

State of Florida



Public Service Commission

CAPITAL CIRCLE OFFICE CENTER • 2540 SHUMARD OAK BOULEVARD
TALLAHASSEE, FLORIDA 32399-0850

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

DATE: May 6, 2010

TO: Office of Commission Clerk (Cole)

FROM: Division of Economic Regulation (Lee, Davis, L'Amoreaux, Maurey, Ollila, *MS* Springer) Office of the General Counsel (Fleming) *JB*

DLG *WLD* *ALM* *SO* *CR*

RE: Docket No. 090319-EI – Depreciation and dismantlement study at December 31, 2009, by Gulf Power Company.

AGENDA: 05/18/10 – Regular Agenda – Proposed Agency Action – Interested Persons May Participate

COMMISSIONERS ASSIGNED: All Commissioners

PREHEARING OFFICER: Skop

CRITICAL DATES: None

SPECIAL INSTRUCTIONS: None

FILE NAME AND LOCATION: S:\PSC\ECR\WP\090319.RCM.DOC

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Case Background

By Order Nos. PSC-06-0348-PAA-EI and PSC-07-0012-PAA-EI, issued April 24, 2006 and January 2, 2007, respectively, in Docket No. 050381-EI, In re: Depreciation and dismantlement study at December 31, 2005, by Gulf Power Company, the Commission approved Gulf Power Company's (Gulf or Company) current depreciation rates, amortization schedules, and annual dismantlement provision, effective January 1, 2006. Rules 25-6.0436 and 25-6.04364, Florida Administrative Code (F.A.C.), require investor-owned utilities to file a comprehensive depreciation study and site-specific dismantlement study for each fossil fueled generating site at least once every four years from the submission date of the previously filed study. On May 27, 2009, Gulf filed its regular depreciation and dismantlement studies in

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accordance with these rules. Staff has completed its review of the studies and presents its recommendations herein.

The Commission has jurisdiction over these matters through several provisions of Chapter 366, Florida Statutes (F.S.), including Sections 366.04, 366.05, and 366.06, F.S.

Discussion of Issues

Issue 1: Should Gulf's current depreciation rates, amortization and capital recovery schedules, and provision for dismantlement be changed?

Recommendation: Yes. A review of the Company's planning and activity indicates the need for revising its depreciation rates, amortization and capital recovery schedules, and provision for dismantlement. (P. Lee)

Staff Analysis: Gulf's current depreciation rates, amortization schedules, and dismantlement provision were approved effective January 1, 2006, and modified for the coal generating plants Crist Units 4-7, and Smith Units 1 and 2; and the combined cycle plant Smith Unit 3, effective January 1, 2007. Since the time of the last depreciation and dismantlement studies, changes brought about by Company activity and planning suggest the need to review and revise depreciation rates, amortization and capital recovery schedules, and the provision for dismantlement, where warranted.

In its depreciation study, Gulf stratified production plant investments into homogeneous categories within each account at each generation site. As a result of this stratification, recovery provisions can be more closely matched to the life characteristics of specific categories of investment made to provide for the generation of electric power. Also, Gulf identified major upgrades planned at the Crist and Daniel steam plants, specifically at Crist Units 6 and 7 and Daniel Unit 1, during the next four years that will result in the retirement of certain unrecovered investments. Additionally, Gulf identified the distribution house power panel investment as a dying account. Further, Gulf identified meter investments planned for replacement in the next four years in connection with its Advanced Meter Infrastructure (AMI) program. Finally, Gulf has extended the lives of the Daniel and Scherer coal plants by ten years and the Smith Unit 3 combined cycle plant by five years. Taken together with changes in net plant balances, a need for review and revision of recovery and dismantlement provisions is indicated.

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Issue 2: What should be the implementation date for the recommended depreciation rates, amortization and capital recovery schedules, and dismantlement provision?

Recommendation: Staff recommends approval of the Company's proposed January 1, 2010 date of implementation for the new depreciation rates, amortization and capital recovery schedules, and dismantlement provision. (P. Lee)

Staff Analysis: Gulf has proposed a January 1, 2010 implementation date for revised depreciation rates and annual dismantlement provision. Rule 25-6.0436, F.A.C., requires that data submitted in a depreciation study, including plant and reserve balances, be brought to the effective date of the proposed rates. In this regard, Gulf's submitted data and calculations about its proposed January 1, 2010 date. Staff therefore recommends approval of Gulf's proposed implementation date as being the earliest practicable date for utilizing the revised rates, amortization and capital recovery schedules, and dismantlement accruals.

Issue 3: What, if any, capital recovery schedules should be approved?

