PLEASE DISCUSS THE BUDGET AMOUNTS FOR UNCOLLECTIBLES.

A. The 1989 actual uncollectibles were $569,403 per the Company response to OPC-34. The Company's recent change in determining the uncollectible expense of $510,852, in my opinion, produces a representative amount for 1990. Therefore, I am not recommending that the 1990 budget for uncollectibles be adjusted. However, since the accounting change that resulted in a credit to the 1989 O&M expense in the amount of $813,000 was charged to the ratepayers over a period of years, it is appropriate that the effects of accounting change be amortized into rates. I am recommending that the $813,000 effect of this accounting change be amortized over 4 years. This rate of amortization would reduce the 1990 budget by $203,250 ($813,000/4).

Rate Case Expense

Q. PLEASE DISCUSS THE NEXT CORPORATE CONTROLLED ITEM.

A. The next corporate controlled item is rate case expense of $500,000. The Company has budgeted $1,000,000 for costs incurred in seeking its rate increase. It has elected to amortize this cost over a two-year period. In Order No. 14030 the Commission used a two-year amortization period for the rate case expense. However, the Company's last rate case commenced at the beginning of 1984 and the current case did not take place until the end of 1989. That time period suggests a representative time lag between the Company's rate increase requests. Therefore, I am recommending that the current rate case expense be amortized over a five-year period. Accordingly, the annual amount is reduced to $200,000, and an adjustment reducing the O&M budget by $300,000 is necessary. If the Commission finds that the Company is not entitled to a rate increase, I recommend that all rate case expense be disallowed.

Employee Benefits

Q. PLEASE CONTINUE WITH YOUR DISCUSSION OF THE BUDGET.

A. The final area of corporate controlled costs that I wish to discuss is that pertaining to employee benefits. Employee benefits are accounted for in two separate planning units. Charges for employee benefits totalling $6,135,300 are included in the Employee Relations Planning Unit. The credits transferring costs to accounts other than O&M are included in a category called "General to All Planning Units" and total $1,234,471. On Exhibit __(HWS-8), I show a breakdown of the employee relations expenses by type. On this exhibit, I also show the adjustments which are discussed in the following paragraphs.

The Company did not budget an amount for the pension plan. The pension plan is fully funded, and there will be no money expended by the Company for this item in the foreseeable future. Therefore, I concur that no amount should be budgeted.

The next items are two adjustments that pertain to the Company's change in accounting for post retirement benefits. These benefits were previously accounted for on a "pay-as-you-go" basis. However, as a result of a proposed, but not yet adopted accounting standard, the Company began accruing an expense for the future costs of other post retirement benefits. This is, in effect, a collection of funds from the ratepayers for this item, in advance of any payments by the Company.

The Company should only be allowed to collect from the ratepayers on a pay-as-you-go basis, not on an accrual basis. I believe the Florida Commission should protect the ratepayers from prepaying these costs. I am adjusting each of the other post retirement benefit amounts to the actual cash outlay projected for the 1990 budget year. The post retirement life insurance is adjusted to $110,000 per the Company's response to Public Counsel's First Set of Interrogatories, Item No. 13. This decreases post retirement life insurance benefits by $807,000. Similarly, post retirement medical benefits are reduced to $518,000, also per the Company's response to Public Counsel's First Set of Interrogatories, Item No. 13. This adjustment results in a decrease in budgeted expense for post retirement medical benefits of $475,000.

I would like to add that the Company's response to Public Counsel for Providing Copies of Selected Planning Unit 1990 Budget Working Papers for the Employee Relations Planning unit indicates zero funding for both post retirement benefits. If this is true, an additional reduction to the employee relations O&M budget of $628,000 ($110,000 + $518,000) would be required.

Q. PLEASE EXPLAIN THE OTHER CALCULATIONS SHOWN ON OPC EXHIBIT ___(HWS-8).

A. The Company's budget provided for a transfer of a portion of other post retirement benefits to non-O&M accounts. The amount transferred by the Company to non-O&M accounts for post retirement life insurance was $171,923. For post retirement medical benefits it was $186,172. I calculated a ratio of the transferred amount to the total budgeted amount to determine the portion of my recommended budget adjustments for post retirement life insurance and medical benefits that should be transferred to non-O&M accounts. These transferred amounts increase the "General to All Planning Units" budget by $151,300 for post retirement life insurance and $89,055 for post retirement medical benefits. If the additional adjustment to post retirement medical benefits discussed earlier is made, then the General to All Planning Unit budget would require an increase in expense of $117,740 ($20,623 + $97,117).

Next, I adjusted the supplemental benefits, eliminating the entire budget of $363,800. This additional benefit budgeted for three executives is not a necessary expense that provides the ratepayer with any quantifiable benefit. This is additional benefits for employees over and above the normal IRS limitations.

The net effect of my adjustments to employee benefits decreases the administrative and general budgeted expense for 1990 by $1,405,445 as shown on Exhibit ___(HWS-8), line 12.

Employee Savings Plan

Q. DOES THAT COMPLETE YOUR DISCUSSION OF THE CORPORATE CONTROLLED EXPENSES FOR O&M?

A. No. I would like to make one further comment regarding the Employee Relations Planning Unit budget.

The Company currently has an employee savings plan matching program. Under the formula, the Company will match a certain percent of the monies contributed to the plan by the employees. This program has been in effect for a number of years. I am not convinced at this point that charging the full cost of the plan to the ratepayer is proper and justified. At this time, I am not proposing any adjustment. I would like to recommend the Commission consider putting a cap on these costs in light of the numerous benefits provided the employees of Gulf Power.

Productivity Improvement Program

Q. WHAT IS THE PURPOSE OF THE COMPANY'S PRODUCTIVITY IMPROVEMENT PROGRAM?

A. The Productivity Improvement Program ("PIP") is a Southern electric system-wide program. The Company has described its purpose as follows:

> The purpose of the Productivity Improvement Program is to improve the financial and operating performance of the Southern electric system, by encouraging participants to engage in a more vigorous objective-setting and performance assessment process. Cash awards may be granted based on performance in two areas - the <u>Individual Performance Component</u> rewards achievement of individual objectives, and the <u>Corporate Financial Performance Component</u> rewards achievement of corporate objectives. (OPC Interrogatory 1-20, p.1 of 2.)

Q. WHAT AMOUNT HAS THE COMPANY BUDGETED FOR THE PRODUCTIVITY IMPROVEMENT PROGRAM?

A. The Company budgeted $464,177 for PIP. All of this amount has been recorded as O&M expense in the test year. The dollar amount budgeted for the test year is based on the 1989 actual dollar amount. See Company's response to OPC 4-182.

Q. HOW MANY GULF POWER COMPANY EMPLOYEES PARTICIPATE IN THE PRODUCTIVITY IMPROVEMENT PLAN?

A. In 1989, there were 15 participants from Gulf Power Company in the PIP. The following positions participated:

- President-CEO
- 4 VP's
- 3 Division Managers
- Director of Power Generation
- Controller
- Director of Employee Relations
- Assistant to VP of Power Generation and Transmission
- Director of Power Delivery
- Director of Marketing and Load Management
- Director of Corporate Communications

(Arthur Andersen 1989 audit workpapers, 47/3.)

The Company's response to OPC Interrogatory 4-183 states that, for 1990, PIP participation is budgeted for 11 Gulf employees.

Q. DOES IT APPEAR THAT THE COMPANY WILL ACTUALLY INCUR THE 1990 EXPENSE IT HAS BUDGETED FOR PIP?

A. No, it does not. According to the Company's Supervisor of Compensation, the Company expects the 1990 payout for the 1989 award will be considerably less than the amount accrued due to Gulf's poor return on common equity. See Arthur Andersen 1989 audit workpaper 47/3. More importantly, the amount the Company budgeted for the 1990 test year has also subsequently been substantially reduced:

> The amount budgeted in 1990 is $464,177 which was based on 100% payout. The present estimated amount for 1990 that will be paid in 1991 is $105,968. The reason for such a large change in the new estimate is due to a major change in the PIP plan that occurred subsequent to the preparation of the budget and an estimated payout based on 50% of the new maximum compensation. [Response to OPC 6-299(b)].

The Company has revised its budgeted amount of $464,177 down to $105,968. This is a reduction of $358,209.

Q. WHAT IS YOUR RECOMMENDATION CONCERNING TEST YEAR PIP EXPENSE?

A. The Company's budgeted expense of $464,177 should be disallowed in total. A reduction of $358,209 should be made because the Company's budgeted amount is overstated, as explained above. Additionally, the remaining $105,968 should be removed because this PIP expense is not appropriate for ratemaking purposes.

Q. WHY IS PIP EXPENSE INAPPROPRIATE FOR RATEMAKING PURPOSES?

A. It is incumbent upon key management personnel, carefully selected, to fulfill their corporate responsibilities, regardless of any incentive compensation. Incentive compensation of this type duplicates salaries and wages which are legitimate ratemaking expenses. The cost of these benefits should be borne by the shareholders, not the ratepayers, who derive no direct benefit from incurring that expense.

Performance Pay Plan

Q. WHAT IS THE PERFORMANCE PAY PLAN?

A. The Performance Pay Plan is a new compensation package that has been developed for the Southern electric system. This plan is supposed to improve the link between pay and performance by increasing rewards to top performers and by reducing rewards for low performers.

The Performance Pay Plan includes all full-time and regular part-time exempt employees at Gulf Power Company who receive annual performance appraisals. The plan does not include temporary or co-op employees, or contractors.

Q. WHY DID THE COMPANY DEVELOP A NEW PERFORMANCE INCENTIVE PAY PLAN?

A. The Company's Performance Pay Plan Handbook states the following reason for the development of this new plan:

> Our business is rapidly changing. We are operating in an environment that is becoming more deregulated, more market oriented, and more competitive every day. The Performance Pay Plan will support our system's strategic direction to ensure that we remain a leader in our changing business environment. We needed a plan to encourage employees to be more productive. By rewarding employees for increasing productivity, the plan will help make our companies more competitive.

This explanation indicates that the impetus behind the Company's new Performance Pay Plan is deregulation, competition, and the changing business environment. It appears the Company could have continued to meet its primary purpose of providing safe, reliable, and reasonably-priced electric service without this new incentive plan.

Q. HOW IS THE COMPANY'S NEW PERFORMANCE PAY PLAN EXPECTED TO FUNCTION FROM AN EMPLOYEE'S PERSPECTIVE?

A. Under the Southern electric system's new Performance Pay Plan. the eligible employees have the opportunity to earn incentives in the form of a lump-sum payment, in addition to their base salary increases. The Company's Performance Pay Plan handbook describes how this is supposed to function:

> Under the plan, top performers (Level 5) have an opportunity to earn up to 20 percent of their base salary in incentive pay. Level 4 employees have an opportunity to earn up to 14 percent of their base salary; Level 3 employees up to eight percent; and Level 2 employees up to two percent. These lump-sum payments are not limited by the performance level salary ceilings associated with your base salary.
>
> * * *
>
> Lump-sum incentive pay has three parts (1) Annual incentive based on your attainment of your individual key results areas; (2) Organization incentive based on your organization's attainment of its goals; and (3) Corporate incentive based on the Company's attainment of its goals.

