BEFORE THE
FLORIDA PUBLIC SERVICE COMMISSION

DOCKET NO. 110138-EI

TESTIMONY AND EXHIBIT
OF
R. SCOTT TEEL

GULF POWER
A SOUTHERN COMPANY

COM 5
APA 1
ECR 10
GCL 1
RAD 1
SSC 1
ADM
OPC
CLK Ct. Rptr

GULF POWER COMPANY

Before the Florida Public Service Commission
Prepared Direct Testimony of
R. Scott Teel
Docket No. 110138-EI
In Support of Rate Relief
Date of Filing: July 8, 2011

Q. Please state your name and business address.

A. My name is Scott Teel. My business address is One Energy Place, Pensacola, FL 32520.

Q. By whom are you employed and in what capacity?

A. I am employed by Gulf Power Company (Gulf or the Company) as Vice President and Chief Financial Officer (CFO).

Q. What are your responsibilities as Vice President and CFO?

A. I am responsible for maintaining the overall financial integrity of the Company. My areas of responsibility include the Accounting, Corporate Secretary, Treasury, Regulatory Matters, Corporate Planning, and Supply Chain Management departments. I am also responsible for maintaining the overall financial and accounting records of the Company. Gulf maintains its books and records in accordance with Generally Accepted Accounting Principles in the U.S. (GAAP) and the rules and regulations prescribed for public utilities in the Uniform System of Accounts published by the Federal Energy Regulatory Commission (FERC), and adopted by the Florida Public Service Commission (FPSC or the Commission).

Our books and records are audited by Deloitte LLP, independent public accountants, and a copy of their latest audit opinion is included in the Company's 2010 Annual Report to Stockholders, which is filed as MFR F-1 in this case. Gulf's books and records are also subject to periodic review by the FERC and the FPSC.

Q. Please state your prior work experience and responsibilities.

A. Prior to moving to Gulf in 2010, I served as the Vice President and CFO for Southern Company Operations. In that role, I was responsible for the financial services of the Power Generation and Transmission organizations, which included budgeting and reporting, wholesale generation contract services, Open Access Transmission Tariff (OATT) administration and billings, and internal controls. I was also responsible for the Fleet Operations and Trading functions. Other roles that I have filled at Southern Company include Energy Trading Manager in Fleet Operations and Trading, and Assistant to Southern Company's Executive Vice President and CFO. Prior to joining Southern Company, I held various positions at Ernst & Young and Sonat.

Q. What is your educational background?

A. I graduated from the University of Alabama in 1992 with a Bachelor of Science in Commerce and Business Administration and a major in Accounting.

Q. Do you hold a professional license or certification?
A. I am currently an inactive member of the Alabama Society of Certified Public Accountants.

Q. What is the purpose of your testimony?
A. My testimony begins with an explanation of the actions Gulf has taken to avoid a base rate increase for almost a decade, particularly over the last several years during an especially difficult economic period for our customers. I then explain the Company's decision to use a projected 2012 test year for ratemaking purposes and the drivers behind the request for rate relief. I discuss the importance of the rate relief Gulf is requesting to Gulf's financial integrity and credit quality. I also discuss Gulf's capital structure and cost of capital. Finally, I explain why it is not appropriate to make a parent debt adjustment to Gulf's income tax expense in determining our revenue requirement.

Q. Are you sponsoring any exhibits?
A. Yes. I am sponsoring Exhibit RST-1, consisting of Schedules 1 to 11. Exhibit RST-1 was prepared under my supervision and direction, and the information contained in that exhibit is true and correct to the best of my knowledge and belief.

Q. Are you sponsoring any of the Minimum Filing Requirements (MFRs) filed by Gulf?

A. Yes. The MFRs that I sponsor in their entirety or that I jointly sponsor are listed on Schedule 1 of my Exhibit RST-1. The information contained in the MFRs that I sponsor or co-sponsor is true and correct to the best of my knowledge and belief.

I. GULF'S EFFORTS TO AVOID A BASE RATE INCREASE

Q. When was Gulf's last base rate increase?

A. Gulf's last base rate adjustment became effective on June 7, 2002. By the time this proceeding is complete, it will have been almost ten years between Gulf's base rate increases. The Commission's decision granting Gulf's last base rate increase was in Order No. PSC-02-0787-FOF-EI in Docket No. 010949-EI.

Q. What major events and challenges has Gulf had to address in the decade since its last rate case?

A. Over the last decade Gulf has weathered a number of events and met significant challenges while continuing to provide reliable service to a growing customer base without increasing base rates.

The day after Gulf's last rate case filing was made, the mindless destruction of the World Trade Center occurred. Our government responded by heightening security, including security associated with critical infrastructure like the power grid. In order to increase security for critical pieces of infrastructure, Gulf has taken measures to improve physical security at substations and generation plants, including security checkpoints, cameras and other monitoring equipment. Additional measures have also been taken to improve cyber security.

The years 2004 and 2005 brought a number of major hurricanes to the continental United States and the Gulf Coast, including several in Gulf's service area. Gulf was recognized for its prompt response in restoring service and hope in the aftermath of these disasters. In both 2004 and 2005, the Edison Electric Institute awarded Gulf the Emergency Response Award for hurricane restoration in our service area and the Emergency Assistance Award for the Company's assistance to other companies who suffered hurricane damage. Gulf's efficiency and cost consciousness minimized the financial impact on its customers. These storms, however, have had lasting impacts on Gulf's distribution system as described by Gulf Witness Moore in his testimony. In addition, mandated storm hardening requirements have been enacted. These requirements are designed to benefit customers in terms of mitigating service interruptions, but they have imposed additional costs on Gulf and our customers.

In 2008, the United States experienced a near complete meltdown of its financial system, triggering a deep economic recession more severe than any since the Great Depression. This economic downturn affected Gulf on many levels. Thousands of jobs were lost in Gulf's service area, making it difficult for customers to pay their bills and increasing Gulf's bad debt expense. The impacts to the local economy stalled sales growth and resulted in a decline in Gulf's base revenues. At the height of the financial crisis, the availability of commercial credit was severely limited; however, due to its strong financial position and credit ratings Gulf's access to the capital markets was not disrupted.

Then, to finish the decade, the entire Gulf Coast experienced an unprecedented environmental catastrophe in the form of an enormous oil spill. Prior to the oil spill, the tourism and recreation industry in Northwest Florida showed signs of recovery from the recession. The oil spill interrupted this recovery and resulted in significant reductions in tourism and associated recreational activities.

During this momentous decade, Gulf Power has successfully undertaken and performed its duty to serve the public. Despite these major challenges and associated rising costs, Gulf has maintained system reliability and customer satisfaction.

Q. How has Gulf managed to avoid requesting base rate relief for almost a decade?

A. There are a number of factors that have contributed to Gulf's ability to maintain the same base rates for nearly ten years. The combination of stable economic growth in its service area for most of this period and Gulf's effective management of its resources are primary factors. The regulatory framework in Florida has also been effective in allowing for the recovery of certain prudent costs without a costly and lengthy base rate proceeding. Finally, Gulf has taken additional steps over the past several years to avoid a rate increase during the recession. All of these factors have allowed Gulf to provide reliable service at a reasonable cost to its customers without a base rate increase for close to ten years.

Q. What additional steps has Gulf undertaken to avoid asking for a base rate increase during the recession?

A. The Company has taken a number of actions over the last several years in an effort to avoid a base rate increase to customers. As Gulf Witness Buck discusses in his testimony, Gulf employs a rigorous annual planning and budgeting process which prioritizes resources and assures that customer needs are met in a cost-effective manner. As discussed by Gulf Witnesses Grove, Moore, and Caldwell, spending for production, distribution, and transmission has been closely managed. At the same time, concentrated efforts have been made to continue to provide reliable electric service to our customers. Gulf's excellent performance statistics are an indication that our system has been well maintained and is operating efficiently and cost-effectively.

As Mr. Grove describes in his testimony, through Gulf's effective ongoing maintenance practices, the Company has been able to extend the expected useful life of many of its generating units by as much as twenty years. This reduces annual depreciation expense and postpones the next need for additional generation resources.

In 2009, Gulf made further efforts to control costs during the economic recession by implementing restrictions on hiring and granting no merit raises to non-union employees.

The Company has done its best to reduce expenses during the difficult economic times that have faced us all the last few years. Now, Gulf finds that additional revenues are necessary to continue to provide quality service and maintain our financial integrity.

II. TEST YEAR

Q. What test year has Gulf used to calculate its proposed rate increase?

A. Gulf has chosen a 2012 projected test year. The test year projections were developed as part of Gulf's 2011 budget process. As described in more detail by Mr. Buck, Gulf's annual budget process produces a budget for the current year and a budget forecast for the four subsequent years. The 2011 "prior year" shown in the MFRs is also the result of the 2011 budget process, while the 2010 "historical year" reflects actual results for that year.

Q. Please explain why 2012 was chosen as the test period.

A. The 2012 test year is the best representation of Gulf's expected future operations. The 2012 test year properly matches Gulf's projected revenues with the projected costs and investment required to provide service to customers during the period following the effective date of the new, permanent rates in this case. Gulf's use of a projected test year is also consistent with the Commission's long-standing practice to approve projected test years.

The most recent historic year is 2010, which is not representative of expected revenues and expenses on a going forward basis. During 2010, Gulf made significant efforts to curb capital and O&M spending levels to avoid having to request base rate relief during the recession. Also in 2010, base revenues were still in decline from peak levels in 2007. The 2012 revenue forecast is more representative of the revenues for the period the new rates will be in effect. The operating conditions experienced by the Company during the depths of the economic downturn simply are not indicative of future operating conditions.

III. GULF'S RATE REQUEST

Q. What is the amount of base rate relief that Gulf is requesting in this case?

A. Gulf is requesting an annual increase of $93,504,000 in base revenues. This is the amount necessary for Gulf to continue to provide quality service to its customers and give Gulf the opportunity to earn a fair rate of return of 11.7 percent on its common equity, as supported by the testimony of Gulf Witness Dr. Vander Weide.

Q. Why is it necessary for the Company to seek rate relief at this time?

A. As shown on Schedule 2 of my exhibit, since 2007 Gulf's rate base and O&M expenses have increased substantially while base rate revenue growth has stagnated.

During this period Gulf has made significant investment in production assets and transmission and distribution facilities. By 2012 Gulf's rate base will have increased by more than $375 million since 2007. These investments are necessary to maintain system reliability and to meet demand growth.

