

Robert L. McGee, Jr.
Regulatory & Pricing Manager

One Energy Place
Pensacola, Florida 32520-0780

Tel 850.444.6530
Fax 850.444.6026
RLMCGEE@southernco.com



March 9, 2016

Mr. Bart Fletcher
Division of Accounting and Finance
Florida Public Service Commission
2540 Shumard Oak Boulevard
Tallahassee, FL 32399-0850

RE: Forecasted Earnings Surveillance Report for Calendar Year 2016

Dear Mr. Fletcher:

Attached is Gulf Power Company's Forecasted Earnings Surveillance Report for the calendar year 2016.

Sincerely,

A handwritten signature in black ink that reads "Robert L. McGee, Jr." with a stylized flourish at the end.

Robert L. McGee, Jr.
Regulatory and Pricing Manager

md

Attachments

cc/att.: Office of the Public Counsel
c/o Florida Legislature
111 W. Madison, Rm. 801
Tallahassee FL 32399-1400

GOV 2-1-5-3

RECEIVED
FLORIDA PUBLIC SERVICE
COMMISSION
2016 MAR 10 PM 12:37
DIVISION OF
ACCOUNTING & FINANCE

**FLORIDA PUBLIC SERVICE COMMISSION
ELECTRIC FORECASTED EARNINGS SURVEILLANCE REPORT
GULF POWER COMPANY
2016**

SCHEDULE 1

	(1) Actual Per Books	(2) FPSC Adjustments	(3) FPSC Adjusted
I. Average Rate of Return			
(JURISDICTIONAL)			
	(a)	(b)	
Net Operating Income	\$179,885,793	(\$68,824,393)	\$111,061,400
Average Rate Base	\$3,398,652,770	(\$1,402,222,226)	\$1,996,430,544
Average Rate of Return	5.29%		5.56%

(a) Includes AFUDC Earnings

(b) Includes Reversal of AFUDC Earnings

III. Required Rates of Return

Average Capital Structure
(FPSC Adjusted Basis)

Low	5.20%
Midpoint	5.56%
High	5.93%

IV. Financial Integrity Indicators

A. T.I.E. With AFUDC	4.49 x (System per Books Basis)
B. T.I.E. Without AFUDC	4.49 x (System per Books Basis)
C. AFUDC To Net Income	0.00% (System per Books Basis)
D. Internally Generated Funds	135.58% (System per Books Basis)
E. LTD To Total Investor Funds	45.54% (FPSC Adjusted Basis)
F. STD To Total Investor Funds	1.29% (FPSC Adjusted Basis)
G. Return on Common Equity	10.25% (FPSC Adjusted Basis)

FLORIDA PUBLIC SERVICE COMMISSION
ELECTRIC FORECASTED EARNINGS SURVEILLANCE REPORT
AVERAGE RATE OF RETURN
RATE BASE
GULF POWER COMPANY
2016

	PLANT IN SERVICE	ACCUMULATED DEPRECIATION & AMORTIZATION	NET PLANT IN SERVICE	PROPERTY HELD FOR FUTURE USE	CONSTRUCTION WORK IN PROGRESS	NUCLEAR FUEL (NET)	NET UTILITY PLANT	WORKING CAPITAL	TOTAL RATE BASE
SYSTEM PER BOOKS	5,141,590,655	1,607,542,207	3,534,048,448	14,756,744	54,904,364		3,603,709,556	131,068,439	3,734,777,996
JURISDICTIONAL PER BOOKS	4,564,631,467	1,447,193,315	3,117,438,152	14,325,038	48,772,481		3,180,535,672	218,117,098	3,398,652,770
FPSC ADJUSTMENTS									
ENVIRONMENTAL COST RECOVERY CLAUSE	(1,373,931,178)	(215,630,386)	(1,158,300,793)		(9,399,614)		(1,167,700,407)	(6,128,931)	(1,173,829,338)
INT BEARING CWIP					(5,389)		(5,389)		(5,389)
ENERGY CONSERVATION CLAUSE	(14,713,705)	7,169,234	(21,882,940)				(21,882,940)	(1,519,589)	(23,402,528)
TRANSMISSION INVESTMENT PURSUANT TO STIP. & SETT.	(177,044,601)		(177,044,601)				(177,044,601)		(177,044,601)
CAPITALIZED DEF. EARNINGS ON TRANSM PURSUANT TO STIP. & SETT.								(10,361,815)	(10,361,815)
LOANS TO EMPLOYEES / RETIREES								(59,045)	(59,045)
INTEREST AND DIVIDENDS RECEIVABLE								(23,007)	(23,007)
FUNDED PROP RES, N. ESCAMBIA & OTHER INV.				(12,661,331)			(12,661,331)	(4,358,940)	(17,020,271)
FUEL RELATED DEFERRED DEBITS								(473,954)	(473,954)
UNAMORTIZED RATE CASE EXPENSES								(2,278)	(2,278)
TOTAL FPSC ADJUSTMENTS	(1,565,689,485)	(208,461,152)	(1,357,228,333)	(12,661,331)	(9,405,003)		(1,379,294,668)	(22,927,558)	(1,402,222,226)
FPSC ADJUSTED	2,998,941,982	1,238,732,163	1,760,209,819	1,663,707	39,367,478		1,801,241,004	195,189,540	1,996,430,544