Q. HOW MUCH HAS THE COMPANY BUDGETED FOR THE PERFORMANCE PAY PLAN?

A. The Company budgeted O&M expense of $198,953 for this plan in 1989 and $1,021,637 for the test year, 1990.

Q. WHAT IS YOUR RECOMMENDATION?

A. I recommend that the test year O&M expense amount of $1,021,637 be disallowed. I view the Southern electric system's new Performance Pay Plan as being unnecessary to the provision of safe, reliable, and reasonably-priced electric service. Moreover, since the Plan will allow annual bonuses in addition to the normal salary increases, I believe it is likely to result in excessive compensation. If the Southern Company wants to implement this plan on a system-wide basis, the additional costs associated with doing so should be absorbed by shareholders, not ratepayers.

<u>Edison Electric Institute Dues</u>

Q. PLEASE EXPLAIN YOUR ADJUSTMENT TO DISALLOW A PORTION OF EEI DUES.

A. Gulf's response to OPC 1-35(a) states that the Company budgeted $88,133 for EEI dues for the 1990 test year. Of this, Gulf excluded $30,000 for EEI Media Communications. Of the remaining basic membership dues of $58,133, I have excluded 13-17%. In support of the recommended 13.17% EEI membership dues disallowance, I reviewed a report prepared for the National Association of Regulatory Utility Commissioners addressing EEI expenses for the year 1987. To my knowledge, this is the most recent report available. Based on a review of that report, I have concluded that a disallowance of EEI membership dues of 37.17% or higher would be warranted.

In Gulf's last rate case and other electric rate cases, the Commission has excluded 33 1/3% of EEI. See e.g., Order 14030 (Docket 840086-EI), page 23. I believe, however, that a 37.17% disallowance is appropriate based on the percentage of EEI dues that are spent on lobbying activities, regulatory advocacy, legislative policy research, institutional advertising and litigation. This results in a $21,608 disallowance for EEI inappropriate in rates.

Nuclear Power Research Expense

Q. PLEASE EXPLAIN YOUR ADJUSTMENT TO DISALLOW THE COMPANY'S NUCLEAR POWER RESEARCH EXPENSE.

A. For the 1990 test year, the Company has projected an expense for nuclear power research in Account 930-300 in the amount of $326,808. This represents the portion of the Company's EPRI dues directed towards nuclear power research. This expense should be disallowed for the following reasons. First, Gulf has no nuclear power plants, and therefore has little need for nuclear research. Second, Gulf presumably has excess generating capacity and will not need to add new capacity for some time. Third, Gulf has not demonstrated that its ratepayers receive direct benefits from nuclear power research. Finally, when Gulf does, at some point in the future, have to add capacity, it appears unlikely that such capacity will be nuclear. Gulf owns the Caryville land which has been certified by the Florida Power Plant Siting Act for a steam electric generating plant. <u>See</u> Gulf testimony, Parsons, pp. 18-20. For these reasons, the $326,808 budget amount for nuclear research should be disallowed.

<u>Nonrecurring Items</u>

Q. DO THE COMPANY'S TEST YEAR EXPENSES INCLUDE NON-RECURRING ITEMS WHICH SHOULD BE REMOVED?

A. Yes. Gulf's test year operating expenses include non-recurring items for rebuilds and renovations which should be capitalized, rather than expensed. Also included is excessive ash hauling and storage expenses that should not be allowed.

<u>Rebuilds</u>

Q. PLEASE DISCUSS NON-RECURRING EXPENSE FOR REBUILDS.

A. "Rebuilds" is a relatively new program for Gulf Power. Gulf Power is rebuilding heavy equipment that is used in the day-to-day operations instead of having the equipment rebuilt by an outside party. It is my understanding that when the work was done by an outside party, these costs were capitalized. However, to the extent that they are now being done in-house, the Company feels these items should be expensed.

The Company's response to OPC 4-250 stated:

> Since the component rebuilds (including rebuilding of components of cabs and chassis) are not defined as a retirement unit as described in the List established by the FPSC, expensing the rebuilding of components is appropriate. The List defines a retirement unit for each type of transportation equipment utilized. In each category, nothing less than the entire vehicle is defined as a retirement unit.

I disagree with the Company's change in accounting for these costs and recommend that such costs continue to be capitalized since the rebuild programs will extend the lives of the assets being rebuilt. Buying individual components and then assembling them into a complete unit, rather than acquiring the complete unit should not change the method of accounting for the costs. Such costs should still be capitalized. In either scenario, a complete unit results.

Rebuilds identified in the nonrecurring budget include $42,575 in the Eastern Planning Unit, $38,925 in the Central Planning Unit, and $35,000 in the Western Planning Unit, for a total of $116,500 to be deducted from the Company's O&M budget.

Also of concern is the substantial increase in the absorption rates for heavy equipment as a result of the Rebuild Program. This concerns me because, if the rebuilds are expensed and also included in the absorption rate, a duplication of the expense may be occurring. Also, the absorption rates are calculated by adding the annual expense to the total cost of the rebuild instead of an amortized portion of the total cost calculated based on the extended life of the asset.

<u>Renovations</u>

Q. PLEASE DISCUSS THE NEXT QUESTIONABLE EXPENSE.

A. Another item that should be capitalized is the $252,000 renovation to the Panama City Office. A renovation of this amount should extend the life of this asset. This expenditure represents an improvement to the property, as opposed to ordinary maintenance. I recommend that the budget for O&M be reduced by $252,000 to properly account for the costs associated with improving property as a capital item, rather than an O&M expense.

<u>Ash Hauling and Storage</u>

Q. DOES THIS COVER ALL OF THE ADJUSTMENTS RESULTING FROM YOUR INVESTIGATION OF NONRECURRING ITEMS?

A. No. One additional item that requires an adjustment is the Company's Plant Smith budget for nonrecurring expenses of $360,000 for ash hauling and storage. This budgeted amount is in addition to the $275,000 budgeted as a recurring expense.

The Company's response to OPC 4-238, provided the actual ash hauling and storage expense for 1986 ($199,000), 1987 ($806,000), 1988 ($752,000) and 1989 ($345,000). The average for the four years is $526,000. This is $109,000 less than the Company budgeted.

Also, the Company estimated that 240,000 cubic yards would be removed at an estimated cost of $2.48 per cubic yard, which equals $595,200. This is $39,800 less than the budget of $635,000. The Company overbudgeted under both scenarios.

Since the benchmark is zero, I am recommending that the Plant Smith ash hauling and storage budget be reduced $360,000 from $635,000 to the recurring budget amount of $275,000. This adjustment is necessary because the Company is incurring the nonrecurring portion in 1990 to complete a project that has been ongoing but will not be continuing at this level. The Company's Form B-4c for Plant Smith provided in response to Public Counsel's First Request to Produce Documents, Item No. 9 confirms this as follows:

> As power is generated, the resulting ash is sluiced to a large pond where it settles and accumulates. In order to comply with environmental regulations, Smith Plant has diked and drained the southern half of this pond so that the ash can be removed and hauled to permanent dry storage sites called cells. This work has been going on for the past several years. Completion of cells 9 and 10 will "clean out" the remaining ash from the drained area, allowing the plant to operate for many years. Since this area is drained and diked, it is economically wise to complete this work before the area must be reflooded next year to accommodate ash again.

The $360,000 excess cost was budgeted as nonrecurring, is excessive, and should be disallowed.

Employee Relations - Relocation and Development Programs

Q. ARE THERE ANY OTHER AREAS WHERE THE BUDGET SHOULD BE ADJUSTED TO REMOVE INAPPROPRIATE COSTS?

A. Yes. The next two adjustments I am recommending involve the Employee Relations Planning Unit. This planning unit requested an increase of $176,690 in its relocation budget for 1989, and another increase of $8,100 for 1990, bringing the total for the relocation budget to $324,100. Part of this budgeted amount relates to the cost incurred for selling the homes of relocated employees. These costs are budgeted at approximately 22% of the average sales price of the homes. The Company workpapers that provide the support for this budget amount shows that the 1990 budget is for 10 homes. This would calculate to an average of $32,410 per home. This is well in excess of any fees charged by a realtor for selling a home.

I am recommending that the entire budgeted amount of $172,460 associated with this percentage charge be eliminated from the O&M budget.

The Employee Relations budget also includes the costs of programs called "high potential development" totalling $47,250, and "executive development" totalling $25,000. These costs were new programs to the 1989 recurring budget carrying forward into the 1990 budget. These should be removed from the O&M budget until and unless they are justified through a cost-benefit analysis.

Bank Fees

Q. ARE THERE ANY OTHER ADJUSTMENTS YOU WISH TO DISCUSS?

A. Yes. The next area involves bank fees and line of credit charges. The Company in 1989 budgeted $192,000 for bank fees and line of credit charges. In 1990 these items flow through as part of the "recurring other", and the Company adds another $31,400 to the budget for a total of $223,400. The Company's justification in 1989 for the budgeted amount of $192,000 was that the Company had a line of credit which required it to maintain compensating balances. Such balances are supposed to compensate the bank for providing the credit line and offset any bank charges. After an analysis and comparison of alternatives, Gulf consolidated the disbursement accounts into one controlled disbursement account, which allows the investment of all idle cash until the checks are presented for payment. As a result, the Company no longer maintains funds with the bank in a form that compensates the bank for service, nor does the Company maintain any other compensating balances with the bank.

The Company stated on the 1989 form (B-4c) provided in Docket 881167-EI, that as a result of this change, it has received improved quality of banking service, reduced the cost of banking activity, improved control over the movement of cash, and optimized the use of available cash and overall savings when lower costs and additional reserves are considered. As a result, the Company estimates the revenue derived from the increased availability of cash to be $491,000. Comparing this to the budgeted amount of $192,000, this is a net savings, before tax, of $299,000. The Company estimated that the working capital requirement reduction saves the retail ratepayer $585,000.

Before this change, the ratepayers paid for maintaining compensating balances in the form of a $4.4 million working capital requirement in rate base. Ratepayers were required to provide $585,000 of funds while the Company's stockholders were not carrying any burden or paying any fees. With the change in banking procedures, the Company claimed it is saving the ratepayer $585,000 while requiring them to pay the full $192,000 from 1989 plus the $31,400 from 1990 associated with the change in banking. Even though a net savings of $361,600 would result, the Company's stockholders would enjoy the below-the-line estimated $491,000 of revenue earned on the idle funds. I am recommending that the $223,400 related to bank fees be removed from the O&M budget. This expense should be borne by the stockholders of the Company, since they clearly derive the benefits. This adjustment still leaves the stockholders of the Company with a $267,600 windfall.