Similarly, despite extraordinary efforts to hold the line on spending in order to avoid a base rate increase during a recession, Gulf has experienced significant increases in O&M expenses. As Gulf's witnesses testify, many of these O&M cost increases are explained by new regulatory requirements, broader work scope associated with aging equipment, and the replacement of outdated computer applications. Meanwhile, the costs of materials and employee benefits are increasing at rates far in excess of the rate of inflation as measured by the Consumer Price Index (CPI). Gulf has undertaken significant efforts to control insurance, retirement and medical benefit costs, yet all of these necessary expenses have far outpaced the growth of CPI.

The result is a precipitous decline in the Company's earned rate of return. Gulf's currently authorized range for return on equity is from 10.75 percent to 12.75 percent. As shown on Schedule 3 of my exhibit, Gulf's earned rate of return on equity has been below the bottom of the range since mid-2010. As of March 31, 2011, Gulf's earned rate of return on equity had fallen to 6.83 percent. It is projected to fall to 2.83 percent by year-end 2012, absent base rate relief. Base rate relief is essential for Gulf to sustain its financial integrity, preserve its ability to raise capital on reasonable terms and continue to provide the reliable service that our customers expect.

IV. CREDIT QUALITY & FINANCIAL INTEGRITY

Q. Mr. Teel, please describe the strength of Gulf's financial position since the last rate case and currently.

A. Gulf has maintained a strong financial position, as evidenced by the credit ratings of the three major credit rating agencies. Gulf has sustained long-term debt ratings in the "A" category and short-term debt ratings in the correlating categories since 2002. Schedule 4 of my exhibit is a table depicting Gulf Power's current credit ratings from each of the rating agencies for both long-term and short-term debt.

Q. What rating conventions are used by each of the credit rating agencies to distinguish companies' credit quality?

A. Each credit rating agency has its own conventions; however, each uses a variation of "A" ratings for companies of the highest credit quality. The rating conventions and scales for long-term debt of all three agencies are shown on Schedule 5 of my exhibit.

Q. What credit ratings does Gulf target?

A. Gulf targets "A" ratings for its long-term debt, specifically A ratings by Standard and Poor's and Fitch, and A2 by Moody's. Gulf targets equivalent ratings for its short-term debt, A-1 by Standard & Poor's and F1 by Fitch. Moody's does not rate Gulf Power's short-term debt.

Q. Why is it necessary to maintain these targeted credit ratings?

A. Maintaining these targeted credit ratings for both long-term debt and short-term debt are critical for Gulf and its customers. Strong credit ratings ensure access to capital and allow Gulf to provide reliable service at the lowest financing costs possible. An electric utility's obligation to serve requires continuous access to capital markets to fund the maintenance of and investment in the assets needed to reliably generate and deliver electricity.

Q. Please explain the importance of long-term and short-term debt.

A. Long-term debt is appropriate for the financing of long-lived assets. Strong credit ratings for long-term debt are especially important during a period of significant investment. As shown on Schedule 6 of my exhibit, Gulf's capital expenditure requirements since 2008 are substantially above historic levels. In both 2012 and 2013, Gulf's projected capital spending is in excess of $400 million, which is larger than any other year in Gulf's history.

Short-term debt, generally commercial paper, is typically used to meet shorter term funding requirements. Short-term debt is integral to financing Gulf's operations, as it is less expensive than long-term debt and does not require a commitment to interest costs over an extended period of time. Thus, short-term debt lends flexibility in financing the business. Strong credit ratings for short-term debt ensure access to the commercial paper markets. The ability to access the commercial paper markets is crucial to Gulf, as short-term funding needs can vary dramatically with volatile fuel prices and seasonal changes in customer demand. Companies with credit ratings lower than those targeted by Gulf may experience difficulty in securing short-term funding.

Q. Please provide an example of the value to electric utilities of strong credit ratings.

A. The value of strong credit ratings was clearly demonstrated during the recent financial crisis. During the height of the credit crisis, access to capital markets was restricted.

In his report, "The A Rating" published in the May/June 2009 issue of Edison Electric Institute's <u>Electric Perspectives</u>, Mr. Steven M. Fetter, President of Regulation UnFettered, former Chairman of the Michigan

Public Service Commission, and former head of the Global Power Group at Fitch Ratings, stated:

> . . . the current economic turmoil has resulted in some utilities within the BBB category experiencing difficulty in accessing the capital markets. Even when capital is available, it is often at significantly higher costs and upon less favorable terms and conditions.

Due to our ability to maintain the targeted "A" ratings, Gulf did not experience these difficulties in accessing capital during this tumultuous period.

Q. What factors are considered by rating agencies in determining Gulf's credit ratings?

A. The rating agencies consider both quantitative and qualitative factors in determining Gulf's credit ratings. The quantitative factors, as expressed by financial metrics, generally assess a company's ability to meet debt obligations considering its cash flows from operations, interest expense, and levels of debt. The qualitative factors consider operational and other business risks.

Of the three agencies, Moody's Investors Service provides the most definitive explanation of the factors considered to determine a utility's credit ratings. Moody's lists four key rating factors in "Regulatory Frameworks – Ratings and Credit Quality for Investor-Owned Utilities", published June 18, 2010. These factors are: (1) regulatory framework, (2) ability to recover costs and earn returns, (3) diversification of fuel sources, generating plants, regulatory regimes, and geographic regions, and (4) financial strength and liquidity.

Q. Have Gulf's credit ratings remained on target?

A. Gulf's credit ratings by Standard & Poor's and Fitch have remained on target; however, Moody's downgraded Gulf's long-term debt rating from A2 to A3 on August 12, 2010. While Moody's does not rate Gulf's short-term debt, this long-term debt rating could impact Gulf's ability to access the commercial paper markets if one of the other rating agencies downgrades Gulf's short-term debt rating.

Q. What factors were cited by Moody's for the downgrade?

A. Moody's stated "Gulf Power's A3 senior unsecured debt rating reflects cash flow coverage metrics that are weak for its rating, higher construction expenditures for environmental compliance, and a decline in the historically supportive Florida regulatory environment." Gulf Power received an "A" rating on only one of the three primary qualitative factors and only one of the five financial metrics used by Moody's in determining their credit rating for regulated electric and gas utilities. Moody's cited additional debt leverage and further deterioration of metrics as risks to the current rating. A copy of Moody's Credit Opinion dated August 13, 2010 is attached as Schedule 7 of my exhibit.

Q. Are there any indications that either of the other two major credit rating agencies shares any of Moody's concerns about Gulf's credit quality?

A. Yes. With respect to the regulatory environment, Fitch stated in its report of October 5, 2010 on Gulf Power:

> . . . political interference in the face of the economic slowdown led to a marked regulatory environment shift in 2010. Recent decisions for unaffiliated Florida utilities have been populist, with below average allowed return on equity and base rate increases that were significantly lower than amounts requested....Fitch expects the regulatory climate in Florida to slowly return to normal after this election year and as the state's economy slowly begins to recover.

Copies of the most recent credit opinions by Fitch and Standard & Poor's are attached as Schedules 8 and 9 of my exhibit.

Q. What would be the impact on Gulf's credit quality without adequate rate relief?

A. The quantitative and qualitative factors considered by rating agencies would be adversely affected. The Company's financial metrics would deteriorate. Furthermore, allowing the returns to remain at levels below those required by investors would likely increase the agencies' concerns about the regulatory environment in Florida. The Company's ability to maintain the targeted "A" credit ratings would be jeopardized.

Q. How would eroding credit quality affect Gulf and its customers?
A. Credit quality is a key indicator of a company's financial integrity. A weakened financial position will ultimately hinder Gulf's ability to access capital at reasonable terms. In order to sustainably provide reliable service to its customers, a utility must maintain access to capital at all times. As discussed earlier, the Company is in the midst of a significant capital investment period. This heightens the importance of maintaining its financial integrity and access to capital.

V. CAPITAL STRUCTURE AND COST OF CAPITAL

Q. What capital structure is Gulf targeting?
A. Gulf is targeting a capital structure of 45 percent common equity and 55 percent debt and preference or preferred stock.

Q. Is this the same capital structure targeted in the last rate case filing?
A. Yes.

Q. Why is Gulf's capital structure appropriate?
A. Gulf has been successful in maintaining its strong financial position and targeted credit ratings with this capital structure. Based on current

projections, and with adequate rate relief, Gulf believes it will be able to sustain its financial integrity with this structure.

Q. What cost of equity is the Company seeking in this case?

A. As Dr. Vander Weide indicates in his testimony, a fair rate of return on common equity is 11.7 percent.

Q. What is Gulf's cost of debt?

A. As shown on Schedule 12 of Mr. McMillan's Exhibit RJM-1, Gulf's embedded cost of long-term debt is 5.48 percent. For the test year, we project that our cost of short-term debt will average 2.12 percent.

Q. What is Gulf's weighted average cost of capital for ratemaking purposes?

A. As shown on Schedule 12 of Mr. McMillan's Exhibit RJM-1, Gulf's weighted average cost of capital is 7.05 percent when taking into account both investor sources of capital (common equity, preference stock, long-term-debt and short-term debt) and other sources considered for ratemaking purposes (customer deposits, deferred taxes and investment tax credits).

Q. Is the weighted average cost of capital proposed by Gulf appropriate in this case?

A. Yes. The weighted average cost of capital of 7.05 percent proposed by Gulf, including Dr. Vander Weide's recommended return of 11.7 percent on the common equity component, is cost efficient and fair for both investors and customers.

VI. PARENT DEBT ADJUSTMENT

Q. Please provide a brief overview of Commission Rule 25-14.004 relating to the parent debt adjustment.

A. The parent debt adjustment rule was adopted by the Commission in 1983. For ease of reference, I have included a copy of that rule as Schedule 10 of my exhibit. This rule applies in rate proceedings where (1) a parent-subsidiary relationship exists, (2) the parent and subsidiary participate in filing a consolidated tax return, and (3) funds provided by parent debt have been invested in the equity of the regulated subsidiary. If all three factors are present, the rule provides a formula for reducing the subsidiary utility's income tax expense to reflect the tax effect of the parent debt that is invested in the equity of the subsidiary.

Q. In calculating Gulf's income tax expense for the test year, Mr. McMillan does not make a parent debt adjustment under Commission Rule 25-14.004. Why isn't such an adjustment required?

A. The rule does not require an adjustment in this case because only two of the three factors in the rule are met. Gulf is a subsidiary of Southern Company (Southern) and it participates in filing a consolidated income tax return; thus the first two factors are met. The third factor is not met because no funds provided by Southern Company debt have been invested in the equity of Gulf.