TOTALS MAY NOT ADD DUE TO ROUNDING.

FLORIDA PUBLIC SERVICE COMMISSION
ELECTRIC FORECASTED EARNINGS SURVEILLANCE REPORT
AVERAGE RATE OF RETURN
INCOME STATEMENT
GULF POWER COMPANY
2016

SCHEDULE 2
PAGE 2 OF 3

	OPERATING REVENUES	O & M FUEL & NET INTERCHANGE	O & M OTHER	DEPRECIATION & AMORTIZATION	TAXES OTHER THAN INCOME	INCOME TAXES CURRENT	DEFERRED INCOME TAXES (NET)	INVESTMENT TAX CREDIT (NET)	(GAIN)/LOSS ON DISPOSITION	TOTAL OPERATING EXPENSES	NET OPERATING INCOME
SYSTEM PER BOOKS	1,433,470,448	535,007,205	372,559,654	142,131,202	113,126,251	36,800,933	45,943,884	(511,455)		1,245,057,674	188,412,774 (a)
JURISDICTIONAL PER BOOKS	1,303,321,147	445,767,726	355,574,196	130,432,338	110,984,703	36,630,267	44,300,164	(254,041)		1,123,435,354	179,885,793 (a)
LESS FPSC ADJUSTMENTS:											
RETAIL FUEL REVENUES & EXPENSES	(362,802,312)	(359,895,246)				(1,121,401)				(361,016,646)	(1,785,666)
PURCHASED POWER CAPACITY REVENUES & EXPENSES	(85,653,817)	(85,585,237)				(26,455)				(85,611,691)	(42,125)
ENERGY CONSERVATION COST REVENUES & EXPENSES	(13,184,000)		(10,347,924)	(410,629)	(599,058)	(704,529)				(12,062,141)	(1,121,859)
ENVIRONMENTAL COST RECOVERY CLAUSE	(194,548,000)		(46,457,114)	(49,664,183)	(3,476,697)	(36,626,965)				(136,224,958)	(58,323,042)
FRANCHISE FEE REVENUE & EXPENSE	(40,116,236)				(39,084,446)	(398,013)				(39,482,459)	(633,777)
GROSS RECEIPTS TAX REVENUE & ADJUSTMENT	(30,364,726)				(30,342,864)	(8,433)				(30,351,297)	(13,429)
MARKETING SUPPORT ACTIVITIES			(181,250)			69,917				(111,333)	111,333
WHOLESALE EXPENSES		(287,244)				110,804				(176,440)	176,440
INSTITUTIONAL ADVERTISING EXPENSE			(441,272)			170,221				(271,051)	271,051
ECONOMIC DEVELOPMENT EXPENSE			(60,184)			23,216				(36,968)	36,968
MGMT FINANCIAL PLANNING SERVICES			(41,582)			16,040				(25,542)	25,542
DIRECTORS' & OFFICERS' INSURANCE			(105,137)			40,557				(64,580)	64,580
INDUSTRY ASSOCIATION DUES			(1,488)			574				(914)	914
TALLAHASSEE LIAISON EXPENSES			(523,508)		(34,446)	215,231				(342,723)	342,723
GRT, FPSC FEES ON CLAUSES & FEES					(1,350,050)	520,782				(829,268)	829,268
INTEREST SYNCHRONIZATION						8,763,315				8,763,315	(8,763,315)
TOTAL FPSC ADJUSTMENTS	(726,669,091)	(445,767,726)	(58,159,459)	(50,074,812)	(74,887,560)	(28,955,140)				(657,844,698)	(68,824,393)
FPSC ADJUSTED	576,652,056		297,414,737	80,357,526	36,097,142	7,675,127	44,300,164	(254,041)		465,590,656	111,061,400

(a) THE ADDITION OF EARNINGS FROM AFUDC WOULD INCREASE THE SYSTEM NOI BY TOTALS MAY NOT ADD DUE TO ROUNDING.