<u>Obsolete Distribution Material</u>

Q. PLEASE EXPLAIN YOUR ADJUSTMENT FOR OBSOLETE DISTRIBUTION MATERIAL.

A. This adjustment is shown on Exhibit ___(HWS 9). It reduces test year O&M expense by $83,000 to remove the amount in excess of the benchmark which the Company has not justified. The Company's identification of obsolete material may be an indication that it over-purchased or imprudently purchased such items in the past. Ratepayers have borne the cost of the Company's Communication Oriented Production Information System (COPICS), which was implemented in 1984 to supposedly enable the Company to better control its inventory. The substantial inventory write-offs the Company has budgeted for 1990, which exceed the pre-COPICS inventory write-offs, may be an indication of continuing laxity of inventory and purchasing controls.

Moreover, the $109,000 write-off shown on MFR Schedule C-57 substantially exceeds the actual $49,000 expense for 1989, from OPC 4-248. Per OPC 4-248, the Company's 1989 budget amount was $99,000. Additionally, a five-year average of actual write-off, excluding the 1988 abnormal write-off, is $16,485. It appears the Company may be attempting to manipulate the year in which these obsolete inventory write-offs occur, which would result in ratepayers bearing inappropriately high levels of expense.

For these reasons, the $83,000 excess expense for obsolete distribution materials should be disallowed from test year O&M expense.

Officer & Management Perks

Q. PLEASE EXPLAIN YOUR ADJUSTMENT TO DISALLOW THE TEST YEAR EXPENSE FOR OFFICER AND MANAGEMENT "PERKS".

A. In response to OPC 1-29, the Company listed outside professional services budgeted for the test year. Exhibit ___(HWS-10) lists the expenses for executive tax services and a fitness program which should be disallowed. Ratepayers should not pay for tax services relating to the personal tax returns of Gulf's executives and vice presidents. The fitness program is only available to high level employees, not on a Company-wide basis, and represents a personal expense for Gulf's executives which should not be borne by ratepayers. Therefore, the $65,100 test year expense for officer and management "perks" shown on Exhibit ___(HWS-10) should be disallowed.

Duct and Fan Repairs

Q. PLEASE EXPLAIN YOUR ADJUSTMENT FOR DUCT AND FAN REPAIRS EXPENSE.

A. Gulf has budgeted $1,109,000 for duct and fan repairs expense for the 1990 test year. This amount is $684,000 over the O&M expense benchmark. This work is cyclical in nature. Once repairs are done on a particular plant, they should not be required again at that unit for several years. To develop a normalized level of duct and fan repair cost, on Exhibit ___(HWS-11), I computed a six-year average. The expense for each year has been inflated by a CPI factor. The normalized expense for duct and fan repairs is $798,681. The test year excess over this projected by the Company of $310,319 should be disallowed.

Customer Service and Information

Q. SHOULD ALL THE 1990 BUDGETED TEST YEAR PROGRAM EXPENSES FOR CUSTOMER SERVICE AND INFORMATION BE RECOVERED IN RATES?

A. No, they should not. The Company is requesting base rate recovery of certain programs which were previously recovered through its Energy Conservation Cost Recovery Clause (ECCR). This clause provides for direct recovery of the Company's conservation costs. A review of ECCR programs is done periodically by the Commission. The Company is required to demonstrate, among other things, the conservation cost effectiveness of programs included or to be included for recovery under the clause. Effectiveness, for purposes of inclusion in the ECCR mechanism is defined as:

1. Generation reduction per customer.
2. Peak reduction per customer.
3. KWH reduction per customer.
4. Cost/benefit, i.e., cumulative present value of ratepayer benefits is greater than the cumulative present value of the cumulative costs of a program.

As a result of Commission review of the ECCR, several programs, previously included under the clause, have been rejected because they were unable to meet the cost/effectiveness criteria for inclusion in the clause. The Company is now seeking recovery of these programs through base rates.

Q. WHAT PROGRAMS DISALLOWED THROUGH THE ECCR MECHANISM IS GULF REQUESTING RECOVERY OF THROUGH BASE RATES?

A. The Company is requesting recovery of four programs through base rates: Good Cents New Home, Good Cents Improved Home, Energy Education, and Presentation/Seminars.

Q. SHOULD THE GOOD CENTS NEW HOME PROGRAM BE ALLOWED RECOVERY IN BASE RATES?

A. No, there are essentially three reasons why this program should not be allowed recovery in base rates.

Q. WHAT IS THE FIRST REASON?

A. This program was determined in Docket No. 860718-EG, to have a marginal cost/benefit ratio to participating customers. The program involves the promotion of appliances, and referrals of contractors. The program puts the Company in the role of promoting appliance sales and classifying homes as meeting "good cents" criteria, activities which are not necessary to the provision of electricity.

Q. WHAT IS THE SECOND REASON THE GOOD CENTS NEW HOME PROGRAM SHOULD NOT BE ALLOWED IN RATES?

A. The information and expertise which the Good Cents Home Program purports to impart to its customers is already available through the Florida Model Energy Efficiency Code.

In 1977, in response to Federal Requirements, the Florida Legislature passed two laws which required local governments to adopt energy efficient building standards.

In 1980, these two laws were combined, resulting in the Florida Model Energy Efficiency Code for building construction. The Florida Department of Community Affairs (DCA) is responsible for administering, modifying, revising, updating and maintaining the Energy Code. The DCA also is responsible for determining what cost-effective, energy-saving equipment and techniques are available and updating the Code to incorporate any such equipment or new techniques. This is to be done at least every two years. The Code, which was designed specifically for Florida's climate, contains over two hundred pages outlining, diagramming, and presenting the Code and the requirements for energy efficient buildings. The Code is available to anyone through the State of Florida Department of Community Affairs Energy Code Program.

Mr. Bower has stated in his testimony that the Good Cents Home Program:

> offers superior services and benefits to our customers which are not provided through the Code. The Good Cents Program provides a vehicle to optimize compliance with the Code which is not universally enforced in Northwest Florida."

Whether Florida enforces its Energy Efficiency Code or not, does not change the fact that the Code sets guidelines for energy efficiency and makes that information available to the public.

Q. WHAT IS THE THIRD REASON RECOVERY OF THE GOOD CENTS NEW HOME PROGRAM SHOULD NOT BE ALLOWED IN RATES?

A. Gulf has been unable to demonstrate that the program has any effect on load or demand or even the program's conservation value. Consequently, all of Gulf's ratepayers must pay for this program when only some of them are participating.

Given that the program has not had any discernable effect on load, despite its inception in 1977, it is impossible to view the program as being cost-effective. Mr. Bower, however, would have us believe this program is necessary because of the unavailability of services of this type in Gulf's service area and because of customer demand for such services. The function of a public utility, however, is not to fill any gaps or niches in the free market, or to assume the activities of a governmental agency in disseminating building code information, and especially not at the expense of all ratepayers, whether or not they partake in such services.

If demand for these services is as great as Gulf believes it is, only those customers who demand such services should pay for them. On the basis of Mr. Bower's arguments, it would appear this program should stand on its own on a competitive basis. No program costs should be charged through rates.

I am recommending $1,023,995 be removed from test year cost of service for the Good Cents New Home Program.

Q. SHOULD THE GOOD CENTS IMPROVED HOME PROGRAM BE ALLOWED RECOVERY IN BASE RATES?

A. No. This program also was removed from ECCR recovery because Gulf was unable to demonstrate the cost effectiveness of the program in terms of any Kw and Kwh savings. This program, like the Good Cents Home Program, also promotes heat pumps and other electrical appliances. Such promotional expense is inappropriate in rates because it serves to increase load and could compete with other sources of energy, such as gas and propane.

Once again, Gulf has been unable to demonstrate the benefit of these services to all ratepayers. If Gulf believes customers demand these services and information, then the program should stand on its own on a competitive basis. The program is not a necessity to ratepayers and therefore those wanting such service should pay for them. If the program is truly cost effective and in such demand as the Company represents, revenues will equal expenses. I recommend the disallowance of $609,783 from test year expense for this program.

Q. SHOULD RECOVERY OF THE ENERGY EDUCATION PROGRAM BE ALLOWED IN BASE RATES?

A. No, the Company has described this program as including appliance selection and use, residential electric system design, optional energy use and application for household task, residential interior lighting, energy management, lifestyle information and economic efficiency of energy use.

The Company claims these programs are conservation programs although they have been unable to substantiate any quantifiable benefits realized from such programs. For this reason, recovery was denied through the ECCR.

Many of the services provided by this program are available through traditional sources. Assistance with appliance selection is available at an appliance or department store, interior lighting design from an interior designer. These activities are not the function of an electric company, are available elsewhere, and would appear to promote the use of electric appliances. Therefore, I am recommending the disallowance of $609,783 for this program in base rates.

Q. SHOULD THE RECOVERY OF THE PRESENTATIONS/SEMINARS PROGRAMS BE ALLOWED THROUGH BASE RATES?

A. No. This program also was removed from ECCR recovery because the Company was unable to demonstrate its conservation value.

The program involves presentations to commercial customers and local construction allies. Mr. Bower, in his testimony, is unclear as to exactly what the purpose of such presentations are. He merely states the presentations and seminars include discussions of technology assessment, improved load factor, improved demand-side management, increased productivity and improved planning ability. Gulf Power is an electric public utility and not a management or production consultant. Such presentations would appear to be more for public relations and sales activities and not conservation or load management objectives. These programs were removed from ECCR recovery because their benefits could not be demonstrated and they should be removed from base rates for the same reason. I recommend disallowance of $55,429 from base rates for the cost of these presentations and seminars.

Q. IN SUMMARY, WHAT IS YOUR ADJUSTMENT FOR THESE FOUR PROGRAMS?

A. I am recommending the removal of the Good Cents Programs, the Energy Education Program and the Presentations/Seminars Programs. This results in a $2,114,681 decrease in operating expenses as shown in Exhibit ___(HWS-12).

<u>Customer Service and Information Benchmark</u>

Q. DO YOU AGREE WITH THE COMPANY'S DETERMINATION OF THE CUSTOMER SERVICE AND INFORMATION BENCHMARK VARIANCE?

A. No, I do not. The Company should show a 1990 benchmark level of $2,318,000. This would indicate a variance of $3,108,000 in excess of the benchmark.

Instead of showing the appropriate benchmark variance, and then providing the necessary substantiation, the Company has attempted to recompute its own benchmark base. They have done this by adding $2,248,000 of ECCR programs to the 1990 benchmark. The Company is attempting to recover the cost of these programs in base rates, as a consequence of recovery of these programs being denied through ECCR in Docket No. 860718-EG.

As a result of the Company's unauthorized addition to the 1990 benchmark, they show a variance of $281,000 under the benchmark. This is incorrect. The correct amount of the customer service and information variance is $3,108,000 in excess of the benchmark.

Q. ARE YOU RECOMMENDING ANY OTHER ADJUSTMENTS TO CUSTOMER SERVICE AND INFORMATION?

A. Yes, I am. The Company is $3,108,000 over the benchmark for this category. The Commission stated when instituting the benchmark analysis for Florida electric utilities that the purpose of a benchmark was to "flag" expenditures for further analysis and justification of such excesses. As a result of the 1990 benchmark excess, Customer Service and Information expenditures have been "flagged" for a review of their reasonableness, appropriateness in rates and justification of such.