Q. Doesn't subsection (3) of the rule create a presumption that Southern's equity investment in Gulf is supported by debt based on the ratio of debt in Southern's overall capital structure?

A. Yes, but the rule expressly states that the presumption is rebuttable. The presumption can be rebutted – and the rule does not require an adjustment – if the utility shows that the parent's equity investment did not come from debt issued at the parent level. In this case, the facts surrounding Southern's equity investment in Gulf are sufficient to rebut the presumption.

Q. What are the facts which rebut the presumption?

A. As shown on Schedule 11 of Exhibit RST-1, during the period from January 2003 (the middle of the test year in Gulf's last rate case) to March 2011:

- Gulf has received $459.0 million in equity investment from Southern.
- Gulf has paid $655.8 million in dividends to Southern.

Gulf's dividend payments are sufficient to support 100 percent of Southern's equity investments, as represented in Gulf's financial statements, and still result in a net payment of $196.8 million from Gulf to Southern.

Gulf has been a net returner of capital to Southern, not a net recipient. Thus, Gulf itself has effectively provided the funding for Southern's equity investment in Gulf with its own internally generated funds.

Q. If Gulf's internally generated funds have been the source of the common equity investment, why have both the common stock and paid-in capital portions of common stockholder's equity increased?

A. The increases in common stock and paid-in capital result from the accounting effect of Gulf paying dividends while also accepting equity investment from Southern.

Q. Please explain the accounting effect.

A. The effect of Gulf paying dividends to Southern and Southern subsequently returning portions of those dividends through equity investments in Gulf is that the internally generated funds are moved from retained earnings to common equity or paid-in capital on the balance sheet. Assume, for example, that Gulf pays $10 million of dividends to Southern. This payment reduces Gulf's retained earnings by $10 million. When that amount is subsequently reinvested by Southern, Gulf's paid-in capital increases by $10 million. Gulf's total common equity is the same as before the dividend, but the $10 million is now reflected as parent investment rather than retained earnings. However, this accounting treatment does not change the fact that Gulf's internally generated funds, not Southern, are the underlying source of these common equity dollars.

Because Southern is not the source of the funds, Southern's debt cannot be a source of Gulf's paid-in capital.

Q. What would be the effect under the parent debt rule if, rather than paying dividends to Southern out of internally generated funds that are then returned in the form of equity investment, Gulf had simply retained those internally generated funds?

A. There would be no additional parent investment on Gulf's financial statements for the period January 2003 through March 2011. The presumption in subsection (3) would more clearly be rebutted. Under section (4) of the parent debt rule, the retained earnings balance would be treated as internally generated funds, not parent investment, and would not be a basis for imputing any additional income tax expense. The fact that Gulf's dividend practice changes the accounting presentation should not trigger income tax imputation when Gulf has shown that its dividends more than support Southern's equity investment; thus, parent debt cannot be a source of capital for Gulf.

Q. Schedule 11 of your exhibit shows that in 2007, 2009, and 2011 (through March) Southern made equity investments in Gulf that were not supported by dividends paid in those years. Does this mean that Southern's capital contributions in those years came from some source other than Gulf's internally generated funds?

A. No. This is merely a timing difference in cash flows. Gulf pays quarterly dividends to Southern. Southern only provides funds as necessary to fund

Gulf's business. These cash exchanges may or may not offset each other in any given calendar year. Most importantly, the cash generated by Gulf has been more than sufficient to cover all of Southern's capital contributions since the last rate case and Gulf, on a cumulative basis, has been a net returner of cash to Southern at all points in time over this period.

Q. Does Gulf forecast additional dividends paid to Southern and additional equity investments in Gulf by Southern for the remainder of 2011 and 2012?

A. Yes; however, Gulf will also be a net returner of cash to Southern during this period.

Q. Isn't it true that dollars are fungible, so Gulf cannot trace the exact dollars invested in Gulf back to dollars that resulted from dividends paid by Gulf?

A. This may be true as a purely theoretical matter, but the rule cannot properly be interpreted to require such an exact tracing. If exact tracing were required, the presumption in the rule would be effectively irrebuttable. This cannot be what the Commission intended.

Q. You have focused on the period since Gulf's last rate case. How can the Commission be assured that the Southern debt outstanding at the time of the last rate case did not support its equity investment in Gulf at that time?

A. First, prior to the last rate case, Southern issued long-term debt during the growth of Southern Electric International, which was ultimately spun-out of

Southern in 2001 as Mirant Corporation. Second, Southern's commercial paper borrowings, both now and at the time of the last rate case, are used to support parent-level expenditures. They are not used as a source of funds for investments in the operating companies. Finally, the Commission did not find it necessary to make a parent debt adjustment during Gulf's last rate case.

Q. What are the financial implications to Gulf of making the parent debt adjustment?

A. The parent debt adjustment would have two primary effects on Gulf. First, imputing to Gulf the tax benefits of parent company debt would be effectively assuming the Company has more debt in its own capital structure than actually exists. The Company's capital structure already has a relatively low equity ratio and includes as much debt as is practical to maintain its financial strength. The parent debt adjustment would assume there are tax benefits of parent company debt accruing to Gulf without recognizing the associated financial risk in Gulf's capital structure. Gulf, appropriately, has not imputed parent company debt in its capital structure and it would be inconsistent to impute any tax benefits associated with such debt.

Second, by artificially reducing the federal income tax expense used to establish Gulf's required rate relief, the adjustment would decrease the effective return on equity by approximately 25 basis points below the level the Commission otherwise determines to be appropriate.

The Commission should consider these impacts of applying the parent debt rule when weighing the evidence that Gulf has presented to rebut the presumption that Southern's investment in Gulf is funded in part by parent debt.

Q. Has the Commission made a parent debt adjustment in any of Gulf's prior rate cases?

A. No. The rule was adopted in 1983. Since that time Gulf has had three rate cases before the Commission, and the Commission has never made a parent debt adjustment pursuant to Rule 25-14.004.

VII. SUMMARY

Q. Please summarize your testimony.

A. Gulf Power is committed to meeting the needs of our customers and investors and strives to maintain low rates, high quality service, and excellent customer satisfaction ratings. Despite Gulf's continued efforts to control costs and keep expenses low to avoid the need for base rate relief, there has been an increase in the cost of providing electric service since the Company's last base rate increase in 2002. These increases in costs are necessary to enable the Company to maintain reliability and meet the service expectations of our customers. Other witnesses address the details of the capital additions over the past ten years and the factors contributing to an increase in O&M expenses. Increases in both areas are necessary in order to ensure that Gulf can continue to provide dependable and reliable service to our customers. These increased costs have grown faster than Gulf's base rate revenues, resulting in a declining net operating income.

Under present retail rates, the projected return on average common equity for the test year is 2.83 percent, which is significantly below the 11.7 percent determined by Dr. Vander Weide to be appropriate for Gulf Power. Such a low return would leave the Company in a weakened financial position. In order for Gulf to attract capital on reasonable terms and continue to meet the needs of our customers, the Company must maintain its financial integrity. Therefore, based on the revenue deficiency calculated for the test period, Gulf is requesting an annual increase of $93,504,000 in our base rate retail revenues.

Q. Does this conclude your testimony?
A. Yes.

AFFIDAVIT

STATE OF FLORIDA)
)
COUNTY OF ESCAMBIA)

Docket No. 110138-EI

Before me the undersigned authority, personally appeared R. Scott Teel, who being first duly sworn, deposes, and says that he is the Vice President and Chief Financial Officer of Gulf Power Company, a Florida corporation, that the foregoing is true and correct to the best of his knowledge, information, and belief. He is personally known to me.

R. Scott Teel
R. Scott Teel
Vice President and Chief Financial Officer

Sworn to and subscribed before me this 6th day of July, 2011.

Candace Klinglesmith
Notary Public, State of Florida at Large

Commission No. EE79408

My Commission Expires 5-18-2015

CANDACE KLINGLESMITH
Notary Public - State of Florida
My Comm. Expires May 18, 2015
Commission # EE 79408
Bonded Through National Notary Assn.

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Responsibility for Minimum Filing Requirements

Schedule	Title
A-1	Full Revenue Requirements Increase Requested
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D-2	Cost of Capital – 5 Year History
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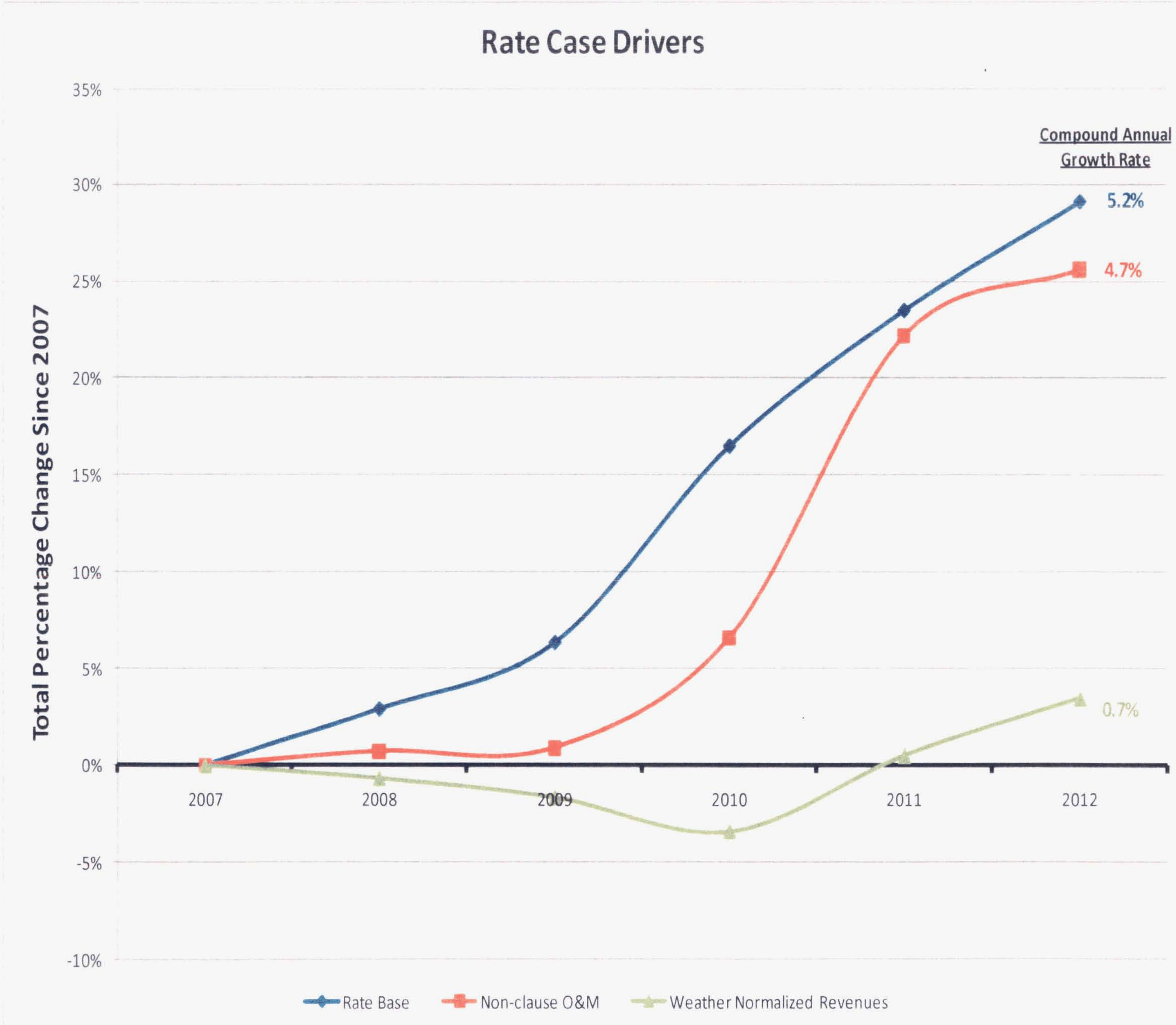
D-8	Financing Plans – Stock and Bond Issues
D-9	Financial Indicators – Summary
F-1	Annual and Quarterly Reports to Shareholders
F-2	SEC Reports
F-3	Business Contracts with Officers or Directors
F-8	Assumptions
F-9	Public Notice