Recommendation: Staff recommends the capital recovery schedules shown on Attachment A, page 21. These schedules address the recovery of near-term unrecovered retiring investments. The designated recovery periods closely match the remaining period the related assets will provide service to the public. The investments and associated reserves, including any reserve allocations addressed in Issue 4, should be withdrawn from their parent accounts and placed in separate subaccounts or categories. Monthly expenses for each schedule should be determined by dividing the net plant for each month by the planned remaining months in service. This mechanism will adjust for any shifts in plans or unexpected salvage. The annual expense impact over the four-year period covered by the recovery schedules would be zero dollars due to the recommended reserve allocations discussed in Issue 4. (P. Lee)

Staff Analysis: Gulf contends that the use of capital recovery schedules is contrary to the Commission's practice of utilizing Group Accounting procedures for depreciation. Gulf states that under group depreciation, the original cost of a retired asset is charged against the depreciation reserve without regard to when the item is retired. Any reserve imbalances resulting from the retirement are recovered over the remaining life of those assets remaining in service. Gulf asserts that group accounting enables utilities to efficiently maintain depreciation accounting records in a cost-effective manner. Gulf contends that the use of capital recovery schedules 1) diminishes the efficiencies gained by using group depreciation, and (2) can distort the average service life and depreciation rate of the related group of assets. Thus, Gulf believes that the remaining life concept is more appropriate than capital recovery schedules.

Where investments are identified as retiring in the near-term and not fully recovered by the time of retirement through the normal depreciation process, Rule 25-6.0436(10), F.A.C., provides that the net unrecovered investments be placed on capital recovery schedules and amortized over the remaining period the investments will provide service. Such has been the normal practice of the Commission for over 20 years. This mechanism provides the matching of expenses to the period of service being rendered. Otherwise, a negative reserve component will result relating to plant no longer providing service. A negative reserve component translates into a positive rate base element. Under Gulf's methodology, it will continue to earn a return on this non-existent plant over the life of the group. From the ratepayers' standpoint, they will continue paying for plant no longer providing service until the situation is corrected.

Staff submits that the capital recovery schedule mechanism is not contrary to group depreciation. Staff believes that Gulf's disagreement does not lie so much with the mechanism itself, but with the defining of the group. Gulf believes the group is the production site or distribution account for which it has proposed a depreciation rate. Staff submits that the group should be homogenous whether that is at a site level, a unit level, an account level, a subaccount level, or a category level.

The concept of the remaining life approach is to recover the unrecovered capital, including associated net salvage, over the remaining life of the subject assets. These assets are typically gathered into groups, such as accounts, subaccounts, or categories which are believed to be homogeneous as to life and salvage characteristics. Logic dictates that the more homogeneous the group, the more appropriate the capital recovery. Near-term major retirements

have a significantly different remaining life than the average of the existent group. This argues for establishing separate, homogeneous groups for those near-term major retirements which will allow recovery over the remaining life of those related assets. Otherwise, the net investments and removal costs will remain in rate base for years after the assets no longer exist. The recovery of capital over the remaining period it is expected to serve the public is not in conflict with the remaining life concept, but rather, is the remaining life concept.

Staff does not agree with Gulf that the capital recovery schedule mechanism can distort the depreciation rate of the related group. To the contrary, the mechanism provides that the quantified investments planned for near-term retirement be withdrawn from the group or account and recovered over their remaining period in service. A service life and remaining life are then developed for the remaining assets in the group, whether that is at a site level, a unit level, an account level, a subaccount level, or a category level.

In this case, Gulf did not propose any capital recovery schedules but did identify certain net unrecovered investments planned for near-term retirement in connection with major overhaul projects planned for specific production units and its AMI program for the period January 1, 2010, through December 31, 2013. As provided in Rule 25-6.0436(10), F.A.C., staff recommends recovery periods tailored to the remaining period the related equipment is planned by the Company to be in service. The investments and associated reserves, including any reserve allocations addressed in Issue 4, should be withdrawn from their parent accounts and placed in separate subaccounts or categories. Monthly expenses for each schedule should be determined by dividing the net plant for each month by the planned remaining months in service. This mechanism will adjust for any shifts in plans or unexpected salvage.

Capital Recovery Schedules

Order No. PSC-02-1396-PAA-EI, issued October 9, 2002, in Docket No. 020943-EI, In re: Petition for approval of Agreement for Purpose of Ensuring Compliance with Ozone Ambient Air Quality Standards between Gulf Power Company and Florida Department of Environmental Protection pursuant to Section 366.8255(1)(d)7, F.S., for purposes of cost recovery of related expenditures and expenses through environmental cost recovery clause, directed Gulf to depreciate/amortize Crist Units 1, 2, and 3 to reflect a December 31, 2011 retirement date. Gulf's forecast analysis determines the life and salvage for each Crist unit and then develops the parameters on a site basis. By applying one depreciation rate to all seven Crist units, those retiring in 2011 will not be fully recovered, thus creating a negative reserve component that will not be recovered until the last Crist unit is retired. Given that units 1, 2, and 3 are to be recovered based on a December 31, 2011 retirement date, staff believes the associated net investments should be withdrawn from the other Crist investments and recovered over the next two years. According to the current study, the investment and reserve associated with Crist Units 1, 2, and 3 are \$10,692,669 and \$10,648,149, respectively, resulting in net unrecovered investment of \$44,520.