0 AND THE JURISDICTIONAL NOI BY 0

FLORIDA PUBLIC SERVICE COMMISSION
ELECTRIC FORECASTED EARNINGS SURVEILLANCE REPORT
AVERAGE RATE OF RETURN
SYSTEM ADJUSTMENTS
GULF POWER COMPANY
2018

SCHEDULE 2
PAGE 3 OF 3

RATE BASE ADJUSTMENTS	AMOUNT	NET OPERATING INCOME STATEMENT ADJUSTMENTS	AMOUNT	TAX EFFECT
ENVIRONMENTAL COST RECOVERY CLAUSE INVESTMENT	(1,415,420,993)	FUEL & IIC FUEL REVENUES AND ECONOMY PROFITS	(450,546,610)	(173,798,355)
ACCUMULATED DEPRECIATION	222,141,967	ENVIRONMENTAL COST RECOVERY CLAUSE REVENUES	(200,577,767)	(77,372,874)
CWIP	(9,683,463)	PURCHASED POWER CAPACITY COST CLAUSE REVENUES	(85,653,817)	(33,040,960)
ENERGY CONSERVATION COST RECOVERY INVESTMENT	(14,713,705)	ENERGY CONSERVATION COST RECOVERY CLAUSE REVENUES	(13,184,000)	(5,085,728)
ACCUMULATED DEPRECIATION	(7,169,234)	FUEL EXPENSE	(446,543,956)	172,254,331
CWIP	0	PURCHASED POWER CAPACITY COST EXPENSE	(88,167,250)	34,010,517
TRANSMISSION PURSUANT TO STIP. & SETT. INVESTMENT	(177,044,601)	CONSERVATION EXPENSES -DEPRECIATION AND O & M	(10,758,553)	4,150,112
FAS 143 NET PLANT	(89,715,380)	CONSERVATION EXPENSES - OTHER TAXES	(599,058)	231,087
INTEREST BEARING CWIP	(5,517)	ENVIRONMENTAL COST RECOVERY EXPENSE	(102,557,300)	39,561,478
PHFU - NORTH ESCAMBIA	(13,042,899)	FRANCHISE FEE REVENUES	(40,116,236)	(15,474,838)
WORKING CAPITAL:		FRANCHISE FEE	(39,084,446)	15,076,825
ECRC WORKING CAPITAL	(6,314,012)	GROSS RECEIPTS TAX REVENUES	(30,364,726)	(11,713,193)
CONSERVATION/AEM INVENTORY	(1,519,589)	GROSS RECEIPTS TAX EXPENSE	(30,342,864)	11,704,760
CAPITALIZED DEF. EARNINGS ON PURSUANT TO STIP. & SETT.	(10,361,815)	MARKETING SUPPORT ACTIVITIES	(181,250)	69,917
FUNDED PROPERTY RESERVE - NET	(0)	WHOLESALE EXPENSE	(295,999)	114,181
LOANS TO EMPLOYEES AND RETIREES	(61,623)	INSTITUTIONAL ADVERTISING EXPENSE	(449,965)	173,574
INTEREST & DIVIDENDS RECEIVABLE	(24,012)	ECONOMIC DEVELOPMENT EXPENSE	(60,184)	23,216
NORTH ESCAMBIA SITE	(4,549,398)	MGMT FINANCIAL PLANNING SERVICES	(42,500)	16,394
UNAMORTIZED RATE CASE EXPENSE	(2,378)	DIRECTORS' & OFFICERS' INSURANCE	(107,458)	41,452
FUEL RELATED DEFERRED DEBITS	(473,954)	INDUSTRY ASSOCIATION DUES	(1,517)	585
FAS 143 WORKING CAPITAL	103,017,182	TALLAHASSEE LIAISON EXPENSE	(570,282)	219,986
FAS 158 REGULATORY ASSETS	(163,945,822)	GRT/FPSC FEES ON CLAUSE REV ADJ & FRAN FEES	(1,350,050)	520,782
FAS 158 REGULATORY LIABILITIES	163,945,822	INTEREST SYNCHRONIZATION	8,932,300	8,932,300
PPA REGULATORY ASSETS	(152,083,395)			
PPA REGULATORY LIABILITIES	152,083,395			
FAS 133 REGULATORY ASSETS	(99,766,557)			
FAS 133 REGULATORY LIABILITIES	99,766,557			