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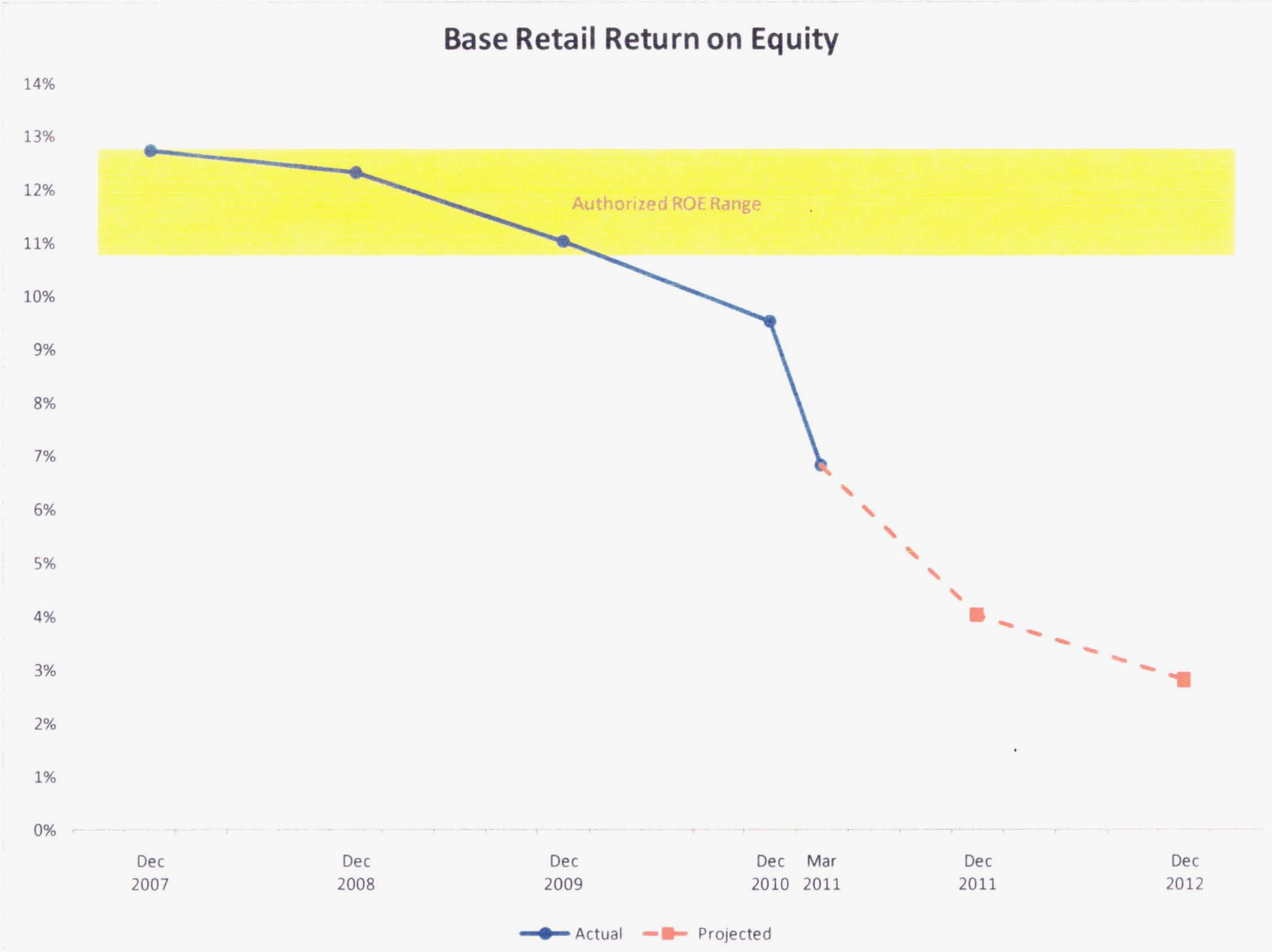

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GULF POWER COMPANY
Credit Ratings
As of July 2011

Rating Agency	Short-Term Debt Rating	Long-Term Debt Rating
Fitch	F1	A
Moody's	N/A	A3
S & P	A-1	A

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Rating Agency Conventions and Scales
Senior Unsecured Notes (Long-Term Debt)

S&P

Extremely Strong	AAA
Very Strong	AA+
	AA
	AA-
Strong	A+
	A
	A-
Adequate	BBB+
	BBB
	BBB-
Less Vulnerable	BB+
	BB
	BB-
More Vulnerable	B+
	B
	B-
Currently Vulnerable	CCC+
	CCC
	CCC-
Highly Vulnerable	CC
	C+
	C
Default	D+
	D
Selective Default	SD
Regulatory Supervision	R

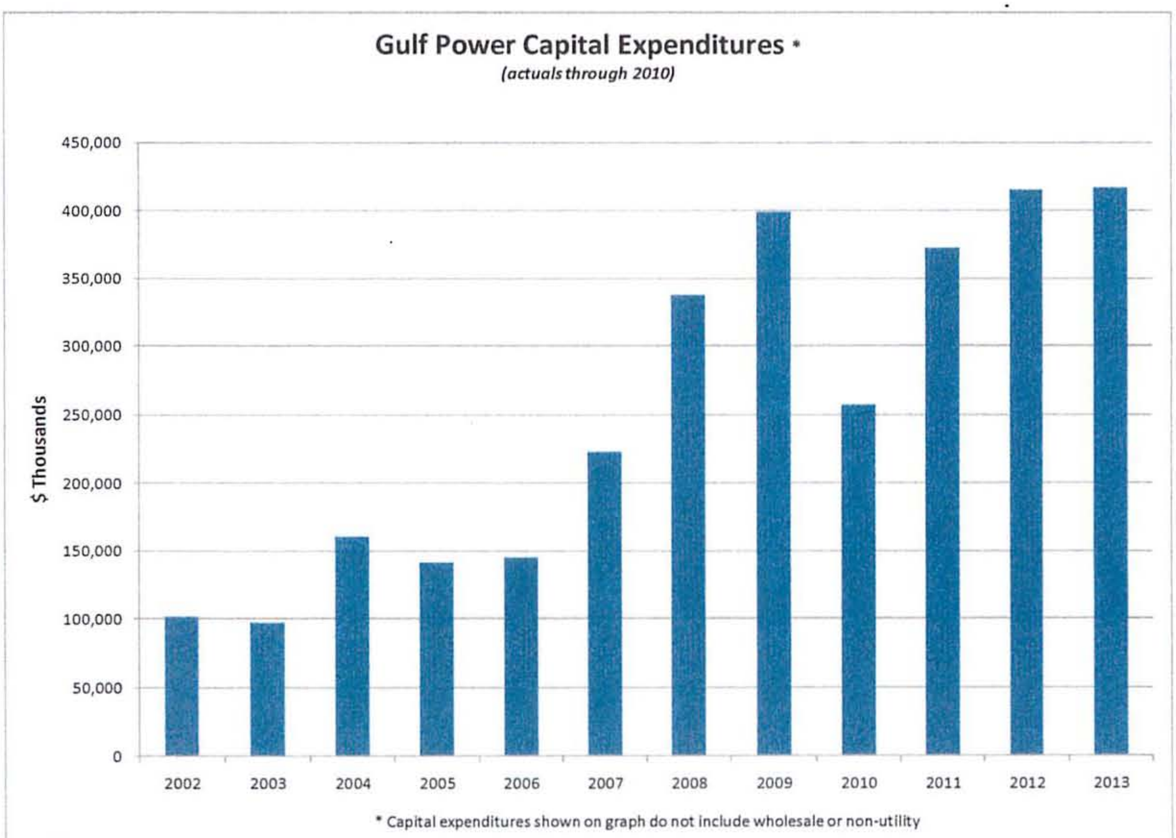
Moody's

Highest Quality	Aaa
High Quality	Aa1
	Aa2
	Aa3
Upper-Medium Quality	A1
	A2
	A3
Medium-Grade Quality	Baa1
	Baa2
	Baa3
Substantial Risk	Ba1
	Ba2
	Ba3
High Risk	B1
	B2
	B3
Very High Risk	Caa1
	Caa2
	Caa3
Highly Speculative	Ca
Default	C

Fitch

Highest Quality	AAA
Very High Quality	AA+
	AA
	AA-
High Quality	A+
	A
	A-
Good Quality	BBB+
	BBB
	BBB-
Speculative	BB+
	BB
	BB-
Highly Speculative	B+
	B
	B-
High Default Risk	CCC+
	CCC
	CCC-
	CC
	C
Default	DDD
	DD
	D
Restrictive Default	RD

Florida Public Service Commission
Docket No. 110138-EI
GULF POWER COMPANY
Witness: R. S. Teel
Exhibit No. ____ (RST-1)
Schedule 6
Page 1 of 1



MOODY'S
INVESTORS SERVICE

Credit Opinion: Gulf Power Company

Global Credit Research - 13 Aug 2010

Florida, United States

Ratings

Category	**Moody's Rating**
Outlook	Stable
Issuer Rating	A3
Senior Unsecured	A3
Preferred Stock	Baa2
Parent: Southern Company (The)	
Outlook	Stable
Sr Unsec Bank Credit Facility	Baa1
Senior Unsecured	Baa1
Jr Subordinate Shelf	(P)Baa2
Commercial Paper	P-2

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Key Indicators

[1]Gulf Power Company				
ACTUALS	**LTM 2Q10**	**2009**	**2008**	**2007**
(CFO Pre-W/C + Interest) / Interest Expense	**5.4x**	**6.2x**	**4.7x**	**5.6x**
(CFO Pre-W/C) / Debt	**19.0%**	**21.0%**	**17.9%**	**26.2%**
(CFO Pre-W/C - Dividends) / Debt	**11.4%**	**13.8%**	**9.6%**	**16.8%**
Debt / Book Capitalization	**48.3%**	**48.6%**	**47.5%**	**43.6%**

[1] All ratios are calculated in accordance with the Regulated Electric and Gas Utilities Rating Methodology using Moody's standard adjustments

Note: For definitions of Moody's most common ratio terms please see the accompanying User's Guide.