In response to a staff data request, Gulf identified major upgrades planned at Crist Units 6 and 7, and Daniel Unit 1 during the next four years. The upgrades include the retirement of the Crist Units 6 and 7 reheaters as well as the Crist Unit 7 voltage regulator and rotating exciter, and rotor replacement at Daniel Unit 1. The Company identified that investments totaling

\$10,605,152 with associated reserves of \$6,042,727 are planned to retire in connection with these upgrades. The Company expects to realize \$30,000 in gross salvage from the retirement of the Crist Unit 6 reheater and expects to incur \$1,104,308 to remove the retiring equipment. Staff believes that the related net unrecovered costs of \$5,636,733 associated with these near-term retirements should be withdrawn from the respective sites, placed on capital recovery schedules, and amortized over four years.

House power panels (Account 369.3) were offered to the public in a program to replace the old style 60 amp meter cans. According to Gulf, this program was canceled in the early 1980's since electrical codes and standards required higher ampacity ratings. No additions have been made to this account since 1986, while retirements increased during the same time period, with the last four years averaging \$336,942. Gulf characterizes this account as a "dying account," because there will be no replacement with any other equipment. The investment and reserve balances as of December 31, 2009, are \$1,666,102 and \$1,431,512, respectively. Gulf anticipates no net salvage upon retirement of the related assets, as removal is typically performed by a contractor working on behalf of the customer to upgrade the home's electrical service. Staff believes the remaining net investment of \$234,590 should be placed on a capital recovery schedule and amortized over four years.

In the instant depreciation study, Gulf identified meter investments of \$12,176,660 that will retire over the 2010-2013 period in connection with its AMI program. The reserve associated with the near-term retiring investments is estimated at \$4,352,459 with anticipated removal costs of \$1,826,499. Staff believes the associated net investments of \$9,650,700 should be withdrawn from the meter account, placed in a separate category, and amortized over the remaining service period of four years.

Conclusion

Staff recommends the capital recovery schedules shown on Attachment A, page 21. These schedules address the recovery of near-term unrecovered retiring investments. The designated recovery periods closely match the remaining period the related assets will provide service to the public. The investments and associated reserves, including any reserve allocations addressed in Issue 4, should be withdrawn from their parent accounts and placed in separate subaccounts or categories. Monthly expenses for each schedule should be determined by dividing the net plant for each month by the planned remaining months in service. This mechanism will adjust for any shifts in plans or unexpected salvage. The annual expense impact over the four-year period covered by the recovery schedules would be zero dollars due to the recommended reserve allocations discussed in Issue 4.

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Issue 4: What, if any, corrective reserve allocations should be made?

Recommendation: Staff recommends the corrective reserve allocations shown on Attachment B, page 22, to correct the quantified reserve imbalances. (P. Lee, L'Amoreaux)

Staff Analysis: This study affords staff and the Company the opportunity to review the reserve status of all production plants and all transmission, distribution, and general plant accounts. When significant surpluses and deficits exist, the Commission has previously found that corrective reserve allocations between accounts or an amortization should be considered. Due to the effect reserve allocations may have on jurisdictional separations, purchased power agreements, or other lease arrangements, staff's approach to reserve allocations is that ideally they be made between accounts of a given unit or function. The allocations discussed below and shown on Attachment B, address major imbalances generally brought about by changes in life estimates.

Gulf projects considerable retirements in the 2010-2014 period due to major overhauls and the AMI replacement program. As discussed in Issue 3, the staff recommendation is to place these near-term retirements on capital recovery schedules, as is the customary procedure. Staff recommends that the reserve surplus existing in production plant be used to offset the unrecovered costs associated with the retirement of Crist Units 1-3 and the planned upgrades at Crist Units 6 and 7, and Daniel Unit 1. Similarly, the reserve surplus in several distribution accounts can be used to offset the unrecovered costs associated with the recovery schedules addressing the retirement of the house power panel services account and the meters planned for replacement in connection with Gulf's AMI program.

Issue 5: What are the appropriate depreciation rates and amortization schedules?

Recommendation: Staff's recommended lives, net salvage values, reserves, and resultant depreciation rates are shown on Attachment C, pages 23-24. The rates, based on actual January 1, 2010 investments, would result in annual expenses of approximately \$110.9 million as summarized on Attachment D, pages 25-26. This represents an increase of approximately \$1.7 million compared to the effect from rates currently ordered. Excluding Plant Scherer, recommended depreciation rates result in annual expenses of approximately \$105.6 million, or an increase of approximately \$0.7 million compared to current approved depreciation rates. (P. Lee, Ollila, L'Amoreaux)

Staff Analysis: Staff's recommendations are the result of a comprehensive review of Gulf's submitted study. Attachment C, pages 23-24, shows a comparison of rate components (lives, salvage values, and reserve percentages) between those currently approved, those proposed by the Company, and those recommended by staff. Attachment D, pages 25-26, shows the estimated resultant annual expenses. Reserve positions have been restated to reflect the corrective actions recommended in Issue 4.