Q. HAVE YOU MADE A REVIEW OF THE CUSTOMER SERVICE AND INFORMATION BUDGET?

A. Yes, I have.

Q. WHAT WERE YOUR CONCLUSIONS?

A. The Company has not justified the inclusion of a variance of this magnitude in rates.

Q. WHAT SPECIFIC ADJUSTMENTS TO CUSTOMER SERVICE AND INFORMATION EXPENDITURES ARE YOU RECOMMENDING BE REMOVED?

A. I am recommending an adjustment to Essential Customer Services, Energy Audits, Industrial, Residential and Commercial Technology Transfer, Industrial Quality Power Program, Industrial Presentations/Seminars and

Technology Assessment.

In response to OPC 2-114, Gulf Power stated:

> The programs Gulf has implemented are all designed to increase the efficiency and energy consumption and lower the cost of electric service to its ratepayers.

Conservation programs should properly be recovered through the ECCR mechanism, and not through base rates. If the conservation value of these programs is what the Company purports it to be, then the conservation clause will allow direct recovery of costs associated with these programs. If, however, through an ECCR review of these programs it is determined these programs do not actually have a direct conservation effect, thereby precluding recovery through ECCR, it leaves one to doubt whether justification exists for their existence.

The effect of leaving these programs in base rates is to have all customers pay for services used by only some. The average customer is most likely unaware that his monthly electric bill includes expenses for programs and services which he may not need, care about, or even know of. The end result being, when a single customer participates in, for example, Gulf's so-called Essential Customer Services, all of his neighbors are paying for his participation. This is not fair, or even reasonable. If a customer needs or desires services beyond the provision of electric services, the customer who receives these services should pay for them, not his neighbors.

Q. HAVE YOU PREPARED AN EXHIBIT DETAILING THIS ADJUSTMENT?

A. Exhibit ___(HWS-13), shows the detail of this adjustment. If these programs provide conservation benefits they belong in ECCR. If they provide no benefit conservationally, they constitute free services which under any other circumstance an individual desiring such services, would fully expect to pay fair value for. On Exhibit ___(HWS-13), I have prepared a list of programs offered by Gulf Power which I am recommending be reviewed in ECCR as conversation expenses, as the Company has claimed they are. If a review finds that any of these programs are not in fact conservation programs, thereby not properly included in ECCR, then such programs should only be continued if revenues can be generated to equal the costs of the programs.

I am recommending an adjustment of $1,207,237 to Customer Service and Information.

Marketing

Q. ARE YOU RECOMMENDING ANY ADJUSTMENT FOR "MARKETING" EXPENDITURES IN THE 1990 TEST YEAR?

A. Yes, I am. Gulf has attempted to justify its increased marketing activities by attributing such activities to an allegedly increasingly competitive market.

One must remember when assessing the Company's explanations that Gulf Power is a regulated monopoly. If the market for Gulf's products is truly competitive, there would be no need for regulation. It would appear that Gulf is attempting to enjoy the advantages of a monopolistic environment while incurring costs for strategies associated with competing in a free market. The end result being the ratepayer must pay the high costs inherent in a natural monopoly which is relatively immune to free market forces and at the same time pay the costs of this same industry entering into free market activities. This is a contradiction which results in a waste of resources.

Q. IS GULF OPERATING IN A COMPETITIVE MARKET?

A. No, it is not. The Company has stated the following concerning the availability and preferences for electricity over natural gas:

> The first reason is the lack of available natural gas in Gulf's high growth areas during the last decade. Natural gas was not available, and in some instances it is still not available on the beaches where condominium construction dominated residential construction.
>
> The second reason is the type of growth Gulf has been experiencing, specifically multi-family and mobile homes. Multi-family construction, especially high rise, employs electric rather than natural gas appliances because of the lower cost of installation, safety, and maintenance. Piping multi-story buildings for natural gas adds to the cost of a project in a market that is very competitive. Developers, in order to remain competitive, will select the lowest cost alternative when selecting fuel sources. [Staff Interrogatory 2-44]

Gulf itself does not believe natural gas is competitive with electricity in its service territory.

Additionally, Gulf, in its 1990 Base Case Budget Forecast, has stated it serves an 80% share of the territory's population; it would not appear that there is any significant competition given Gulf's 80% share.

Q. WHAT BENEFITS HAS GULF CLAIMED IT HAS RECEIVED FROM ITS MARKETING EFFORTS?

A. Gulf claims its marketing efforts have reduced the overall cost of service to its customers. Additionally, the Company claims a few of its large industrial customers were considering the generation of their own electricity. Gulf was able to dissuade these customers from generating their own electricity through their marketing efforts.

Q. ARE GULF'S PERCEIVED BENEFITS OF ITS MARKETING EFFORTS VALID?

A. No, they are not. Gulf may view the loss of one of its commercial customers as detrimental, however in the long-run, the presence of large industrial customers who maintain their own generation facilities within a utility's territory can eliminate the need for investment in additional capacity. This phenomenon results because co-generators will sell off their excess capacity to the utility, allowing the utility's embedded costs to decline rather than increase.

Load management can be a beneficial tool to an electric utility enabling the Company to fill off-peak and valley sales, which, in turn, spreads more units of production across its investment. Gulf claims that marketing strategies have increased off-peak sales and not resulted in increased peak-hour demand. However, the Company has not substantiated this claim.

Load management is not the entire thrust of Gulf's increased marketing activities. Gulf, through its own admission, is aiming its marketing efforts at the active selling of electricity. This expense is totally inappropriate given our nation's continued dependence on foreign oil, conservation objectives in light of diminishing reservoirs of energy, potential hazards of nuclear energy and environmental and ecological concerns. The active selling and promoting of energy as defined in the FEECA should not be condoned nor supported by the ratepayer.

Q. WHAT ADJUSTMENT ARE YOU RECOMMENDING FOR MARKETING EXPENSE IN THE 1990 TEST YEAR?

A. I have identified $1,148,489 of marketing expense, as shown in Exhibit ___(HWS-14). This may or may not be all of the expense related to marketing activities. I am recommending the removal of $1,148,489 from the test year, until such time as the Company can clearly show a definite benefit to ratepayers.

Economic Development

Q. IS GULF POWER COMPANY SEEKING RECOVERY OF ANY EXPENSES FOR ECONOMIC DEVELOPMENT?

A. Yes, the Company is seeking recovery of $687,000 for Economic Development.

Q. WHAT IS YOUR UNDERSTANDING OF THE PURPOSES OF THE ECONOMIC DEVELOPMENT EXPENSES?

A. Mr. Bowers in his testimony defined Economic Development as follows:

> The definition of economic development is creating wealth through the mobilization of human, financial, capital, physical and natural resources to generate marketable goods and services. Traditionally, economic development has been viewed as the "marketing" of Florida to domestic and foreign business and industry as a favorable place to relocate or expand their operations. The rapid emergence of global economic events such as heightened domestic and international economic competition, growing international trade, and rapid technological advancements, are mandating that economic development be looked at from a much broader perspective: one of assessing the strengths and weaknesses of an economy and making the investments necessary to improve the environment in which our existing businesses operate. Gulf Power has identified the need for and has committed resources to community development and not just generating economic growth. These activities, if successful, will be mutually beneficial to all ratepayers, society as a whole and the Company.

Q. SHOULD EXPENSES RELATING TO ECONOMIC DEVELOPMENT BE ALLOWED RECOVERY THROUGH BASE RATES?

A. No, they should not. Expenses incurred to "market" Florida to business and industries can hardly be considered necessary to the provision of electric service. If any relationship exists between an electric utility and the economic development of Florida it could only be that of selling more electricity.

Economic Development of Florida is outside the realm of providing reliable electric service. It should not be paid for by ratepayers. If Gulf believes it has a civic or market interest in the growth of Florida, it should support this interest at its own expense, not at the expense of ratepayers, who should be paying only for those expenses necessary in providing electric services.

Economic Development expenses have been incurred each year from 1984 through the present; however, they have not been recovered through base rates. (OPC 2-102). When Company witness McMillan was asked during OPC depositions why the Company has not removed Economic Development from the 1990 cost of service when these expenses had been removed in prior dockets, Mr. McMillan stated that in its previous dockets, these Economic Development costs were removed in adherence to Commission policy. However, for purposes of this docket, the Company believes these expenses are appropriate. Mr. McMillan further stated that the reason the Company now feels Economic Development expenses are appropriate in rates is not a result of any changes in the nature of the programs, but rather the Company felt it had "a good story to tell" this time.

Commission policy to date has been not to include these expenses in rates. The Company has indicated that the nature of this program has remained the same. Therefore, I am recommending the removal of $687,000 from O&M expense for the costs associated with Economic Development. This is consistent with Commission policy.

Benchmark Variances

Q. MR. SCHULTZ, IS THERE ANOTHER ASPECT OF THE COMPANY'S O&M BUDGET THAT YOU WOULD LIKE TO DISCUSS?

A. Yes. In the following section of my testimony, I would like to discuss some particular benchmark variances within the O&M budget. The adjustments resulting from my analysis of the benchmark variances, are summarized on Exhibit ___(HWS-15).

Plant Crist

Q. PLEASE DISCUSS THE O&M BENCHMARK EXCESS FOR PLANT CRIST.

A. The first item to be discussed in relation to the steam production budget is condenser and cooling tower corrosion expense at Plant Crist. On page 42 of MFR Schedule C-57, the Company attempts to justify a benchmark variance of $289,000. The justification states that this cost is for necessary preventative maintenance and future cost savings.

This cost is in excess of the benchmark and should not be allowed unless the Company can provide a study that justifies the cost and shows a benefit to the ratepayers, such as a reduction to future maintenance costs.

Moreover, I question whether the total budget amount may be necessary since the 1988 budget deviation report showed that 1988 actual expense at Plant Crist was $360,000 under budget due to a reduced spending rate on cooling tower chemicals. Additionally, the 1989 third quarter budget deviation report indicated cooling tower chemical usage has been reduced. The Company's Form B-4C provided in response to Public Counsel's POD 1-9 for Plant Crist indicated a $129,000 decrease to the 1989 budget amount of $1,368,000 (Docket No. 881167-EI, Schedule C-16g, page 27 of 87). Subtracting the $129,000 from $1,368,000 equals $1,239,000 not the $1,296,000 as reflected in the Company's MFR Schedule C-57, page 3.

The actual expense has been under budget. The Company has reduced (though not as much as it claimed), the 1990 budget amount from the amount budgeted in 1989. Therefore, I believe the 1990 benchmark amount for condenser and cooling tower corrosion at Plant Crist, is adequate. Therefore, I am reducing the $1,296,000 budgeted for 1990 by $289,000 to the benchmark amount of $1,007,000.