Opinion

Rating Drivers

- Recently perceived decline in Florida political and regulatory environment

- Cash flow coverage metrics that are weak for an A credit rating

- Substantially higher capital expenditures for environmental compliance

- Potential exposure to carbon regulations and national renewable portfolio standards

Corporate Profile

Gulf Power Company, headquartered in Pensacola, Florida, is a vertically integrated utility subsidiary of The Southern Company that provides electricity to retail customers in northwest Florida and to wholesale customers in the Southeast. Gulf Power serves 428,000 customers in a 7,400 square mile region. Gulf Power owns 2,703 megawatts of nameplate capacity, 78% of which are coal-fired baseload units, and operates within the Southern Company power pool.

SUMMARY RATING RATIONALE

Gulf Power's A3 senior unsecured debt rating reflects cash flow coverage metrics that are weak for its rating, higher capital expenditures for environmental compliance, and a decline in the historically supportive Florida regulatory environment. The rating also considers Gulf Power's position as part of the Southern Company corporate family, with the support that the parent provides and its access to a widespread, integrated generation and transmission network; the utility's relatively small size and concentrated service territory exposed to storm related event risk; and its significant exposure to more stringent environmental mandates, including carbon, and national renewable portfolio standards.

DETAILED RATING CONSIDERATIONS

- Recently perceived decline in utility's political and regulatory environment

Although the state of Florida has historically fostered a supportive regulatory environment for investor owned utilities, highly politicized rate proceedings for two other utilities in the state last year has resulted in a decline in that environment. The rate cases were plagued by controversy and political intervention, with the Governor vocally opposing rate increase requests and interfering with the independence of the regulatory process. The Florida Public Service Commission is entering a period of substantial uncertainty with four new commissioners being put in place over the next year. Although Gulf Power is somewhat insulated from this regulatory environment as it has no plans to file a base rate case over the near term, Moody's now views the overall regulatory framework in Florida as substantially less supportive of credit quality than it had been previously and now is more characteristic of an average regulatory environment in the U.S. As a result, in Moody's Rating Methodology for Regulated Electric and Gas Utilities, this has resulted in a lowering of Gulf Power's score on Factor 1 of our rating grid, Regulatory Framework, to the "Baa" category from the "A" category.

Despite this regulatory environment, Moody's notes that Gulf Power operates under base rates that were established in 2002 and are based on a 12% return on equity. The utility also benefits from a FPSC approved fuel cost recovery mechanism that includes a true-up of actual costs, a projection of future costs, and interest on the over/(under) recovery balance. The mechanism also allows for interim rate adjustments if the end of period under- or over-recovery balance exceeds 10% of the projected annual fuel revenues for that period. Because of these strong and timely cost recovery provisions in place in Florida, Moody's continues to view the company's ability to recover its costs and earn returns (Factor 2 in our Rating Methodology) as above average, i.e. "A" category.

With utilities in Florida vulnerable to hurricane activity, regulatory treatment to address storm costs has been an important factor supporting the credit quality of the company during storm affected years. In the event the company incurs significant storm costs, it may file a streamlined approval for an interim surcharge of up to 80% of the cost of the storm-recovery when recovery costs exceed $10 million. Gulf Power would then be able to petition for full and permanent recovery of all costs. Securitization legislation for the recovery of storm-related costs is also in place in Florida, although Gulf Power has not pursued securitization of past storm costs.

- Declining cash flow coverage metrics that are weak for its A3 rating

Gulf Power's cash flow coverage metrics have been weak for an A rating in recent years, using parameters outlined in Moody's Regulated Electric and Gas Utilities Ratings Methodology. Cash flow from operations pre-working capital (CFO pre-W/C) to debt of 17.9% in 2008 and 21 % in 2009, on a Moody's adjusted basis, compares to a minimum of 22% for an A rating under the rating methodology. The company has experienced higher operating costs and additional debt incurred to finance rising capital expenditure requirements, particularly for environmental compliance. Moody's expects Gulf Power's credit metrics to remain stable at close to current levels going forward, with CFO pre-working capital to debt approaching the 20% range and CFO pre-working capital to interest in the 5.0x range, which should be sufficient to support the current rating barring additional adverse regulatory events in Florida.

- Substantial environmental capital expenditures have required additional debt financing

Gulf Power is expected to spend approximately $1 billion from 2010 - 2012 on capital expenditures, with the 2010 projected amount of $271.4 million significantly lower than the 2009 level of $478 million, the latter which reflected environmental control projects at two power plants. Most of these higher capital expenditures are for environmental compliance and the company has no need for new generation over the near term. These expenditures are being financed with a combination of debt issuances at the utility and capital contributions from the parent company. The Florida Public Service Commission (FPSC) has approved recovery of prudently incurred environmental compliance costs through an environmental cost recovery clause that is adjusted annually subject to certain limits.

- Potential exposure to carbon regulation and national renewable portfolio standards

Gulf Power generates a significant portion of its power from coal with the remainder from natural gas. Due to the carbon intensity of its fuel mix, the company has significant exposure to additional costs related to potential carbon legislation. In addition, the southeast region of the country is particularly vulnerable in the event a national renewable portfolio standard is passed as there are very limited renewable energy sources in the southeast. The combination of carbon regulation and renewable portfolio standards has the potential to materially increase costs for the utility over the long term.

Liquidity

Gulf Power maintains $220 million of unused bank credit facilities as of June 30, 2010 supporting a $150 million commercial paper program (issued through Southern Company Capital Funding Corporation, a Southern Company subsidiary organized to issue and sell commercial paper for its utility subsidiaries). In addition, a portion of its bank facilities are dedicated to providing liquidity support for outstanding variable rate pollution control revenue bonds. As of June 30, 2010, the company had $86 million of commercial paper outstanding and $69 million of variable rate pollution control bonds backed by the facilities, leaving the company with $65 million of available credit facility capacity. All of the bank facilities have 364 day tenors, with $190 million having one-year term-out provisions, mitigating refinancing risk to some degree. As of June 30, 2010, of the $220 million of credit facilities, $80 million expire in 2010 and $140 million in 2011. Subsequent to June 30, 2010, Gulf Power increased its existing facilities by $15 million with an expiration of 2011. There is no material adverse change clause in any of Gulf Power's credit agreements and facilities totaling $175 million include a 65% debt to capital covenant. As of June 30, 2010, the company was in compliance with this covenant.

Gulf Power maintains some contracts for physical electricity purchases and sales, fuel purchases, fuel transportation and storage, emissions allowances, and energy price risk management that could require collateral in the event of a ratings downgrade. In the event of a downgrade to Baa3, Gulf Power has potential collateral requirements of $127 million as of June 30, 2010. If Gulf Power's credit rating is downgraded to below investment grade, the utility's potential collateral requirement rises to $566 million. On June 30, 2010, Gulf Power had $20 million of cash on hand, up from $8.7 million at December 31, 2009. The company generated $265 million of cash from operations for the twelve months ended June 30, 2010, compared to $191 million for 2009. The company has $110 million of debt due over the next 12 months

Rating Outlook

The stable rating outlook reflects Moody's expectation that Gulf Power's cash flow coverage metrics will stabilize; that the Florida regulatory environment will not deteriorate further and could perhaps improve once four new commissioners are in place, and that economic conditions in the Florida panhandle will gradually improve.

What Could Change the Rating - Up

An upgrade could be considered if there is an improvement in the Florida political and regulatory environment; if capital expenditures moderate from currently high levels; if cash flow coverage metrics show sustained improvement, including CFO pre-W/C interest coverage of at least 5.0x and CFO pre-W/C to debt in the 25% range.

What Could Change the Rating - Down

Ratings could be downgraded if there are additional, unanticipated capital expenditure requirements; additional debt leverage; a further deterioration of the political and regulatory environment in Florida; the imposition of new carbon controls or regulations or renewable portfolio standards, or if CFO pre-working capital interest coverage is below 4.5x or CFO pre-working capital debt remains below 22% for an extended period.

Rating Factors

Gulf Power Company

Regulated Electric and Gas Utilities	Aaa	Aa	A	Baa	Ba	B
Factor 1: Regulatory Framework (25%)				X		
Factor 2: Ability to Recover Costs and Earn Returns (25%)			X			
Factor 3: Diversification (10%)						
a) Market Position (5%)					X	
b) Generation and Fuel Diversity (5%)						X
Factor 4: Financial Strength, Liquidity & Financial Metrics (40%)						
a) Liquidity (10%)				X		
b) CFO pre-WC + Interest / Interest (7.5%) (3yr Avg)			X			
c) CFO pre-WC / Debt (7.5%) (3yr Avg)				X		
d) CFO pre-WC - Dividends / Debt (7.5%) (3yr Avg)				X		
e) Debt / Capitalization or Debt / RAV (7.5%) (3yr Avg)				X		
Rating:						
a) Methodology Implied Senior Unsecured Rating			Baa1			
b) Actual Senior Unsecured Rating			A3			

MOODY'S
INVESTORS SERVICE

FitchRatings

Corporates

Global Power
U.S. and Canada
Full Rating Report

Gulf Power Company

A Subsidiary of Southern Company

Ratings

Security Class	Current Rating
IDR	A–
Short-Term IDR/Commercial Paper	F1
Senior Unsecured Notes	A
Pollution Control Revenue Bonds	A
Subordinated Notes	A–
Preferred Securities	BBB+

IDR – Issuer default rating.