FLORIDA PUBLIC SERVICE COMMISSION
 ELECTRIC FORECASTED EARNINGS SURVEILLANCE REPORT
 CAPITAL STRUCTURE
 FPSC ADJUSTED BASIS
 GULF POWER COMPANY
 2016

SCHEDULE 3

AVERAGE	SYSTEM PER BOOKS	RETAIL PER BOOKS	ADJUSTMENTS		ADJUSTED RETAIL	RATIO (%)	LOW POINT		MIDPOINT		HIGH POINT	
			PRO RATA	SPECIFIC			COST RATE (%)	WEIGHTED COST (%)	COST RATE (%)	WEIGHTED COST (%)	COST RATE (%)	WEIGHTED COST (%)
LONG TERM DEBT	1,291,439,698	1,170,577,078	(482,958,988)	0	687,618,090	34.44	4.54	1.56	4.54	1.56	4.54	1.56
SHORT TERM DEBT	36,957,794	33,032,162	(13,628,198)	0	19,403,964	0.97	1.42	0.01	1.42	0.01	1.42	0.01
PREFERENCE STOCK	146,504,320	132,792,647	(54,787,627)	0	78,005,020	3.91	6.15	0.24	6.15	0.24	6.15	0.24
CUSTOMER DEPOSITS	36,076,155	36,087,647	(14,888,796)	0	21,198,851	1.06	2.30	0.02	2.30	0.02	2.30	0.02
COMMON EQUITY	1,355,443,557	1,234,060,251	(509,151,097)	0	724,909,154	36.31	9.25	3.36	10.25	3.72	11.25	4.08
DEFERRED INCOME TAXES	914,929,815	841,733,300	(347,284,172)	0	494,449,128	24.77						
FASB 109 DEFERRED TAXES	(54,433,782)	(50,079,013)	20,661,745	0	(29,417,268)	-1.47						
TAX CREDITS - ZERO COST	0	0	0	0	0	0.00						
TAX CREDITS - WEIGHTED COST	1,825,722	448,697	(185,093)	0	263,604	0.01	6.91	0.00	7.40	0.00	7.89	0.00
TOTAL	3,728,743,279	3,398,652,770	(1,402,222,226)	0	1,996,430,544	100.00		5.20 %		5.56 %		5.93 %

TOTALS MAY NOT ADD DUE TO ROUNDING.

**FLORIDA PUBLIC SERVICE COMMISSION
ELECTRIC FORECASTED EARNINGS SURVEILLANCE REPORT
FINANCIAL INTEGRITY INDICATORS
GULF POWER COMPANY
2016**

SCHEDULE 4

A. Times Interest Earned with AFUDC

Earnings Before Interest	187,709,153
AFUDC - Debt	0
Income Taxes	<u>82,846,992</u>
Total	270,556,145
Interest Charges (Before Deducting AFUDC - Debt) Tie With AFUDC	<u>60,260,942</u> <u>4.49 x</u>

B. Times Interest Earned without AFUDC

Earnings Before Interest	187,709,153
AFUDC - Other	0
Income Taxes	<u>82,846,992</u>
Total	270,556,145
Interest Charges (Before Deducting AFUDC - Debt) Tie Without AFUDC	<u>60,260,942</u> <u>4.49 x</u>

**C. Percent AFUDC To Net Income Available
for Common Stockholders**

AFUDC - Debt	0
X (1 - Income Tax Rate)	<u>0.6143</u>
Subtotal	0
AFUDC - Other	<u>0</u>
Total	<u>0</u>
Net Income Available for Common Stockholders	<u>118,445,711</u>
Percent AFUDC to Available Net Income	<u>0.00%</u>

D. Percent Internally Generated Funds

Net Income	127,448,211
Preference Dividends	(9,002,500)
Common Dividends	(120,068,000)
AFUDC (Debt & Other)	0
Depreciation & Amortization	146,783,784
Deferred Income Taxes	45,943,884
Investment Tax Credits	0
Other	<u>100,713,258</u>
Total	291,818,637
Construction Expenditures (Excluding AFUDC Other & Debt)	<u>215,237,208</u>
Percent Internally Generated Funds	<u>135.58%</u>

TOTALS MAY NOT ADD DUE TO ROUNDING.