A summary of the changes in annual expenses, subject to rounding, by plant function is as follows:

Function	
Production	\$ 3,528,640
Transmission	(395,785)
Distribution	(894,882)
General	492,543
Recovery Schedules	(1,063,370)
Total Change in Annual Expenses	\$ 1,667,146
Less Scherer Unit 3	(935,203)
Change in Expenses Less Scherer Unit 3	\$ 731,943

The instant proceeding is a comprehensive review of the lives, salvage values, and resulting depreciation rates for Gulf. The most significant changes in expenses are seen in the area of production plant, specifically Crist Units 4-7. The investment at these units has increased approximately 48 percent since the Company's 2006 amended depreciation study, the majority of which reflects the installation of a scrubber to meet environmental regulations. Other changes in expenses reflect the effect of the recommended reserve allocations, increased lives in transmission and distribution plant, and decreased remaining lives for several general plant accounts reflecting increased average ages.

Production

Gulf's generating facilities consist of eleven fossil steam units, one combined cycle unit, and four combustion turbines. This includes a 50 percent ownership in Mississippi Power

Company's Daniel Units 1 and 2, and a 25 percent ownership in Georgia Power Company's Scherer Unit 3.

As in previously filed depreciation studies, Gulf has utilized its continuing property record system to provide in-depth stratified information for the assets in an account at a specific unit. A generating station, or a generating unit, can be looked at as a box containing an assortment of various types of assets which can be expected to experience varied service lives. Stratification is the determination that a particular account at a particular unit has a specific dollar amount of pumps, piping, rotors, or structures, etc., with each of these strata expected to have a certain service life. Gulf's engineers, in conjunction with accounting personnel, stratified the retirement units¹ in production plant into categories with life expectancies of 20 years, 35 years, and the full life span of the plant. The life of the account is then determined by compositing the life expectancy of the various strata. This approach provides a more accurate determination of the required depreciation components than an approach of determining the pattern of interim retirements and life expectancy of the generating plant without identifying the specific plant components or quantifying the varying life characteristics of the assets.

Gulf continues to propose depreciation rates by site even though the development of its life parameters is provided for each account within each unit for each site. Ideally, where large components of investment have a life foreseeably different from the average, there is an argument for separate rates. Such rates might be developed by unit within the plant site, or for some major project that will require retiring substantial dollars before recovery. According to Gulf, this would increase the record keeping and accounting activities to perform, and thus an increase in the administrative costs to accommodate the additional level of detail. Gulf asserts that application of a composite rate for each site results in essentially the same amount of depreciation expense and reserve as applying individual rates by account, unit, or plant.

Staff's recommendation in this proceeding is to maintain depreciation rates at a site level. However, this recommendation should not be construed to mean that further subcategorization may not be in order in the future. The need for additional subcategorization will be addressed in future depreciation prescriptions as circumstances change and life patterns for the various strata become more refined. The goal is to match recovery with consumption.

Plant Daniel, Plant Scherer, and Smith Unit 3

Gulf's depreciation study reflects increased life spans² for the Plant Daniel and Plant Scherer steam plants, from 55 years to 65 years (10 years), and for the Smith Unit 3 Combined Cycle Plant, from 35 years to 40 years (5 years). According to the Company, the extended life spans are consistent with the life spans and trends used within the Southern Company system. The Plant Daniel and Plant Scherer units are being equipped with state of the art Selective

¹ Utility property consists of retirement units and minor items of property. A retirement unit is a large identifiable item of plant that, when installed, is capitalized and added to the appropriate plant account and, when retired, with or without replacement, is accounted for by crediting the book cost thereof to the appropriate plant account. A company's list of retirement units is its basis for capitalization.

² The life span of a generating unit is the maximum life expected for any investment from the original in-service year to the estimated retirement date. Interim additions will, by definition, have a shorter life than that of the original investment.

Catalytic Converters (SCR) and Scrubbers to help meet the Clean Air Interstate Rule (CAIR) and the Clean Air Mercury Rule (CAMR) requirements resulting from anticipated 8-hour ozone nonattainment designation, and an anticipated Environmental Protection Agency (EPA) rule for maximum achievable control technology (MACT) for power plant mercury emissions. The Company believes that the addition of these environmental controls provides the ability to operate these facilities long term and allows Gulf to maintain a diverse fuel mix while meeting all air quality standards. In the case of Smith Unit 3, Gulf states that its maintenance practices are such that the unit is now expected to experience a longer life span. Gulf asserts that it conducts maintenance on major equipment such as boilers, turbines, and generators in a manner to maximize the operating value of all these generating facilities. The value provided by effective maintenance and additional environmental controls allows the operation of these facilities longer than previously expected.