Distribution System Work Order Clearance

Q. PLEASE DISCUSS THE O&M BENCHMARK EXCESS RELATING TO THE COMPANY'S DISTRIBUTION SYSTEM WORK ORDER CLEARANCE.

A. The Company has identified a $952,000 benchmark variance for Distribution System Work Order ("DSO") Clearance. The Company provided the following explanation for this benchmark excess:

> DSO clearance is the accounting process of allocating to expense the maintenance costs associated with distribution line construction accumulated on Distribution System Work Orders (DS0). Labor is allocated to maintenance expense when it is cleared from the work order in Construction Work in Progress (CWIP) to maintenance accounts after the work order is signed off and classified in the Company's Plant Accounting System.
>
> Prior to 1983, the method for clearing non-construction costs from work orders in CWIP was based on the engineer's final estimate of maintenance costs. This estimate was subtracted from the total cost of the job and the remaining costs were charged to plant and cost of removal accounts.
>
> After implementation of a new Plant Accounting System in January 1983, the total actual cost of the job was allocated over all items on the work order based on work standards for plant installed, plant removed, and maintenance expense. This process more accurately spreads the job costs over all estimated elements.
>
> In 1985, Gulf contracted with Jerry Robuck and Associates to develop a set of 630 different benchmarks which define the manhour requirements for distribution line construction and maintenance activities. Each standard was developed through the use of accepted industrial engineering techniques whereby each activity was broken down into its basic elements and then reassembled. These new manhour standards more accurately reflect the actual labor required to do construction and maintenance activities. The relative amount of dollars spent to do the work did not increase, but the distribution of charges between plant and

maintenance accounts changed. A more accurate share of the job cost is charged to maintenance expense.

The maintenance expense portion of DSO expenditures in 1984 was 8.0 percent. In 1987, the maintenance expense portion of DSO expenditures had risen to 12.9 percent representing an increase of 61 percent. The 1984 allowed amount for DSO CWIP clearance to maintenance expense did not reflect the change in the process based on the new standards. This resulted in the O&M Benchmark variance.

In summary, since 1985, because of the development of manhour standards, we are more accurately allocating less cost to capital projects and more cost to maintenance expense.

Q. DOES THIS COMPANY EXPLANATION TOTALLY JUSTIFY THE $952,000 BENCHMARK EXCESS?

A. No, it does not. GPC's explanation justifies a portion of the expense increase. However, an unjustified portion remains, which should be disallowed. The Company has stated that the new DSO system has caused a shift from capitalized items to expense. The Company has also stated that the maintenance expense portion of DSO increased from a 1984 level of 8.0% to a 1987 level of 12.9%. This represents a 61% increase in expenses. Concerning the overall level of distribution line construction and maintenance activities, however, the Company has stated:

> The relative amount of dollars spent to do the work did not increase, but the mix of charges between plant and O&M accounts changed.

A 61% increase over the 1984 allowed expense level of $1,190,000 indicates that the Company's explanation would justify an expense level of

$1,916,000 in 1987 as shown on Exhibit ___(HWS-15), page 2 of 2. This is based on the Company's statements quoted above, including the Company's statement that: "The relative amount of dollars spent to do the work did not increase...." The 1987 expense is then increased by inflation for 1988 through 1990 resulting in a revised benchmark for 1990 of $2,326,846 as shown on Exhibit ___(HWS-15), page 2 of 2. Thus, of the 1990 benchmark excess of $952,000, an amount of $418,154 ($2,745,000 incurred less the $2,326,846 justified) remains unjustified and should be disallowed.

<u>Underground Line Extensions</u>

Q. PLEASE DISCUSS THE COMPANY'S O&M BENCHMARK EXCESS ASSOCIATED WITH UNDERGROUND LINE EXTENSIONS.

A. The Company has identified a 1990 O&M benchmark excess of $351,000 associated with underground line extensions, and has provided the following explanation for this item:

> Between 1984 and September 1989, Gulf's miles of underground primary distribution lines increased 67 percent from 344 miles to 573 miles, and this trend is expected to continue. Our underground facilities are increasing at a rate far greater than customer growth and inflation for which the benchmark allows. Underground maintenance is very expensive due to the time it takes to find electrical faults, to remove earth or concrete and to resurface after the line is fixed. These additional manhours to restore service after outages are frequently done on overtime and with the assistance of contract crews. Also, the additional miles of underground lines and their aging is causing a related increase in maintenance costs in the 1990 budget.

The Company's explanation claims that because of the increased underground facilities, maintenance costs have increased. The Company indicates that the cost of maintenance on underground lines is 60% greater than that for overhead lines.

Underground facilities are increasing, but it is my understanding that the reason for installing underground cable is that it requires less maintenance. I would anticipate, therefore, that the lower maintenance requirements will produce an offset to the higher cost of maintenance associated with servicing underground lines. If this is not true, and the costs associated with overhead line maintenance are less than those of underground maintenance, then there is no cost-savings benefit to the Company or the ratepayers for the conversion to underground lines. The Company has not shown that the cost of maintaining underground facilities is less than that of overhead facilities. Therefore, I am recommending a disallowance of the $351,000 O&M benchmark excess as unjustified.

<u>Network Protectors</u>

Q. PLEASE DISCUSS THE BENCHMARK EXCESS ASSOCIATED WITH NETWORK PROTECTORS.

A. The Pensacola Underground Network System Repair expense discussed on MFR Schedule C-57, page 72, shows a variance of $135,000 over the 1990 benchmark of $39,000. According to the Company's explanation, the variance is $135,000 for the maintenance and remanufacture of network protectors. The Company has indicated that the network protectors are deteriorating to a point where they could fail to operate properly. Since this network system is 38 years old, Gulf determined it was necessary to overhaul the network protectors and replace necessary parts.

This remanufacture program is scheduled to be completed over a period of 3 years and will restore these protectors to a "like new" condition. These protectors lasted 38 years when they were originally installed, and it is anticipated that they will last at least half that long after being overhauled.

This program was originally budgeted at $155,200 in 1989. According to the budget variance reports for 1989, the work was deferred.

The 1990 budget process reduced the budgeted amount to $90,000 and the Company's budget form B-4(c) stated that this recurring expense would last through 1991. Therefore, I am recommending that the $90,000 be deducted from the operating budget and capitalized.

Electric & Magnetic Fields Study

Q. PLEASE DISCUSS THE COMPANY'S STEAM PRODUCTION BENCHMARK EXCESS ASSOCIATED WITH THE ELECTRIC AND MAGNETIC FIELDS ("EMF") STUDY.

A. In MFR Schedule C-57, page 5, the Company has indicated that these costs were incurred for researching the correlation between (1) electric and magnetic fields from electric transmission and distribution facilities and (2) adverse health effects. Gulf participated with the Florida Electric Power Coordinating Group ("FCG") in funding research on this issue in Florida. Gulf also financially supports research on EMF through the Southern Company Services' ("SCS") investment in the Electric Power Research Institute ("EPRI"). Additionally, SCS funded a literature review of published material on this issue.

The Company had research expenses in its last rate case. The amount for research from the prior case--the benchmark base period--was not zero. Shifting the focus of research to cover a new area does not justify this benchmark excess. Moreover, I must question the need to fund different groups performing potentially duplicative research on the same issue.

Q. YOU MENTIONED THAT RESEARCH ON ELECTRIC MAGNETIC FIELDS WAS PERFORMED BY THE ELECTRIC POWER RESEARCH

INSTITUTE. PLEASE EXPLAIN.

A. According to EPRI's Research and Development Program for 1988 through 1990, EPRI plans to spend $4.3 million on research for electric magnetic fields in 1988. The expenditures of SCS to "study" this issue, therefore, could be duplicating EPRI efforts. The Company's explanation does not justify the benchmark excess. Accordingly, I recommend disallowing the entire $39,000 amount over the benchmark for EMF research as duplicative of what is already reflected in EPRI dues.

Acid Rain Monitoring

Q. PLEASE DISCUSS THE O&M BENCHMARK EXCESS ASSOCIATED WITH ACID RAIN MONITORING.

A. The amount of this benchmark excess is $43,000. The Company has explained that it incurred acid rain monitoring expenses associated with funding of the Florida Acid Deposition Study. On page 8 of MFR Schedule C-57, the Company claims that the amount allowed for this item in the 1984 benchmark was zero. Gulf Power's contribution to the Acid Rain Deposition Study in 1984 was not zero, but rather $47,452. (See Staff Interrogatory 4-1, Docket 881167-EI). Because the Company's explanation does not justify the benchmark excess, I am recommending a disallowance of $43,000.

Q. DO YOU HAVE ANY OTHER COMMENTS REGARDING THE O&M EXPENSE OF GULF POWER COMPANY?

A. As part of the budget review, it was determined that some of the actual expenses from 1989 should be examined. This examination, as restricted in scope as it was, was intended to assist us in evaluating the Company's budgeting system, the type of expenses the Company was incurring and the propriety of such expenses. Approximately 225 invoices were selected for review and some of the selected invoices appear questionable. Some of the questionable costs the Company is incurring are expenses for lavish banquets and hotel accommodations, and gratuities such as golf balls, jewelry items, etc., just to name a few. More such questionable items were found in the sample and, presumably, more exist outside the sample. The nature of these expenses do not appear to be the type of costs that would be incurred by a Company in need of additional revenue, but those of a Company with money to spend.

To avoid duplication of adjustments, no adjustment is being proposed for these questionable items because they may be a part of the benchmark adjustment I am proposing.

Q. HAVE YOU SUMMARIZED YOUR ADJUSTMENTS TO THE 1989 EXPENSE BUDGET?

A. These adjustments are summarized on Exhibit ___(HWS-2). The total effect of these adjustments is a reduction of test year expenses by $19,139,658. This total is carried over to Exhibit ___(HWS-1) which summarizes the net operating income for the test year 1990.

Q. DOES THAT CONCLUDE YOUR TESTIMONY?

A. Yes, it does.

APPENDIX I

QUALIFICATIONS OF HELMUTH W. SCHULTZ III, C.P.A.

Bachelor of Science in Accounting from Ferris State College in 1975. Extensive continuing professional education in accounting, auditing, and taxation.

Mr. Schultz was employed with the firm of Larkin, Chapski & Co., C.P.A.'s, as a Junior Accountant, in 1975. He was promoted to Senior Accountant in 1976. As such, he assisted in the supervision and performance of audits and accounting duties of various types of businesses. He has assisted in the implementation and revision of accounting systems for various businesses, including manufacturing, service and sales companies, a credit union and a railroad.

In 1978 Mr. Schultz became the audit manager for Larkin, Chapski & Co. His duties included supervision of all audit work done by the firm. Mr. Schultz also represents clients before various state and IRS auditors. He has advised clients on the sale of their businesses and has analyzed the profitability of product lines and made recommendations based upon his analysis. Mr. Schultz has supervised the audit procedures performed in connection with a wide variety of inventories, including a railroad, a publications distributor and warehouser for Ford and GM, and various retail establishments.