**E. Long Term Debt as Percent of Total
Investor Capital**

F. Short Term Debt as Percent of Total Investor Capital

Reconciled Average Retail Amounts	
Long Term Debt	687,618,090
Short Term Debt	19,403,964
Preference Stock	78,005,020
Common Equity	<u>724,909,154</u>
Total	1,509,936,229
% Long Term Debt To Total	<u>45.54%</u>
% Short Term Debt To Total	<u>1.29%</u>

**G. FPSC Adjusted Average Jurisdictional Return
On Common Equity**

	G. FPSC ADJ.
FPSC Adjusted Average Eamed Rate of Return	<u>5.56%</u>
Less: Reconciled Average Retail Weighted Cost Rates For:	
Long Term Debt	(1.56)
Short Term Debt	(0.01)
Preference Stock	(0.24)
Customer Deposits	(0.02)
Tax Credits - Weighted Cost	(0.00)
Subtotal	<u>(1.84)</u>
Total	3.72
Divided by Common Equity Ratio	<u>36.31</u>
Jurisdictional Return on Common Equity	<u>10.25%</u>

FORECAST ASSUMPTIONS

<u>Customers (Avg.)</u>	<u>2016 Forecast</u>	<u>2015 Actual</u>
Residential	395,467	391,465
Commercial	55,835	55,234
Industrial	251	249
Other	609	609
Total	<u>452,162</u>	<u>447,556</u>

<u>KWH Sales</u>		
Residential	5,282,467,129	5,364,991,178
Commercial	3,897,099,542	3,897,657,910
Industrial	1,702,526,934	1,798,021,448
Other	24,511,044	25,201,386
Inter Departmental	0	0
Total	<u>10,906,604,649</u>	<u>11,085,871,922</u>

See Attached For Additional Information

I am aware that Section 837.06, Florida Statutes, provides:

Whoever knowingly makes a false statement in writing with the intent to mislead a public servant in the performance of his official duty shall be guilty of a misdemeanor of the second degree, punishable as provided in s. 775.082, s. 775.083, or s. 775.084.

Susan D. Ritenour _____

Name

Susan D. Ritenour

Signature

Corporate Planning Manager, Corporate Treasurer & Secretary

Title

Date

7/26/16

**FLORIDA PUBLIC SERVICE COMMISSION
ELECTRIC FORECASTED EARNINGS SURVEILLANCE REPORT
GULF POWER COMPANY
2016 FORECAST ASSUMPTIONS**

Attachment to Schedule 5

The forecast of energy sales for 2016 assumes the number of customers is expected to grow in 2016, reflecting continued improvements to the economy in Northwest Florida. Economic projections were from Moody's Analytics October 2015 forecast. Normal weather conditions are assumed for the year. Energy sales and peak demand forecasts include the effects of Gulf's conservation programs and other marketplace initiatives. The resulting 2016 sales forecast reflects our latest estimate of growth. Base rate revenues were calculated using the FPSC approved rates per Order No. PSC-13-0670-S-EI, issued December 19, 2013.

The forecasted levels of operations and maintenance expense and capital additions are necessary to properly fund the projects and activities required to meet the company's customer service and reliability requirements and compliance with all regulatory and legal requirements. These projections include the estimated impacts of inflation and customer growth in addition to changing regulations and other changes to business processes and or requirements.

With the exception of the AMI meter depreciation life of 15 years and non-AMI meter amortization of 8 years, as ordered in Docket No. 110138-EI, depreciation and dismantlement expense is based on rates approved by the FPSC in Docket 090319-EI, Order No. PSC-10-0458-PAA-EI. These rates remain in effect pursuant to the terms of the Stipulation and Settlement Agreement approved by the Commission in Docket 130140-EI, Order No. PSC-13-0670-S-EI dated December 19, 2013.

Interest rate assumptions were based upon interest rate forecasts obtained from Moody's Analytics, June 2015 data.

FLORIDA PUBLIC SERVICE COMMISSION
ELECTRIC FORECASTED EARNINGS SURVEILLANCE REPORT
FORECAST ASSUMPTIONS
GULF POWER COMPANY
2016

Supplemental Schedule

(\$ 000's)

Projects Estimated To Exceed \$10,000,000 Commencing This Period

<u>Project Description</u>	<u>Estimated Total Cost</u>	<u>Estimated Construction Start Date</u>	<u>Estimated In - Service Date</u>
ECRC -AIR - CRIST U4-7 DRY BOTTOM ASH	12,200	January 2016	December 2018
PENS DISTRICT-CONSOL CUST SVC FACIL	12,000	April 2016	June 2017