Staff compared the life spans of Gulf with those of other regulated Florida electric utilities. With the exception of Plant Scholz, staff believes that Gulf's proposed life spans are reasonable and in line with the electric industry. Staff recognizes that the considerations of factors, such as governmental actions on the federal, state, and the Commission level, new technologies, and growth, will continue to impact the life patterns of various segments of major structures of plant. Staff will continue monitoring the annual status reports and future depreciation studies of the Florida electric utilities for changes in life parameters as a result of new regulations.

The recommended remaining lives for Plant Crist and Plant Daniel are reflective of the investments remaining after those subject to near-term retirement have been withdrawn and placed on capital recovery schedules, as discussed in Issue 3. Using the Company's stratification, the resulting remaining lives are 24 years and 22 years, respectively, for the investments remaining at Plant Crist and Plant Daniel.

Plant Scholz

According to Gulf's depreciation study, Plant Scholz is planned for retirement in 2011. However, Gulf states that the retirement date used in the study is for planning purposes and does not necessarily represent when the unit will cease operations. Gulf explains that retirement assumptions are reviewed and adjusted over time by management based on the information and experience. The decision to retire a generating unit is based on management's evaluation of the continuing economic viability of the unit as compared to alternatives at a particular time. When a depreciation study is prepared, management examines the current assumptions regarding retirement dates and determines whether they continue to reflect current information related to the unit's operations, maintenance, and equipment conditions. When changes such as new laws or regulations are certain enough to reflect in retirement date assumptions, changes in the assumed retirement dates are made.

Recognizing that retirement dates are estimates and are adjusted over time, it would seem probable that Gulf would have solid planning for the retirement of Plant Scholz if retirement in 2011 was imminent. Gulf indicates it plans to add about \$2.5 million at Plant Scholz during 2010 and 2011 to replace equipment and maintain compliance with environmental requirements driven by 316B EPA regulations to prevent impingement of fish and living organisms on the

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rotating screens. All things considered, staff believes assuming a retirement date of 2014 for depreciation purposes is reasonable. Using the Company's stratification, the resulting remaining life is 4.5 years. If circumstances change and the actual retirement is planned prior to 2014, Gulf should request a capital recovery schedule for the remaining net unrecovered costs to ensure the recovery of the assets over their remaining service life.

Scherer Unit 3

Scherer Unit 3 is completely dedicated to wholesale unit power sale contracts. By Order No. 23573, issued October 3, 1990, in Docket No. 891345-EI, In re: Petition of Gulf Power Company for an increase in its rates and charges, Scherer Unit 3 was excluded from rate base since the Company began selling the capacity from the unit as wholesale unit power sales in 1992. The order states that the arrangement will continue until 2010. According to Gulf, Scherer Unit 3 continues to be dedicated to wholesale contracts. Staff will continue to review the life and salvage parameters in establishing the depreciation rate for Scherer Unit 3, but will not include the resulting depreciation expense in the overall calculations of depreciation expenses for Florida's ratepayers.

Production Interim Net Salvage

In estimating net salvage for production plant, Gulf analyzed historical net salvage data for the period 1981 through 2008 for all steam production and other production plants, respectively. The most recent four- and five-year banded data for steam production reflects negative net salvage of 29 percent and 30 percent, respectively. Gulf concludes that the data indicates no change from the 2005 depreciation study of negative 20 percent. Staff believes that Gulf's conclusion may be understating future net salvage, but nevertheless finds it acceptable. Staff's recommended net salvage values reflect the effects of interim retirements based on Gulf's stratification.

Other Production

The largest increase in other production depreciation expense is attributable to an increased depreciation rate for the Plant Smith Combustion Turbine. Most of this increase is due to the staff recommended transfer of the perceived reserve surplus to offset unrecovered net investments associated with staff's recommended capital recovery schedules. Correcting the existing reserve surplus results in an increased depreciation rate due to the lower reserve position.

Gulf's proposed negative net salvage of 5 percent for other production plants indicates no change from prior depreciation studies. Staff believes this is reasonable. The staff recommended net salvage values reflect the effects of interim retirements based on Gulf's stratification.

Production Amortizable Accounts

The amortizable production plant investments represent high volume items of small value which do not warrant individual tracking. The amortizable property is of a general plant nature

and mirrors the general plant amortizations. The five and seven-year amortization periods are in accord with those set forth in Rule 25-6.0142, F.A.C, and the Commission's "List of Retirement Units (Electrical Plant) as of January 1, 2000."

Transmission, Distribution, and General (Mass Property) Accounts

The transmission, distribution, and general plant accounts comprise approximately 40 percent of Gulf's plant investment as of January 1, 2010. These accounts are also known as mass property accounts because every account is comprised of a relatively large number of homogeneous property units (e.g., poles, conductors, or meters), each of which is retired individually.

The accounts and parameters for which Gulf or staff is proposing changes are discussed below. For the other accounts and parameters, staff believes that, based on a review of Gulf's depreciation study, the underlying service lives, retirement dispersions, and net salvage values are still reasonable and appropriate. Staff notes that where there is no change to parameters, the recommended remaining lives reflect an update of each account's activity since the last review.