Rating Outlook

Stable

Financial Data

Gulf Power Company
($ Mil.)

	LTM 6/30/10	2009
Revenue	1,436	1,302
Gross Margin	681	637
Cash flow from Oper.	268	195
Operating EBITDA	323	286
Total Debt	1,260	1,250
Total Capitalization	2,420	2,352
ROE (%)	11.75	12.16
Capex/Deprec. (%)	305.8	452.7

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Related Research

Applicable Criteria
- *Corporate Rating Methodology, Aug. 16, 2010*
- *Utilities Sector Notching and Recovery Ratings, March 16, 2010*
- *U.S. Power and Gas Comparative Operating Risk (COR) Evaluation and Financial Guidelines, Aug. 22, 2007*
- *Credit Rating Guidelines for Regulated Utility Companies, July 31, 2007*

Other Research
- *Alabama Power Company, Oct. 5, 2010*
- *Georgia Power Company, Oct. 5, 2010*
- *Mississippi Power Company, Oct. 5, 2010*
- *Southern Power Company, Oct. 5, 2010*
- *Southern Company, Oct. 5, 2010*

Rating Rationale

- Fitch affirmed the ratings of Gulf Power Company on Sept. 3, 2010. The Rating Outlook is Stable.
- The ratings and Stable Outlook for Gulf reflect Fitch's expectation that the credit metrics should improve from 2009 cyclical lows. The Stable Outlook also reflects a manageable capital-expenditure program, modest debt maturities, and historically constructive rate outcomes.
- Gulf's cash flow stability is enhanced by several annually adjusted rate riders that provide timely recovery of all prudent costs related to fuel, purchased costs, and environmental expenditures outside of base rates.
- Fitch expects the still-weak Florida economy and the uncertain utility regulatory situation in the state to gradually improve. While Gulf is heavily dependent on coal-fired generation capacity that must comply with changing emissions standards, the fuel and environmental recovery clauses promote timely recovery of associated costs.
- Fitch expects Gulf to renew its $235 million of revolving credit facilities, which consist of bilateral facilities that have one-year term loan conversion options, prior to the revolving credit period maturity dates in 2010 ($50 million) and 2011 ($185 million).
- Gulf benefits from ownership by the Southern Company (issuer default rating [IDR] 'A', Outlook Negative by Fitch), a multi-utility holding company in the Southeast. For additional information on the Southern, please refer to Fitch's full rating report dated Oct. 5, 2010.

Key Rating Drivers

- Continuation of strong regulatory support is important for Gulf to maintain its credit quality and current ratings.
- Operational and financial efficiency gained from an association with Southern.
- The effect of electricity consumption trends on cash flow and credit quality.

Florida Regulatory Update

In Fitch's view, Florida historically was one of the most constructive regulatory environments in the country. However, political interference in the face of the economic slowdown led to a marked regulatory environment shift in 2010. Recent decisions for unaffiliated Florida utilities have been populist, with below-average allowed return on equity and base rate increases that were significantly lower than amounts requested. Florida has a five-member commission, in which members are appointed by the governor and confirmed by the Senate. Two of the five commissioners are yet to be confirmed by the Senate, and two others are required to vacate their seats by the end of the year.

Gulf has not filed a base rate case since 2002 and, hence, was able to avoid the recent fray over rate making in the state and the associated media scrutiny. Fitch expects the regulatory climate in Florida to slowly return to normal after this election year and as the state's economy slowly begins to recover.

Liquidity and Capital Structure

Credit Facilities

($ Mil.)

	Total	Unused	Executable Term Loans: One Year	Executable Term Loans: Two Years	Expires: 2010	Expires: 2011	Expires: 2012
Gulf Power Company	220	220	190	0	80	140	0

Source: Company reports.

Subsequent to June 30, 2010, Gulf increased the amount of credit facilities to $235 million, with the revolving period for $180 million of the facilities now expiring in 2011. The company may also meet short-term cash needs through borrowings from a Southern subsidiary, Southern Company Funding, Inc., organized to issue and sell commercial paper at the request and for the benefit of Gulf and other Southern subsidiaries. At June 30, 2010, Gulf had $86 million of commercial paper outstanding.

Long-Term Debt Maturities

($ Mil.)

	2010	2011	2012	2013	2014
Gulf Power Company	0	110	0	60	75

Source: Company reports.

Gulf has manageable debt maturities and ready access to the public debt markets, as was most recently demonstrated by the company's $125 million, 30-year, 5.10% unsecured note issuance in September 2010. The proceeds from the notes will be used for the proposed redemption of all or a portion of the $40 million of 5.75% notes due 2033 and/or $35 million of the company's 5.875% notes due 2044; to repay a portion of short-term debt; and for general corporate purposes, including the company's continuous construction program.

The largest shares of capital spending are geared toward environmental upgrades of generation facilities and, to a lesser extent, transmission.

Capital Spending

($Mil.)

	2010E	2011E	2012E
Gulf Power Company	271	350	419

Source: SEC Form 10-K.

Capital Structure — Gulf Power Company

($ Mil., as of June 30, 2010)

Short-Term Debt	86.0
Long-Term Debt[a]	1,173.6
Preference Stock	98.0
Total Common Stockholders' Equity	1,062.3
Total Capitalization	2,419.9
Total Adjusted Debt/ Total Capitalization (%)[b]	52

[a]Long-term debt includes securities due within one year. [b]Includes equity credit of hybrid securities.
Source: Company reports.

Capital Structure

In January 2010, Gulf issued to Southern 500,000 shares of its common stock without par and realized proceeds of $50 million. Fitch's ratings assume Gulf will continue to issue a mix of debt and equity to maintain a balanced capital structure.

Company Profile

Gulf, a subsidiary of Southern, is a vertically integrated electric utility providing electricity generation, transmission, and distribution service to retail customers in northwestern Florida. The company also sells power to wholesale customers. Gulf owns approximately 2,659 MW of generation capacity, of which 77% is coal and the remaining 23% is natural gas.

Financial Summary — Gulf Power Company

($ Mil., Fiscal Years Ended Dec. 31)

	LTM 6/30/10	2009	2008	2007	2006	2005	2004	2003
Fundamental Ratios								
FFO/Interest Expense (x)	5.6	4.6	5.4	4.7	5.1	6.2	7.0	5.3
CFO/Interest Expense (x)	6.5	5.1	4.2	5.7	4.3	4.8	5.0	6.0
FFO/Debt (%)	17.7	14.5	20.6	21.2	22.7	30.2	30.0	29.8
Operating EBIT/Interest Expense (x)	4.5	3.9	4.1	3.8	3.8	4.0	4.0	4.0
Operating EBITDA/Interest Expense (x)	6.7	6.0	5.9	5.7	5.8	6.1	6.3	6.1
Operating EBITDAR/(Interest Expense + Rent) (x)	6.1	5.4	5.9	5.7	5.8	6.1	6.3	6.1
Debt/Operating EBITDA (x)	3.8	4.2	3.6	3.0	3.1	2.8	3.2	2.4
Common Dividend Payout (%)	80.7	80.2	83.7	88.1	92.1	90.7	102.9	101.4
Internal Cash/Capital Expenditures (%)	51.9	23.5	16.1	57.9	44.8	58.7	45.3	122.2
Capital Expenditures/Depreciation (%)	305.8	452.7	444.7	281.4	173.0	168.2	194.0	120.7
Profitability								
Adjusted Revenues	1,436	1,302	1,387	1,260	1,204	1,084	960	877
Net Revenues	681	637	642	616	595	570	527	510
Operating and Maintenance Expense	259	261	278	270	260	251	230	211
Operating EBITDA	328	286	277	263	255	243	227	233
Depreciation and Amortization Expense	104	93	85	86	89	85	83	82
Operating EBIT	220	189	192	177	166	158	144	151
Gross Interest Expense	49	48	47	46	44	40	36	38
Net Income for Common	119	111	98	84	76	75	68	69
Operating and Maintenance Expense % of Net Revenues	38.0	41.0	43.3	43.8	43.7	44.0	43.6	41.4
Operating EBIT % of Net Revenues	32.3	29.7	29.9	28.7	27.9	27.7	27.3	29.6
Cash Flow								
Cash Flow from Operations	268	195	149	217	143	153	143	191
Change in Working Capital	45	20	(56)	48	(38)	(55)	(73)	27
Funds from Operations	223	175	205	169	181	208	216	164
Dividends	(103)	(96)	(88)	(77)	(74)	(69)	(70)	(70)
Capital Expenditures	(318)	(421)	(378)	(242)	(154)	(143)	(161)	(99)
Free Cash Flow	(153)	(322)	(317)	(102)	(85)	(59)	(88)	22
Net Other Investment Cash Flow	(33)	(47)	29	3	(9)	(18)	26	(12)
Net Change in Debt	76	219	216	(32)	73	(31)	97	62
Net Equity Proceeds	72	157	75	129	26	51	29	(72)
Capital Structure								
Short-Term Debt	86	90	148	45	120	89	50	38
Long-Term Debt	1,174	1,119	849	754	679	600	669	512
Total Debt	1,260	1,209	997	799	799	689	719	550
Total Hybrid Equity and Minority Interest	98	98	98	85	72	54	54	54
Common Equity	1,062	1,004	822	731	634	602	592	561
Total Capital	2,420	2,311	1,917	1,615	1,505	1,345	1,365	1,165
Total Debt/Total Capital (%)	52.1	52.3	52.0	49.5	53.1	51.2	52.7	47.2
Total Hybrid Equity and Minority Interest/Total Capital (%)	4.0	4.2	5.1	5.3	4.8	4.0	4.0	4.6
Common Equity/Total Capital (%)	43.9	43.4	42.9	45.3	42.1	44.8	43.4	48.2

LTM – Latest 12 months. Operating EBIT – Operating income before total reported state and federal income tax expense. Operating EBITDA – Operating income before total reported state and federal income tax expense plus depreciation and amortization expense. Note: Numbers may not add due to rounding.
Source: Company reports and Fitch Ratings.

STANDARD & POOR'S

Global Credit Portal
RatingsDirect®

October 14, 2010

Gulf Power Co.