Mr. Schultz gained experience in the audit of regulated companies in 1978, as audit manager of Larkin, Chapski & Co. He had full supervisory responsibility as the manager in charge of the audit of Michigan Interstate Railway Co., a subsidized carrier, and various other certified audits performed by the firm. Since that time, Mr. Schultz has supervised and/or directed all subsequent work on Michigan Interstate Railway Co. audits. During this period, Mr. Schultz participated, on behalf of Michigan Interstate Railway Co., in discussions with the Michigan Department of Transportation auditors as to what costs are allowable for subsidy purposes and which are not.

Mr. Schultz was also involved in the firm's engagement with the State of Michigan to perform financial and compliance audits of approximately 200 participating entities in the Child Care Food Program as manager in charge of the engagement. His duties included development and review of audit procedures, supervision and performance of field work, communication with State personnel and review of working papers and reports. Mr. Schultz also developed an illustrative package detailing a theoretical system that would enable most sponsoring organizations to fulfill all recordkeeping requirement on a monthly basis.

When the firm was reorganized in September 1982 into the new firm of Larkin & Associates, Mr. Schultz became a partner. As such, Mr. Schultz is responsible for all accounting work done by the firm.

In the area of utility regulation, Mr. Schultz gained experience through the preparation of workpapers and exhibits for testimony given by the firm in various rate cases. He was involved in the Consumers Power Electric Case U-5331 in which he evaluated Consumers Power Company's capital structure, cost of debt, ratebase, taxes and expenses and aided in consultation in the inquiry by the Michigan Attorney General in these areas. Mr. Schultz made projections in the areas of sales, required KWH generation, capital structure, rate base, overhead, taxes and cost of debt, on the basis of trend analysis, for the case presented by Mr. Larkin.

Mr. Schultz also participated in the Cleveland Electric Illuminating Company and Detroit Metro Water Department rate cases, among others. Mr. Schultz has assisted in the analysis of sixteen refunds to be made by Michigan Consolidated Gas Company and helped draft Mr. Larkin's recommendations to the Michigan Attorney General's office regarding such refunds.

Mr. Schultz analyzed the Dayton Power & Light Company's fuel ledgers and coal contracts in detail in an electric fuel component (EFC) proceeding. His analysis was the basis for several adjustments recommended by Mr. Larkin.

More recently, Mr. Schultz audited, analyzed and reviewed the budget of Georgia Power Company and presented his recommendations to the Georgia Public Service Commission through written testimony and a report and through oral testimony. He also served as project manager during the firm's recent management audit of the Anchorage Water and Wastewater Utility.

<u>Partial list of utility cases participated in</u>:

U-5331	Consumers Power Co. (Michigan Public Service Commission)
Docket No. 770491-TP	Winter Park Telephone Co. (Florida Public Service Commission)
Case Nos. U-5125 and U-5125(R)	Michigan Bell Telephone Co. (Michigan Public Service Commission)
Case No. 77-554-EL-AIR	Ohio Edison Company (Public Utility Commission of Ohio)
Case No. 79-231-EL-FAC	Cleveland Electric Illuminating (Public Utility Commission of Ohio)

Case No. U-6794	Michigan Consolidated Gas Refunds (Michigan Public Service Commission)
Docket No. 820294-TP	Southern Bell Telephone and Telegraph Co. (Florida Public Service Commission)
Case No. 8738	Columbia Gas of Kentucky, Inc. (Kentucky Public Service Commission)
82-165-EL-EFC	Toledo Edison Company (Public Utility Commission of Ohio)
Case No. 82-168-EL-EFC	Cleveland Electric Illuminating Company, (Public Utility Commission of Ohio)
Case No. U-6794	Michigan Consolidated Gas Company Phase II, (Michigan Public Service Commission)
Docket No. 830012-EU	Tampa Electric Company, (Florida Public Service Commission)
Case No. ER-83-206	Arkansas Power & Light Company, (Missouri Public Service Commission)
Case No. U-4758	The Detroit Edison Company - (Refunds), (Michigan Public Service Commission)
Case No. 8836	Kentucky American Water Company, (Kentucky Public Service Commission)
Case No. 8839	Western Kentucky Gas Company, (Kentucky Public Service Commission)
Case No. U-7650	Consumers Power Company - Partial and Immediate (Michigan Public Service Commission)
Case No. U-7650	Consumers Power Company - Final (Michigan Public Service Commission)
U-4620	Mississippi Power & Light Company (Mississippi Public Service Commission)
Docket No. R-850021	Duquesne Light Company (Pennsylvania Public Utility Commission)

Docket No. R-860378	Duquesne Light Company (Pennsylvania Public Utility Commission)
Docket No. 87-01-03	Connecticut Natural Gas (Connecticut Department of Public Utility Control)
Docket No. 87-01-02	Southern New England Telephone (Connecticut Department of Public Utility Control)
Docket No. 3673-U	Georgia Power Company (Georgia Public Service Commission)
Docket No. U-8747	Anchorage Water and Wastewater Utility (Alaska Public Utilities Commission)
Docket No. 8363	El Paso Electric Company (The Public Utility Commission of Texas)
Docket No. 881167-EI	Gulf Power Company (Florida Public Service Commission)
Docket No. R-891364 Consumer	Philadelphia Electric Company (Pennsylvania Office of the Advocate)
Docket No. 89-08-11	The United Illuminating Company (The Office of Consumer Counsel and the Attorney General of the State of Connecticut)
Docket No. 9165	El Paso Electric Company (The Public Utility Commission of Texas)
Case No. U-9372	Consumers Power Company (Before the State of Michigan Public Service Commission)

Mr. Schultz is a member of the Michigan Association of Certified Public Accountants.

INDEX TO EXHIBITS ACCOMPANYING

DIRECT TESTIMONY OF HELMUTH W. SCHULTZ, III

Exhibit No.	Description
(HWS-1)	Adjusted Net Operating Income
(HWS-2)	Summary of Expenses Adjustments
(HWS-3)	Reference Level Adjustment - Employee Relations
(HWS-4)	Labor Complement Adjustment and Related Payroll Taxes
(HWS-5)	Calculation of Actual & Forecast Average Turbine and Boiler Inspections Expense
(HWS-6)	OPC Benchmark Analysis
(HWS-7)	Steam Production Adjustment
(HWS-7)Page 2	Disallowance of Duplicative SCS Services
(HWS-7)Page 3	Calculation to Restate Budgeted SCS Services to Historical Actual Cost
(HWS-8)	Employee Benefits
(HWS-9)	Calculation of Average Obsolete Distribution Material Expense
(HWS-10)	Disallowance of Expense for Officer and Management "Perks"
(HWS-11)	Calculation of Average Fan & Duct Repair Expense
(HWS-12)	Disallowance of Former ECCR Recovery Programs from Base Rates
(HWS-13)	Adjustment to Remove Conservation Programs from Customer Service and Information for ECCR Review
(HWS-14)	Adjustment to Remove Test Year Marketing Expenses
(HWS-15)	Summary of Benchmark Adjustments
(HWS-15)Page 2	Distribution System Work Order Clearance

Gulf Power Company

Adjusted Net Operating Income
Test Year Ending December 31, 1990
(Thousands of Dollars)

Docket No. 891345-EI
Exhibit ___ (HWS-1)

Line No.	Description	(A) Total Company Per Books	(B) Commission Adjustments	(C) Utility Adjusted Per Commission (A)+(B)	(D) Company Adjustments	(E) Total Adjusted Utility (C)+(D)	(F) Unit Power Sales Net Operating Income	(G) Public Counsel Adjustments	(H) Total Adjusted Utility Net of UPS (E)-(F)+(G)
	Operating Revenues:								
1	Sales of Electricity	$485,539	(200,006)	285,533		285,533	29,535	2,493	258,491
2	Other Operating Revenues	17,353	(11,338)	6,015		6,015			6,015
3	Total Operating Revenues	$502,892	(211,344)	291,548	0	291,548	29,535	2,493	264,506
	Operating Expenses:								
4	Operation - Fuel	$182,463	(182,463)	0		0			0
5	Interchange	7,762	(12,895)	(5,133)		(5,133)	(4,944)		(189)
6	Other Operation & Maintenance	124,635	(2,045)	122,590	4,314	126,904	6,836	(19,140)	100,928
7	Depreciation & Amortization	54,079		54,079	(489)	53,590	6,637	(967)	45,986
8	Amortization of Investment Credit	(2,347)		(2,347)		(2,347)	(361)		(1,986)
9	Taxes Other than Income Taxes	36,106	(14,113)	21,993		21,993	977		21,016
	Income Taxes								
10	Federal	16,418	(421)	15,997	(1,229)	14,768	3,552	7,261	18,477
11	State	2,841	(72)	2,769	(211)	2,558	608	1,243	3,193
	Deferred Income Taxes - Net								
12	Federal	1,463		1,463		1,463	384		1,079
13	State	624		624		624	66		558
14	Investment Tax Credit	0		0		0			0
15	Total Operating Expenses	424,044	(212,009)	212,035	2,385	214,420	13,755	(11,603)	189,062
16	Net Operating Income	$78,848	665	79,513	(2,385)	77,128	15,780	14,096	75,444

Gulf Power Company

Adjusted Net Operating Income
Test Year Ending December 31, 1990
(Thousands of Dollars)

Docket No. 891345-EI
Exhibit ___ (HWS-1)
Page 2 of 2

Line No.	Description	(I) Jurisdictional Separation Factor	(J) Jurisdictional Amount (H) x (I)	(K) Interest Synchronization Adjustment	(L) Adjusted Jurisdictional Amount (J) + (K)
	Operating Revenues:				
1	Sales of Electricity	0.9758397	$252,246		$252,246
2	Other Operating Revenues	0.9587697	5,767		$5,767
3	Total Operating Revenues	0.9754478	$258,013		$258,013
	Operating Expenses:				
4	Operation - Fuel				0
5	Interchange	0.9668810	(183)		(183)
6	Other Operation & Maintenance	0.9774036	98,647		98,647
7	Depreciation & Amortization	0.9765990	44,910		44,910
8	Amortization of Investment Credit	0.9765550	(1,939)		(1,939)
9	Taxes Other than Income Taxes	0.9783855	20,562		20,562
	Income Taxes				
10	Federal	0.9731439	17,981	(501)	17,480
11	State	0.9730808	3,107	(86)	3,021
	Deferred Income Taxes - Net				
12	Federal	0.9659804	1,042		1,042
13	State	0.9659804	539		539
14	Investment Tax Credit		0		0
15	Total Operating Expenses	0.9772051	184,666	(587)	184,079
16	Net Operating Income	0.9698736	73,347	587	$73,934

Gulf Power Company

Summary of Expenses Adjustments
Test Year Ended December 31, 1990

Docket No. 891345-EI
Exhibit___(HWS-2)