Transmission

The transmission function consists of eight accounts including easements, structures, poles, and conductors, among others. Transmission represents approximately nine percent of Gulf's plant investment as of January 1, 2010.

Gulf proposed moderate increases in average service life (ASL) for Account 352, Structures and Improvements, and Account 355, Poles and Fixtures, of five and three years, respectively. Gulf also proposed a minor change in the retirement dispersion (or curve) for Account 352, Structures and Improvements. Gulf explained that the reasons for the changes are to move the curve and life closer to historical life indications. Staff reviewed the data for both accounts. The proposed curve change and increases in the ASL are in line with other Florida companies or are moving closer to the ASLs of other Florida companies. Staff believes the proposals are reasonable.

Gulf proposed increases in net salvage for two transmission accounts, Account 354, Towers and Fixtures, and Account 356, Overhead Conductors and Devices. Gulf based its proposed increases of five percentage points for both accounts on recent data and the resulting trends. Staff believes the increases in net salvage are reasonable, as they are in line with each account's data.

There are six transmission accounts for which Gulf proposed no change in the ASL; however, staff believes an increase in the ASL is warranted for two of the accounts. The first is Account 350.2, Easements, with a current and proposed ASL of 60 years. Recent Commission decisions provided for an ASL of 75 years for both Florida Power & Light Company (FPL) and Progress Energy Florida, Inc. (PEF) for this account.³ The second is Account 359, Roads and

³ Order No. PSC-10-0153-FOF-EI, issued in Docket No. 080677-EI, In re: Petition for increase in rates by Florida Power & Light Company and in Docket No. 090130-EI, In re: 2009 depreciation and dismantlement study by

Trails, for which Gulf proposed retaining the 50-year ASL. The Commission recently provided for an ASL of 65 years for FPL and 90 years for PEF for this account.⁴ Staff believes that a moderate increase to the ASL of five years for each account, is reasonable and serves to move Gulf's ASL closer to recent Commission decisions for these accounts.

Distribution

The distribution function consists of 13 accounts, including structures, station equipment, poles, conduit, transformers, meters, and street lighting, among others. Distribution represents approximately 27 percent of Gulf's plant investment as of January 1, 2010.

Gulf proposed a minor change in the retirement dispersion for Account 369.2, Services – Underground. Gulf also proposed a small increase (three years or less) to the ASL for seven accounts. These accounts are 361, Structures and Improvements; 362, Station Equipment; 364, Poles, Towers, and Fixtures; 365, Overhead Conductors; 367, Underground Conductors; 369.1, Services – Overhead; and 373, Street Lighting. Gulf proposed these increases based on its analysis of recent data. Staff believes that the change to the retirement dispersion and the increases to the ASLs are reasonable.

Gulf proposed increases to net salvage for Account 368, Line Transformers, and Account 370, Meters, based on recent data. The increase for Account 368, Line Transformers, is five percentage points, which staff believes is reasonable. The increase in net salvage for Account 370, Meters, is 10 percentage points, which would result in 10 percent net salvage. Although a 10 percent net salvage might be considered optimistic, staff notes that with the introduction of AMI meters and the resulting flux in the account, it is not entirely clear how much net salvage will be realized in the future. However, staff believes that, at this time, 10 percent net salvage is acceptable. By the next depreciation study, there should be more certainty with regard to the net salvage, allowing Gulf to fine tune its net salvage proposal.

Gulf proposed decreases to net salvage for five accounts: 365, Overhead Conductors; 367, Underground Conductors; 369.1, Services – Overhead; 369.2, Services – Underground; and 373, Street Lighting. The decreases range from 5 to 10 percentage points, with Gulf's proposals based on its recent data and trends. Staff believes these decreases to net salvage are reasonable.

The distribution function includes Account 360.2, Easements. Gulf proposed retaining the 50-year ASL, which underlies the currently prescribed average remaining life. Staff notes that the Commission recently provided for a 75-year ASL for PEF (FPL does not have a similar account). For the reasons described for the transmission easements and roads and trails accounts, staff believes that Account 360.2's ASL should be increased by five years to 55.

Florida Power & Light Company; Order No. PSC-10-0131-FOF-EI, issued in Docket No. 090079-EI, In re: Petition for increase in rates by Progress Energy Florida, Inc., Docket No. 090144-EI, In re: Petition for limited proceeding to include Bartow repowering project in base rates, by Progress Energy Florida, Inc., and Docket No. 090145-EI, In re: Petition for expedited approval of the deferral of pension expenses, authorization to charge storm hardening expenses to the storm damage reserve, and variance from or waiver of Rule 25-6.0143(1)(c), (d), and (f), F.A.C., by Progress Energy Florida, Inc.

⁴ Ibid.

General – Depreciable Accounts

There are six accounts in this category, consisting of structures, vehicle, and equipment accounts. These accounts comprise approximately three percent of Gulf's plant investment as of January 1, 2010.