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Gulf Power Co.

Major Rating Factors

Strengths:
- A generally constructive regulatory environment in Florida;
- Historically above-average customer growth with attractive demographics;
- Strong operating performance;
- Moderately competitive rate structure;
- Stable consolidated cash flows; and
- Operating and regulatory diversity on a consolidated basis.

Corporate Credit Rating
A/Stable/A-1

Weaknesses:
- Large capital spending to address environmental compliance;
- Economic slowdown in the Florida economy; and
- Aggressive adjusted consolidated debt leverage.

Rationale

The ratings on Gulf Power Co. reflect the consolidated credit profile of its parent, Southern Co. Southern has an excellent business risk profile characterized by stable regulated electric utility operations in Georgia, Alabama, Mississippi, and Florida, which contribute more than 90% of consolidated operating income. The business risk profile benefits from operations in jurisdictions with generally constructive regulatory frameworks combined with effective management of regulatory relations; strong operating performance and high availability and capacity utilization factors for owned generation; regulatory and operating diversity with a presence in four states; competitive rates for the region that provide some cushion for future rate increases to recover fuel costs and increasing capital expenditures; lack of meaningful unregulated operations; and prudent and reasonably conservative management and financial policies.

Significant capital spending needs of about $14.5 billion (excluding Southern Power capital expenditures) during the next three years are primary offsetting factors. The expenditures address significant environmental-compliance requirements, transmission and distribution system growth needs, new generation projects including nuclear, system maintenance, and nuclear fuel expenditures. Timely recovery of these expenditures is necessary to provide ongoing support to the consolidated credit profile, although this may be challenging given the still modest economic recovery in the regional and national economies.

Gulf Power is Southern Co.'s third-largest subsidiary, serving 428,154 customers primarily in the Florida Panhandle area and providing about 5% of operating income and cash from operations. The moderately sized service territory has attractive demographics but experienced no meaningful customer growth during 2009 as a result of the overall weakness in the local economy. Residential and commercial customers account for 74% of revenues and 67% of sales, while industrial customers account for 11% of revenues and 13% of sales. There is no meaningful customer concentration. Sales for resale are modest at 9% of revenues and 19% of sales and are generally accomplished through longer-term contracts with little meaningful fuel exposure. Total generating capacity is 2,659 MW, with coal-fired assets contributing 61.7% of energy, gas 28%, and purchases 10.3%. Plant availability continued to be consistently high during 2009, with 89.7% for the fossil-fired units. Retail rates are moderately competitive and could come under pressure as the company recovers deferred fuel and storm restoration costs along with invested capital.

The regulatory environment for Gulf Power is generally constructive and supportive of credit quality, allowing the company to recover invested capital as well as capacity and fuel costs while earning an adequate ROE. The allowed ROE range is 10.75% to 12.75%, with rates set at 12% to recognize Gulf Power's above-average operating performance. Purchased power capacity and energy costs, both incurred and forecast, are recovered through a clause that provides for annual true-ups. Environmental projects not in base rates are recovered through an environmental-recovery clause. As of June 30, 2010, Gulf Power's deferred fuel balance was $11.2 million, a modest increase from Dec. 31, 2009 of $2.4 million. The Florida Public Services Commission (FPSC) requires Gulf Power to file for updated fuel-cost recoveries if fuel revenues deviate by more than 10% of the projected fuel costs for the period. Given Gulf Power's exposure to hurricanes, the FPSC has allowed the company to accrue $3.5 million annually to fund its storm reserve for future contingencies.

Southern's cash flow generation and financial management policies are consistent and strong, support the company's overall intermediate financial risk profile, and benefit from the preponderance of regulated utility operations and a growing customer base. For the 12 months ended June 30, 2010, adjusted funds from operations (FFO) was about $3.97 billion, while total adjusted debt was $22.48 billion, leading to adjusted FFO interest coverage of 4.5x, adjusted FFO to debt of 17.7%, and adjusted total debt to total capital of 58%. Adjusted FFO benefits from incremental recovery of fuel costs as well as the completion of various projects which are included in rate base primarily through the use of riders. The credit metrics reflect the inclusion of about $1.395 billion in off-balance sheet debt stemming from the shortfall in funding pension and other post-retirement obligations and include about $412 million of trust preferred securities and $1.08 billion of preferred and preference shares as having intermediate equity content.

Gulf Power's stand-alone financial profile for the 12 months ended June 30, 2010 is adequate for the current ratings, with adjusted FFO interest coverage of 5.9x, adjusted FFO to debt of 18.5% and debt leverage of 56.2%.

Liquidity

Gulf Power's short-term rating is 'A-1' and we view its liquidity on a consolidated basis with that of parent Southern's liquidity is 'adequate' under Standard & Poor's corporate liquidity methodology, which describes a company's liquidity in five standard categories. Southern Co.'s 'adequate' liquidity supports its 'A' consolidated corporate credit rating. Projected sources of liquidity, mainly operating cash flow and available bank lines, cover projected uses, mainly necessary capital expenditures, debt maturities, and common dividends, by about 1.2x. The 'A-1' short-term rating on Southern and Gulf Power reflects the companies' corporate credit rating but also accounts for stable cash flow generation and sufficient liquidity to meet upcoming debt maturities and capital spending needs.

Southern has $4.4 billion in revolving credit facilities (excluding credit facility availability of Southern Power). As of June 30, 2010, $686 million supported outstanding commercial paper, and $1.8 billion supported tax-exempt floating rate securities, leaving about $1.9 billion undrawn. Of the total available credit facilities, Southern has $950 million available for short-term needs and commercial paper backup; APC has $1.27 billion in available facilities; GPC $1.7 billion; Gulf Power $220 million; and MPC $161 million. Of the total available credit facilities, about $2.8 billion expires after September 2011. Most credit facilities include a 65% debt to total capitalization ratio, for which Southern and its subsidiaries are well in compliance. Southern also had $266 million of cash on hand as of

June 30, 2010.

Outlook

The stable outlook on Gulf Power reflects the outlook of its parent. The stable outlook reflects Southern's consistent, regulated electric utility operations that benefit from constructive regulatory frameworks, strong operations, and service territories with growing customer bases and attractive demographics. Currently, we don't contemplate a higher rating, but such a change would largely depend on a consistently stronger financial profile. The ratings on Southern Co. and its subsidiaries will be lowered if the consolidated financial profile weakens over the next few years such that debt leverage remains aggressive, adjusted FFO to total debt is consistently below 18% and adjusted FFO to interest coverage declines to below 4.0x, due to the substantial capital spending budget, the inability to recover such expenses in rates or to recover the current deferred fuel cost balance in a timely manner. The pursuit of the nuclear plant construction, which is expected to be funded in a balanced manner, places additional pressure on the consolidated ratings, such that any delays in the construction schedule, cost overruns on the budget or indications of weakening regulatory support could lead to lower ratings. Finally, the current ratings incorporate a constructive outcome in GPC's pending rate case.

Accounting

Southern's financial statements are in accordance with U.S. GAAP and are audited by Deloitte & Touche, which has issued unqualified opinions on the company's financial statements and internal controls for 2009.

In assessing Southern's financial risk profile Standard & Poor's views Southern Power as an equity investment and its dividend distributions to Southern as part of FFO for coverage ratio computation. Southern Power's equity is viewed as minority interest for capitalization ratios.

Southern reports changes in under recovered fuel balances as part of changes in working capital. However, Standard & Poor's, while analyzing company's cash flows, re-classifies these changes as part of changes in FFO. This adjustment reflects the long-term nature of recovery of fuel costs which is more a standard measure of FFO rather than working capital.

Asset-retirement obligations (ARO) totaled about $1.2 billion at Dec. 31, 2009, while the corresponding nuclear decommissioning trust fund balance totaled $1.07 billion, leading to the imputation of $88.4 million as off-balance sheet debt. The current funding level of pension and other post-retirement obligations leads to the imputation of $1.395 billion as an off-balance sheet obligation.

Standard & Poor's views Southern's $412 million of trust-preferred securities and $1.1 billion of preferred and preference shares as of Dec. 31, 2009, as having intermediate equity content, ascribing 50% of each amount to debt and the remaining 50% to equity for ratio computation purposes. The associated distributions are similarly treated as 50% interest and 50% dividends. Trust preferred and preferred securities accounted for about 3% of total capital as of Dec. 31, 2009.

Capitalization of non-rail car operating leases adds about $233.4 million of off-balance-sheet obligations as of Dec. 31, 2009, while debt imputed for purchased power agreements (PPAs) adds about $1.2 billion. These figures represent about 6.5% of adjusted total debt. PPAs with Southern Power are included in imputed debt because Standard & Poor's rates Southern Power on a stand-alone basis.

Related Criteria And Research

- Criteria Methodology: Business Risk/Financial Risk Matrix Expanded, published May 27, 2009.
- Corporate Criteria: Analytical Methodology, published April 15, 2008.
- Corporate Criteria: Standard & Poor's Standardizes Liquidity Descriptors for Global Corporate Issuers, July 2, 2010

Table 1.

Southern Co. -- Peer Comparison*

Industry Sector: Electric

	Southern Co.	Duke Energy Corp.	American Electric Power Co. Inc.	Dominion Resources Inc.	Entergy Corp.
Rating as of Sep. 20, 2010	A/Stable/A-1	A-/Stable/A-2	BBB/Stable/A-2	A-/Stable/A-2	BBB/Stable/--
	--Average of past three fiscal years--				
(Mil. $)					
Revenues	14,996.9	12,886.0	13,566.2	15,690.5	11,746.2
Net income from cont. oper.	1,562.4	1,288.0	1,291.3	1,942.7	1,202 2
Funds from operations (FFO)	3,524.5	4,105.3	3,051 8	2,278.0	3,041.9
Capital expenditures	3,892.5	4,024.6	3,609 5	3,085.4	2,361.6
Cash and short-term investments	421.0	1,231.3	711.3	132.3	1,634.3
Debt	19,610.3	16,429.5	19,403.3	17,740 2	13,344.8
Preferred stock	746.7	0.0	135 5	844.3	155.6
Equity	14,259.7	21,472.3	11,439 5	11,113 6	8,303.1
Debt and equity	33,870.0	37,901.8	30,842 8	28,853.8	21,648.0
Adjusted ratios					
EBIT interest coverage (x)	3.3	3.3	2 4	2.8	3.2
FFO int. cov. (X)	4.3	5.7	3.4	3.0	4.5
FFO/debt (%)	18.0	25.0	15 7	12.8	22.8
Discretionary cash flow/debt (%)	(9.8)	(9.8)	(9.2)	(11.0)	(0.5)
Net cash flow / capex (%)	57.4	73 1	65.4	41.0	104.9
Total debt/debt plus equity (%)	57.9	43.3	62.9	61 5	61.6
Return on common equity (%)	10.9	4.9	10.9	17.5	13.7
Common dividend payout ratio (un-adj.) (%)	85.5	89.4	52.8	49 9	46.8

*Fully adjusted (including postretirement obligations).