Line No.	Description	Amount
1	Employee Relations Reference Level	$728,826
2	Labor Complement	990,381
3	Payroll Taxes Associated to Labor Complement	78,406
4	Turbine and Boiler Inspection	918,935
5	Plant Daniel Benchmark - Steam Production	646,000
6	Plant Daniel Benchmark A&G	1,172,000
7	Plant Scherer - Duplicated A&G	263,000
8	Plant Scherer Transmission Line Rentals	1,822,000
9	Southern Company Services - Steam Production	734,595
10	Uncollectible Expense	203,250
11	Rate Case Expense	300,000
12	Employee Benefits - Net Adjustment	1,405,445
13	Productivity Improvement Plan	464,177
14	Performance Pay Plan	1,021,637
15	EEI	21,608
16	EPRI - Nuclear Power Research	326,808
17	Rebuilds - Capitalized	116,500
18	Renovations - Capitalized	252,000
19	Ash Hauling and Storage	360,000
20	Employee Relations - Relocation	172,460
21	Employee Relations - Development Program	72,250
22	Bank Fees - Line of Credit	223,400
23	General Service - Obsolete Material	83,000
24	Officers & Management "Perks"	65,100
25	Steam Production - Duct and Fan Repair	310,319
26	ECCR - Budget Transfers	2,114,681
27	ECCR - Conservation Costs	1,207,237
28	Marketing	1,148,489
29	Sales - Economic Development	687,000
30	Benchmark	1,230,154
		$19,139,658

Gulf Power Company

Reference Level Adjustment - Employee Relations
Test Year Ended December 31, 1990

Docket No. 891345-EI
Exhibit ___ (HWS-3)
Page 1 of 1

Line No.			
1	1988 Other Requested per Form B-3 (4)		$114,534
2	1988 Approval Letter Adjustments (5)		
3	EEI - Hershey No. 9 requested adjustment denied		(7,000)
4	Miscellaneous (labor increased $27,813)		(42,479)
5	Post Retirement Health & Life (1)		409,000
6	Employee Contribution to Medical Insurance (2)		648,000
7	Actuary & Trustee Fees (3)		(393,477)
8			728,578
9	1988 Corporate Controlled Expense Form & Pension (6)	4,008,673	
10	1988 Corporated Controlled Expense: Pension per 1989 budget message	(3,960,000)	
11		48,673	48,673
12	1988 Corporate Controlled Expense Form: Employee Savings (6)	1,249,630	
13	1988 Corporate Controlled Expense Form: Employee Savings per 1989 budget message	(1,233,000)	
14		16,630	16,630
15	1989 Reference Level (4)		$793,881
16	Controlled expenses to be deducted from reference level:		
17	Post Retirement Health & Life		409,000
18	Employee Contribution to Medical Insurance		648,000
19	Actuary & Trustee Fees		(393,477)
20	Pension		48,673
21	Employee Savings		16,630
22	1989 Reference Level Overstatement Flowed into 1990		$728,826

(1) Corporate controlled expense form (6) originally budgeted at $1,928,000. With this adjustment it increases to $2,337,000.
(2) Corporate controlled expense form (6) originally budgeted at $2,143,280. With this adjustment it increases to $2,791,280.
(3) Corporate controlled expense form (6) originally budgeted at $410,673. With this adjustment it decreases to $17,196.
(4) Company's response to Public Counsel's 5th Request to Produce Documents, Docket No. 881167-EI, Item No. 41.
(5) Company's response to Public Counsel's 5th Request to Produce Documents, Docket No. 881167-EI, Item No. 45.
(6) Provided in response to Public Counsel's 5th Request to Produce Documents, Docket No. 881167-EI, Item 47.

Gulf Power Company

Labor Complement Adjustment
and Related Payroll Taxes
Test Year Ended December 31, 1990

Docket No. 891345-EI
Exhibit ___ (HWS-4)
Page 1 of 1

Line No.	Description	No. of Employees	Wages	Average Wage Adjustment
1	Annual wages as of December 31, 1989	1,573 (1)	50,387,433 (1)	32,033
2	Number of non-exempt employees at zero	(13)	---	---
3	Top ten salaries	(10)	(1,267,092)	
4		1,550	49,120,341	31,691
5	Over complement of employees as of February 28, 1990			58
6	Total excess budgeted labor			1,838,078
7	1989 percentage of operating labor to total labor			72.3%
8	Excess budgeted operating labor dollars at 1989 level			1,328,930
9				1.03
10	Gross complement adjustment for 1990 operating income			1,368,798
11	Less hiring lag credit			(378,417)
12	Net complement adjustment for 1990 operating income			990,381
13	Average wage fully taxable for FICA @ 7.65%			75,764
14	Federal unemployment (58 x $7,000 x.008) x 72.3%			2,348
15	State unemployment (58 x $7,000 x .001) x 72.3%			294
16	Complement adjustment for 1989 payroll taxes			78,406

(1) Page 30 of 38, Company response to Public Counsel's first set of interrogatories, Item No. 15

Gulf Power Company

Calculation of Actual & Forecast Average Turbine and Boiler Inspections Expense

Docket No. 891345-EI
Exhibit ___ (HWS-5)

	(1)	(2)	(3)	(4)	(4)	(5)	(6)
Line No.	Year	Amount	Inflation Factor	Expense Restated for Inflation	Test Year	Variance	Reference
	Six Year Actual Average						
1							
2	1984 Actual	$2,785,701	1.20894	3,367,745			
3	1985 Actual	4,247,760	1.14600	4,867,940			
4	1986 Actual	4,538,775	1.10031	4,994,045			
5	1987 Actual	754,380	1.06869	806,195			
6	1988 Actual	4,628,273	1.04394	4,831,619			
7	1989 Actual	7,489,000	1.02268	7,658,846			
8	Six Year Actual Total			26,526,390			
9	1990 Test Year Amount				5,340,000		MFR Sch. C-57
10	Six Year Actual Average				4,421,065		Line 8/6
11	Excess of Test Year Over Average					$918,935	Line 9 - Line 10
	Alternative View: Five Year Forecast Average						
12	1990 Forecast	5,340,000	1.00000	5,340,000			
13	1991 Forecast	5,100,000	1.00000	5,100,000			
14	1992 Forecast	900,000	1.00000	900,000			
15	1993 Forecast	5,790,000	1.00000	5,790,000			
16	1994 Forecast	5,880,000	1.00000	5,880,000			
17	Total			23,010,000			
18	1990 Test Year Amount				5,340,000		MFR Sch. C-57
19	Five Year Average				3,835,000		Line 17/5
20	Excess of Test Year Over Average					$1,505,000	Line 18 - Line 19

Notes
Column 2 amounts are per Public Counsel's Second Set of Interrogatories, Supplemental Response, Work paper #D-32
Column 3 amounts are per MFR Schedule C-56, page 1 of 1

Gulf Power Company

OPC Benchmark Analysis

Docket No. 891345-EI
Exhibit ___(HWS-6)

Line No.	Description	OPC Prod. Related A&G	Per Company Prod. Related A&G (1)
1	Projected 1984 Non Fuel O&M	$4,958	4,958
2			
3	Net Operating Income Adjustment		0
4	FPSC O&M Adjs. D#840036-EI	($1,573)	(1,573)
5	1984 Allowed Non-Fuel O&M	$3,385	$3,385
6	(System)		
7	True Up of 1984 Factor		
8	Dollar Adj. to Actual Factor	$0	$0
9	1984 Allowed Trued Up O&M	$3,385	$3,385
10			
11	Plant Daniel O&M	$0	1,573
12	Former ECCR Programs to Rate Base	$0	$0
13	Total O&M Base	$3,385	$4,958
14	Compound Multiplier 1984-1990	1.2468	1.2468
15	1990 Benchmark	$4,220	$6,182
16			
17			
18	Plant Scherer & Trans. Line Rents	0	263
19	1990 Non Fuel Benchmark (System)	4,220	6,445
20	Per OPC		
21	1990 Non Fuel O&M (System)		
22	Per Company	$5,655	$5,655
23	Net Operating Income O&M Adj.	$0	$0
24	1990 Non Fuel O&M	$5,655	$5,655
25	(System) Adjs.		
26	OPC Benchmark Adj. - System	$1,435	($790)

(1) Company's Schedule C-53 of MFR's

Gulf Power Company

Steam Production Adjustment
Southern Company Services
Test Year Ended December 31, 1990

Docket No. 891345-EI
Exhibit ____ (HWS- 7)

Line No.	Description	Amount	Reference
1	Disallowance Duplicate Services	$324,000	(HWS-7), p. 2
2	Excess Budgeted Amounts	153,595	(HWS-7), p. 3
3	Generating Plant Electrical System Application	44,000	Co. C-57, p. 31
4	System Planning	96,000	Co. C-57, p. 33
5	SCS Steam Production Amount	617,595	
6	Research and Development	117,000	
7	Total SCS Related to Steam Production	734,595	

Gulf Power Company

Disallowance of Duplicative SCS Services

Docket No. 891345-EI
Exhibit ___ (HWS-7)
Page 2 of 3

Line No.	SCS Service	Reason for Disallowance	Amount
1	Air Quality Studies	Duplicative-EPRI will spend $17.7 million on Air Quality Research in 1990	$44,000
2	Ecological Studies	Duplicative-EPRI will spend 1.6 million on Biological & Environmental Sciences in 1990	15,000
3	Advanced Power Plant Enhancements	Duplicative-EPRI will spend $41.2 million on Electrical Systems Research in 1990	60,000
4	Noise & Vibration	Duplicative-EPRI will spend $41.3 million on Advanced Power Systems Research in 1990	11,000
5	Chemistry Services	Duplicative-EPRI will spend $2.5 million on Hazardous and Toxic Waste Management Research and $33.2 million on Environment Research in 1990	31,000
6	Instrumentation & Technical Support Studies	Duplicative-EPRI will spend $3.4 million on Communications, Instrumentation & Engineering Research in 1990	13,000
7	Particulate Control Studies	Duplicative-EPRI will spent $17.7 million on Air Quality and $1.6 million Biological and Environmental Science Research in 1990	27,000
8	Water Quality & Solid Waste Disposal	Duplicative-EPRI will spend $17.7 million on Air Quality and $1.6 million Biological and Environmental Science Research in 1990	73,000
9	Utilization of Coal Studies	Duplicative-EPRI will spent $69,.1 million on Coal Combustion Systems Research in 1990	50,000
10		Disallowance of Duplicative SCS Services to GPC	$324,000

Note
All referenced EPRI research expeditures in 1990 were obtained from the EPRI Research & Development Program Plan 1988-1990.