Gulf proposed small changes to the retirement dispersions and ASLs for Account 392.2, Light Trucks; Account 392.4, Trailers; and Account 397, Communications Equipment. Each of the adjustments to the retirement dispersion or curve was accompanied by a one year or less increase in the ASL. Gulf based its proposals on recent data and trends. Staff reviewed the data for these accounts and believes that the proposed curve changes and increases in the ASL are reasonable.

Gulf proposed decreases in net salvage for the two vehicle accounts discussed in the preceding paragraph, as well as the remaining vehicle account, 393.3, Heavy Trucks. The current net salvage for these accounts ranges between 13 and 17 percent, which Gulf proposed to reduce by one to three percentage points. Gulf believes that current market conditions, recent data, and trends indicate that the net salvage value for these accounts, while remaining positive, will decrease. Staff believes that Gulf's proposed net salvage reductions are warranted.

General – Amortizable Accounts

The amortizable general plant investments represent high volume items of small value which do not warrant individual tracking. These investments represent less than 0.6 percent of Gulf's January 1, 2010 plant investment. Staff notes that Gulf's proposal for its amortizable Account 397.0, Communication Equipment, is seven years. This is a continuation of the seven-year amortization approved by the Commission in Order No. PSC-93-1808-FOF-EI, Docket No. 930221-EI, issued December 20, 1993 (page 26 of Attachment B), In re: 1993 Depreciation Study of GULF POWER COMPANY. The use of amortization is consistent with the Commission's efforts to simplify the depreciation process, where possible, and is reasonable and acceptable.

Conclusion

Staff's recommended lives, net salvage values, reserves, and resultant depreciation rates are shown on Attachment C, pages 23-24. The rates, based on actual January 1, 2010 investments, would result in annual expenses of approximately \$110.9 million as summarized on Attachment D, pages 25-26. This represents an increase of approximately \$1.7 million compared to the effect from rates currently ordered. Excluding Plant Scherer, recommended depreciation rates result in annual expenses of approximately \$105.6 million, or an increase of approximately \$0.7 million compared to current approved depreciation rates.

Issue 6: What is the appropriate annual accrual for dismantlement?

Recommendation: Staff recommends an annual provision for dismantlement of \$9,591,938, beginning January 1, 2010, as shown on Attachment E, page 27. This represents an increase of \$4,352,695 over the current approved annual accrual. The recommended accrual related to Scherer Unit 3 includes \$98,878 associated with unit power sale (UPS) contracts. (Springer, L'Amoreaux)

Staff Analysis: Prior to the 1990's, the provision for dismantlement cost recovery was included in the basic depreciation rate design for each electric utility. By Order No. 24741 (Dismantlement Order), issued July 1, 1991, in Docket No. 891086-EI, In re: Investigation of the ratemaking and accounting treatment for the dismantlement of fossil-fueled generation stations, the Commission established its ratemaking and accounting policy for costs associated with the dismantlement of fossil-fueled generating facilities. The Dismantlement Order found that the provision for dismantlement should be accounted as an annual fixed dollar accrual separate from the depreciation rate. The Dismantlement Order also established the methodology for calculating the annual dismantlement accrual. The methodology depends on three factors: estimated base costs of dismantling the fossil-fueled plants, projected inflation, and a contingency factor. The fixed accrual amount is based on a four-year average of the accruals related to the years between depreciation study reviews. Utilities are required to provide updated dismantlement studies at least once every four years in connection with their depreciation study.⁵ The purpose of these studies is to reflect changes in dismantlement cost estimates, inflation, regulatory or environmental requirements, and any newly discovered public health and safety issues. The Dismantlement Order also provided that if a company is a partial owner of any plant, in-state or out-of-state, it should be contractually responsible for dismantlement costs in proportion to its share of ownership. Because Scherer Unit 3 is dedicated to wholesale UPS contracts, its dismantlement expense is not included for earnings surveillance purposes.

Gulf's estimated base costs for dismantlement are based on site-specific studies and reflect an increase of about 82.9 percent since the 2005 and 2006 modified studies. The major factors contributing to the changes in base cost estimates are: (1) an update of inflation factors, (2) an update of steel and copper scrap prices, and (3) the addition of the Crist Units 4-7 flue gas desulfurization⁶ (FGD) scrubber. In fact, addition of the scrubber at Plant Crist accounts for 81.5 percent of the increase in base cost estimates in the current study. As in previous studies, Gulf has assumed a "pull down" (controlled demolition) method of structural dismantlement in which each structure is simply pulled down at dismantlement. This method of structural dismantlement is more efficient, less costly, and requires less time to complete compared to "reverse construction," in which each structure is assumed to be taken down in the reverse order of its construction.

Gulf's currently approved annual accrual for fossil dismantlement is \$5,239,243. Its proposed annual accrual of \$9,323,439 is based on its current dismantlement cost estimates, escalated to future costs through the time of dismantlement. The future costs less amounts

⁵ These policies were codified in Rule 25-6.04364, F.A.C., adopted December 30, 2003.