Table 2.

Gulf Power Co. -- Financial Summary*

Industry Sector: Electric

	--Fiscal year ended Dec. 31--				
	2009	2008	2007	2006	2005
Rating history	A/Stable/A-1	A/Stable/--	A/Stable/--	A/Stable/--	A/Stable/--

Table 2.

Gulf Power Co. -- Financial Summary* (cont.)

(Mil. $)					
Revenues	1,302.2	1,387.2	1,259.8	1,203.9	1,083.6
Net income from continuing operations	117.4	104.5	88.0	79.3	76.0
Funds from operations (FFO)	264.2	202.1	190.3	138.2	165.2
Capital expenditures	411.8	384.5	240.5	152.8	149.3
Cash and short-term investments	8.7	3.4	5.3	7.5	3.8
Debt	1,372.8	1,138.6	858.7	836.2	754.5
Preferred stock	49.0	49.0	49.0	47.6	60.0
Equity	1,053.3	871.1	780.3	681.6	693.0
Debt and equity	2,426.1	2,009.7	1,638.9	1,517.8	1,447.5
Adjusted ratios					
EBIT interest coverage (x)	3.9	3.9	3.7	3.6	4.1
FFO int. cov. (x)	5.9	4.7	4.6	3.8	5.1
FFO/debt (%)	19.2	17.8	22.2	16.5	21.9
Discretionary cash flow/debt (%)	(22.9)	(28.4)	(11.5)	(9.6)	(7.3)
Net Cash Flow / Capex (%)	41.7	30.5	47.6	41.9	63.0
Debt/debt and equity (%)	56.6	56.7	52.4	55.1	52.1
Return on common equity (%)	8.5	12.2	12.3	12.0	12.6
Common dividend payout ratio (un-adj.) (%)	80.3	83.1	87.5	92.5	90.9

*Fully adjusted (including postretirement obligations).

Table 3.

Reconciliation Of Gulf Power Co. Reported Amounts With Standard & Poor's Adjusted Amounts (Mil. $)*

	--Fiscal year ended Dec. 31, 2009--									
Gulf Power Co. reported amounts										
	Debt	**Shareholders' equity**	**Operating income (before D&A)**	**Operating income (before D&A)**	**Operating income (after D&A)**	**Interest expense**	**Cash flow from operations**	**Cash flow from operations**	**Dividends paid**	**Capital expenditures**
Reported	1,209.2	1,102.3	282.1	282.1	188.7	38.4	194.2	194.2	95.5	421.3
Standard & Poor's adjustments										
Operating leases	4.6	--	3.8	0.5	0.5	0.5	3.4	3.4	--	--
Intermediate hybrids reported as equity	49.0	(49.0)	--	--	--	3.1	(3.1)	(3.1)	(3.1)	--
Postretirement benefit obligations	66.6	--	(1.7)	(1.7)	(1.7)	--	0.0	0.0	--	--
Accrued interest not included in reported debt	10.2	--	--	--	--	--	--	--	--	--
Capitalized interest	--	--	--	--	--	9.5	(9.5)	(9.5)	--	(9.5)

Table 3.

Reconciliation Of Gulf Power Co. Reported Amounts With Standard & Poor's Adjusted Amounts (Mil. $)* (cont.)

Share-based compensation expense	--	--	--	0.9	--	--	--	--	--	--
Power purchase agreements	24.9	--	6.3	6.3	1.1	1.1	5.3	5.3	--	--
Asset retirement obligations	8 2	--	0.6	0.6	0.6	0.6	(0.4)	(0.4)	--	--
Reclassification of nonoperating income (expenses)	--	--	--	--	20.2	--	--	--	--	--
Reclassification of working-capital cash flow changes	--	--	--	--	--	--	--	74 2	--	--
Total adjustments	163.5	(49 0)	9.1	6.7	20.6	14.8	(4.3)	69 9	(3 1)	(9.5)

Standard & Poor's adjusted amounts

	Debt	Equity	Operating income (before D&A)	EBITDA	EBIT	Interest expense	Cash flow from operations	Funds from operations	Dividends paid	Capital expenditures
Adjusted	1,372.8	1,053.3	291.2	288.7	209.3	53.1	189.9	264 2	92 4	411 8

*Gulf Power Co. reported amounts shown are taken from the company's financial statements but might include adjustments made by data providers or reclassifications made by Standard & Poor's analysts. Please note that two reported amounts (operating income before D&A and cash flow from operations) are used to derive more than one Standard & Poor's adjusted amount (operating income before D&A and EBITDA, and cash flow from operations and funds from operations, respectively). Consequently, the first section in some tables may feature duplicate descriptions and amounts.

Ratings Detail (As Of October 14, 2010)*

Gulf Power Co.	
Corporate Credit Rating	A/Stable/A-1
Preference Stock (2 Issues)	BBB+
Preferred Stock (3 Issues)	BBB+
Senior Unsecured (15 Issues)	A
Senior Unsecured (2 Issues)	A/A-1
Senior Unsecured (1 Issue)	A/NR
Corporate Credit Ratings History	
29-Jun-2009	A/Stable/A-1
21-Dec-2000	A/Stable/--
30-Nov-1998	A+/Watch Neg/--
Business Risk Profile	Excellent
Financial Risk Profile	Intermediate
Related Entities	
Alabama Power Capital Trust V	
Preferred Stock (1 Issue)	BBB+
Alabama Power Co.	
Issuer Credit Rating	A/Stable/A-1

Ratings Detail (As Of October 14, 2010)*(cont.)	
Commercial Paper	
Local Currency	A-1
Preference Stock (2 Issues)	BBB+
Preferred Stock (4 Issues)	BBB+
Senior Secured (6 Issues)	A/A-1
Senior Unsecured (27 Issues)	A
Senior Unsecured (22 Issues)	A/A-1
Georgia Power Co.	
Issuer Credit Rating	A/Stable/A-1
Preference Stock (1 Issue)	BBB+
Preferred Stock (2 Issues)	BBB+
Senior Unsecured (48 Issues)	A
Senior Unsecured (1 Issue)	A-
Senior Unsecured (32 Issues)	A/A-1
Senior Unsecured (7 Issues)	A/NR
Mississippi Power Co.	
Issuer Credit Rating	A/Stable/A-1
Preferred Stock (4 Issues)	BBB+
Senior Secured (1 Issue)	A+/A-1
Senior Unsecured (5 Issues)	A
Senior Unsecured (3 Issues)	A/A-1
Southern Co.	
Issuer Credit Rating	A/Stable/A-1
Commercial Paper	
Local Currency	A-1
Preferred Stock (2 Issues)	BBB+
Senior Unsecured (4 Issues)	A-
Southern Company Capital Funding, Inc.	
Senior Unsecured (1 Issue)	A-
Southern Company Funding Corp.	
Issuer Credit Rating	--/--/A-1
Commercial Paper	
Local Currency	A-1
Southern Co. Services Inc.	
Issuer Credit Rating	A/Stable/--
Southern Electric Generating Co.	
Issuer Credit Rating	A/Stable/NR
Senior Unsecured (1 Issue)	A
Southern Power Co.	
Issuer Credit Rating	BBB+/Stable/A-2
Commercial Paper	
Local Currency	A-2
Senior Unsecured (3 Issues)	BBB+

*Unless otherwise noted, all ratings in this report are global scale ratings. Standard & Poor's credit ratings on the global scale are comparable across countries. Standard & Poor's credit ratings on a national scale are relative to obligors or obligations within that specific country.

PARENT DEBT ADJUSTMENT RULE 25-14.004

25-14.004 Effect of Parent Debt on Federal Corporate Income Tax.

In Commission proceedings to establish revenue requirements or address over-earnings, other than those entered into under Rule 25-14.003, F.A.C., the income tax expense of a regulated company shall be adjusted to reflect the income tax expense of the parent debt that may be invested in the equity of the subsidiary where a parent-subsidiary relationship exists and the parties to the relationship join in the filing of a consolidated income tax return.

(1) Where the regulated utility is a subsidiary of a single parent, the income tax effect of the parent's debt invested in the equity of the subsidiary utility shall reduce the income tax expense of the utility.

(2) Where the regulated utility is a subsidiary of tiered parents, the adjusted income tax effect of the debt of all parents invested in the equity of the subsidiary utility shall reduce the income tax expense of the utility.

(3) The capital structure of the parent used to make the adjustment shall include at least long term debt, short term debt, common stock, cost free capital and investment tax credits, excluding retained earnings of the subsidiaries. It shall be a rebuttable presumption that a parent's investment in any subsidiary or in its own operations shall be considered to have been made in the same ratios as exist in the parent's overall capital structure.

(4) The adjustment shall be made by multiplying the debt ratio of the parent by the debt cost of the parent. This product shall be multiplied by the statutory tax rate applicable to the consolidated entity. This result shall be multiplied by the equity dollars of the subsidiary, excluding its retained earnings. The resulting dollar amount shall be used to adjust the income tax expense of the utility.

Specific Authority 350.127(2) FS. Law Implemented 366.05(1), 364.03, 364.035, 367.121(1)(a) FS. History–New 1-25-83, Formerly 25-14.04.

Florida Public Service Commission
Docket No. 110138-EI
GULF POWER COMPANY
Witness: R. S. Teel
Exhibit No. ____ (RST-1)
Schedule 11
Page 1 of 1

Gulf Power Dividends Compared To
Southern Company Capital Contributions
January 2003 to March 2011
(In thousands $)

Year	Gulf Dividends to Southern	Gulf Equity from Southern	Net Cash To (From) Southern
2003	70,200	10,000	60,200
2004	70,000	25,000	45,000
2005	68,400	0	68,400
2006	70,300	21,000	49,300
2007	74,100	80,000	(5,900)
2008	81,700	71,000	10,700
2009	89,300	152,000	(62,700)
2010	104,300	50,000	54,300
* 2011	27,500	50,000	(22,500)
	655,800	**459,000**	**196,800**

* Through March 2011