Gulf Power Company

Calculation to Restate Budgeted SCS Services
to Historical Actual Cost

Docket No. 891345-EI
Exhibit___(HWS- 7)
Page 3 of 3

Line No.				(A)	(B)	(C)
1	Power Plant Management Information System			%	Test Year	Disallowed
	Year	Budget	Actual	Difference	Amount	(A) x (B)
2	1984	332,194	310,126			
3	1985	336,091	214,126			
4	1986	59,127	29,661			
5	1987	52,801	35,193			
6	1988	48,950	38,376			
7	1989	124,304	62,302			
8	Total	953,467	689,784	27.66%	155,000	42,866
9	Preliminary Engineering-Major Generating Projects					
	Year	Budget	Actual			
10	1984	0	0			
11	1985	30,912	25,118			
12	1986	51,290	46,185			
13	1987	38,546	22,285			
14	1988	39,753	37,069			
15	1989	50,209	37,578			
16	Total	210,710	168,235	20.16%	88,000	17,739
17	Generating Plant Reliability					
	Year	Budget	Actual			
18	1984	0	0			
19	1985	31,671	27,069			
20	1986	39,908	37,856			
21	1987	42,199	30,253			
22	1988	43,393	48,879			
23	1989	56,238	46,338			
24	Total	213,409	190,395	10.78%	51,000	5,500
25	Plant Performance and Testing					
	Year	Budget	Actual			
26	1984	0	0			
27	1985	346,088	87,172			
28	1986	261,108	164,757			
29	1987	238,412	180,933			
30	1988	202,743	217,984			
31	1989	355,792	257,935			
32	Total	1,404,143	908,781	35.28%	248,000	87,491
33	Total Disallowance of Overstated SCS Services					$153,595

Note
All Actual and Budgeted Amounts are per Staff's Seventh Set of Interrogatories Item No. 98

Gulf Power Company

Employee Benefits
Test Year Ended December 31, 1990

Docket No. 891345-EI
Exhibit ___ (HWS-8)
Page 1 of 1

Line No.	Description	Company Approved 1990 Budget	Adjustments	Adjusted 1990 Budget
1	Employee Relations			
2	Medical-LTD-Life Ins. Expenses	2,463,000		2,463,000
3	Pension Plan	0	0	0
3	Post Retirement Life Insurance	917,000 (1)	807,000	110,000 (2)
5	Post Retirement Medical Benefits	993,000 (1)	475,000	518,000 (2)
6	Supplemental Benefits	363,800 (1)	363,800	0
7	Employee Savings Plan Company			
8	Match (1,367,500) & Trustee's Fees (31,000)	1,398,500 (1)		1,398,500
9		6,135,300	1,645,800	4,489,500
10	General to All			
11	Transferred	(1,234,471)	(240,355)	(994,116)
12	Net Employee Benefits	4,900,829	1,405,445	3,495,384
13	Transferred Amounts			
14	Other	618,839		618,839
15	Employee Savings Plan	257,537 (3)		257,537
16	Post Retirement Life Insurance	171,923 (4)	151,300 (5)	20,623
17	Post Retirement Medical Benefits	186,172 (4)	89,055 (5)	97,117
18		$1,234,471	$240,355	$994,116

(1) Per Company response to Public Counsel's 1st request to provide documents, Item No. 8.
(2) Per Company response to Public Counsel's 1st set of interrogatories, Item No. 13.
(3) Per Company response to Public Counsel's 4th set of interrogatories, Item No. 178.
(4) Calculated based on a ratio of transferred amount to budget amount. Combined total transfer of $358,095. Per Company response to Public Counsels 1st set of interrogatories, Item No. 26.
(5) Calculated based on ratio of transferred amount to budget amount.

Gulf Power Company

Calculation of Average Obsolete Distribution Material Expense

Docket No. 891345-EI
Exhibit __(HWS-9)
Page 1 of 1

Line No.	Year	Expense	Reference
1	1984	8,855	OPC 4-248
2	1985	11,167	OPC 4-248
3	1986	7,509	OPC 4-248
4	1987	5,895	OPC 4-248
5	1988		Note A
6	1989	49,000	OPC 4-248
7	Total	82,426	
8	Average Expense	16,485	Line 7/5
8	Test Year Expense	109,000	MFR Schedule C-57, p. 69 of 94
9	Benchmark	26,000	MFR Schedule C-57, p. 69 of 94
10	Disallowance	$83,000	Line 9 - Line 10

Note A
Gulf has stated that 1988 expense was higher than normal due to efforts of the Company to remove all material that is not usable. The level of obsolete material in future periods will not be as great. Therefore the 1988 expense has been excluded in the calulation of the average so as not to distort the results.

Gulf Power Corporation

Disallowance of Expense for Officer and Management "Perks"

Docket No. 891345-EI
Exhibit ___(HWS-10)

Line No.	Vendor	Service	Amount
1	Arthur Anderson	Executive Tax Services	$5,000
2	Robert A. Benz & Co.	Tax Services for Vice-Presidents	1,600
3	Health Performance Center	Fitness Program	58,500
4	Total Disallowance		$65,100

Source

Per Public Council's First Set of Interrogatories, Item No. 29.

Gulf Power Company
Calculation of Average Fan & Duct Repair Expense

	(1)	(2)	(3)	(4)
Line No.	Year	CPI Factor	Expense	Expense Restated To 1990
1	1984	1.20894	$657,000	$794,274
2	1985	1.14600	533,000	610,818
3	1986	1.10031	449,000	494,039
4	1987	1.06869	641,000	685,030
5	1988	1.04394	960,000	1,002,182
6	1989	1.02268	1,179,000	1,205,740
7		Total		4,792,083
8		Test Year Amount		1,109,000
9		Six Year Average Expense		798,681
10		Amount of Disallowance		$310,319

Note:
Column 2: Amounts are per MFR Schedule C-56, page 1 of 1
Column 3: Amounts are per OPC 4-239.

Gulf Power Company

Disallowance of Former ECCR Recovery Programs
From Base Rates

Docket No. 891345-EI
Exhibit____(HWS-12)

Line No.	Description	Amount	Reference
1	Good Cents New Home	$1,023,995	OPC 2-176
2	Good Cents Improved Home	609,783	OC 2-104 Supplemental Response
3	Energy Education	425,474	OPC 2-176
4	Presentation/Seminars	55,429	OPC 2-176
5	Total Reduction to Cost of Service	$2,114,681	

Gulf Power Company

Adjustment to Remove Conservation Programs From Customer Service and Information for ECCR Review

Docket No. 891345-EI
Exhibit ___ (HWS-13)

Line No.	Program Title	Amount	Reference
1	Energy Audits-Labor	$232,534	Lines 1-31 are per OPC 2-104 Supplemental Response
2	Energy Audits-Material/Expenses	128,430	
3	Energy Audits/T.A.A.-Labor	81,523	
4	Energy Audits/T.A.A.-Materials/Expenses	24,204	
5	Industrial Energy Audits-Labor	47,991	
6	Industrial Energy Audits-Materials/Expenses	19,850	
7	Energy Audits-Labor	12,762	
8	Energy Audits-Material/Expenses	204,140	
9	Good Cents Building-Labor	321,028	
10	Good Cents Building-Materials/Expenses	76,887	
11	Industrial Presentations/Seminars-Labor	43,965	
12	Industrial Presentations/Seminars-Materials/Expenses	182,918	
13	Transtext-Materials/Expenses	227,800	
14	Commercial Good Cents Building-Labor	6,373	
15	Commercial Good Cents Building-Material/Expenses	104,210	
16	Essential Customer Service-Labor	187,637	
17	Essential Customer Service-Material/Expenses	169,254	
18	Residential Technology Transfer-Labor	82,278	
19	Residential Technology Transfer-Materials/Expenses	90,282	
20	Essential Customer Service-Labor	117,376	
21	Essential Customer Service-Material/Expenses	38,832	
22	Commercial Technology Transfer-Labor	57,118	
23	Commercial Technology Transfer-Materials/Expenses	25,132	

Gulf Power Company

Adjustment to Remove Conservation Programs From Customer Service and Information for ECCR Review

Docket No. 891345-EI
Exhibit ___ (HWS-13)

Line No.	Program Title	Amount	Reference
24	Industrial Essential Customer Service-Labor	95,489	
25	Industrial Essential Customer Service-Material/Expenses	17,547	
26	Technology Assessment-Labor	67,952	
27	Technology Assessment-Material/Expenses	39,529	
28	Residential Technology Transfer-Labor	8,205	
29	Residential Technology Transfer-Material/Expenses	103,266	
30	Commercial Technology Transfer-Labor	2,725	
31	Commercial Technology Transfer-Material/Expenses	30,000	
32	Total	2,847,237	
33	Less Expenses Already Recovered Through ECCR	1,640,000	MFR Schedule C-53, Column J
34	Adjustment to Customer Service & Information	$1,207,237	

Gulf Power Corporation

Adjustment to Remove Test Year Marketing Expenses

Docket No. 891345-EI
Exhibit __ (HWS-14)

Line No.	Program Title	Amount
1	Marketing Services-Labor	$94,810
2	Marketing Services-Material/Expenses	13,700
3	Industrial Market Segment Support-Labor	17,813
4	Industrial Market Segment Support-Material/Expenses	32,852
5	Market Research-Labor	78,635
6	Market Research-Materials/Expenses	137,739
7	Marketing Planning-Labor	79,240
8	Marketing Planning-Material/Expenses	8,200
9	Industrial Recruitment-Labor	86,202
10	Industrial Recruitment-Material/Expenses	97,800
11	Community Development-Labor	112,205
12	Community Development-Material/Expenses	67,066
13	Commercial Development-Labor	29,729
14	Commercial Development-Material/Expenses	27,455
15	Information Management-Labor	37,654
16	Information Management-Material/Expenses	52,460
17	Industrial Recruitment-Labor	13,680
18	Industrial Recruitment-Material/Expenses	161,249
19	Total Indentifiable Marketing Expense	$1,148,489

Note

All Programs and corresponding amounts are per OPC 2-104, Supplemental Response

Gulf Power Company

Summary of Benchmark Adjustments
Test Year Ended December 31, 1990

Docket No. 891345-EI
Exhibit___(HWS-15)

Line No.	Description	Amount
1	Steam Production Plant Crist Condensor and Cooling Tower Corrosion	$289,000
2	Distribution - Distribution System Work Order Clearance	418,154
3	Distribution - Underground Line Extensions	351,000
4	Distribution - Underground Networks System Repair	
5	Capitalize Remanufacture of Network Protectors	90,000
6	Electric and Magnetic Fields Study	39,000
7	Acid Rain Monitoring	43,000
	Total	$1,230,154

Gulf Power Company

Distribution System Work Order Clearance
Test Year Ended December 31, 1990

		(1)	(2)	(3)	(4)
Line No.	Year	1984 Base Amount	Expense Amount Restated	CPI Factor	Amount
1	1987	1,190,000 x 1.61	1,916,000		1,916,000
2	1988		1,916,000	1.06453	2,039,639
3	1989		2,039,639	1.06989	2,182,189
4	1990		2,182,189	1.06629	2,326,846
5	1990 Budget				2,745,000
6	Revised 1990 Benchmark				2,326,846
7	Variance				418,154

Notes:
Column 1: Restates in 1984 allowed expense by the percent increase in expense allocation (Per MFR, Schedule C-57, p. 63 of 94)
Column 3: Restates 1988 - 1990 for CPI and customer growth.

CERTIFICATE OF SERVICE
Docket No. 891345-EI

I HEREBY CERTIFY that a true copy of the foregoing has been furnished by U.S. Mail*, hand-delivery**, or by facsimile*** to the following parties on this 1st day of May, 1990.

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