⁶ Flue gas desulfurization is a technology used for removing sulphur dioxide from the flue gases of fossil fuel power plants.

recovered to date have then been discounted in a manner that accrues the costs over the remaining life span of each plant. Gulf used inflation factors from DRI Review of the U.S. Economy as of March 2009. At the request of staff, Gulf updated its accrual to reflect the most recent inflation factors. In addition, staff recalibrated the retirement date for Plant Scholz from 2011 to 2014 consistent with Issue 5. This updated accrual, reflecting inflation factors as of January 2010 and the adjustment to Plant Scholz, represents an increase of \$4,352,695 over the current accrual. Staff believes it is reasonable for the annual accrual to reflect the most recent inflation estimates.

As with previous studies, Gulf has included a 10 percent contingency factor to cover uncertainty in the dismantlement cost estimates. The factor is comprised of a 5 percent pricing contingency and a 5 percent scope omission contingency. The pricing contingency provides a level of confidence that the estimates will not be overrun due to a pricing error. The scope omission contingency gives consideration to the conceptual nature of the base cost estimates and the difficulty in obtaining quantity and weight records. This factor also includes recognition of hazardous waste environmental assessments that can only be performed at the time of dismantlement.

A contingency is defined in the American Association of Cost Engineers' Notebook as a "specific provision for unforeseeable elements of cost within the defined project scope; particularly important where previous experience relating estimates and actual costs has shown that unforeseeable events which will increase costs are likely to occur." Such unforeseeable events include bad weather, labor strikes, equipment failure, and other unforeseen circumstances. Contingencies are not a means to "cushion" estimates or to account for inflation. They are used solely to assure that adequate funds are available in the event that something unpredictable, as well as costly, occurs while in the process of dismantling a fossil-fueled generating plant.

The contingency factor is commonly a weighted average of the item-by-item contingency factors applied to plant-specific categories in the cost estimate. The individual item contingency factors usually reflect the degree of uncertainty associated with each cost estimate. Certainly, updating cost estimates every four years should minimize the unforeseen components of costs, but staff also believes that such updates will not completely eliminate unforeseen events. Staff notes that contingency factors are found in nearly all engineering, consulting, construction, and demolition estimates as an appropriate provision in cost estimates.

In the Dismantlement Order, it is noted that the associated costs of dismantlement will be incurred at the time of ultimate physical demolition/removal of each unit and will be offset by any attendant salvage from removal of the assets. The Dismantlement Order also recognized that cost estimates would need to be updated to reflect results from site-specific studies, improvement in technology and possible regulatory changes, as well as re-evaluating alternative methodologies and updated inflation rate forecasts. Furthermore, the Dismantlement Order noted that while the timing of ultimate removal certainly could remain a question, there will undoubtedly come a time that dismantlement will be necessary and site restoration will likewise be required.

While no plants within the Southern Company system have been completely dismantled, staff notes that Crist Units 1-3 have been partially dismantled in that the turbine and generators

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have been removed. The dismantlement process for these units is not expected to be completed for several years. According to Gulf, the dismantlement of these units is using the reverse construction methodology in which the units are being dismantled together as one project.

Staff recommends that the four-year average annual accrual for fossil fuel dismantlement, beginning in 2010, is projected to be \$9,591,938.

Conclusion

Staff recommends an annual provision for dismantlement of \$9,591,938, beginning January 1, 2010, as shown on Attachment E, page 27. This represents an increase of \$4,352,695 over the current approved annual accrual. The recommended accrual related to Scherer Unit 3 includes \$98,878 associated with unit power sale (UPS) contracts.

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Issue 7: Should the current amortization of investment tax credits (ITCs) and flow back of excess deferred income taxes (EDITs) be revised to reflect the approved depreciation rates, amortizations, and capital recovery schedules?

Recommendation: Yes. The current amortization of ITCs and the flowback of EDITs should be revised to match the actual recovery periods for the related property. The utility should file detailed calculations of the revised ITC amortization and flowback of EDITs at the same time it files its surveillance report covering the period ending December 31, 2010. (Davis)

Staff Analysis: In earlier issues, staff has recommended approval of the Company's proposed remaining lives, to be effective January 1, 2010. Revising a utility's book depreciation lives generally results in a change in its rate of ITC amortization and flowback of EDITs in order to comply with the normalization requirements of the Internal Revenue Code (IRC) found in Sections 46, 167, and 168, and its underlying Regulations (REGS) found in Sections 1.46, 1.67, and 1.68.

Staff, the Internal Revenue Service, and independent outside auditors look at a company's books and records, and the orders and rules of the jurisdictional regulatory authorities to determine if the books and records are maintained in the appropriate manner. The books are also reviewed to determine if they are in compliance with the regulatory guidelines in regard to normalization. Therefore, staff recommends the current amortization of ITCs and the flowback of EDITs be revised to reflect the approved remaining lives.

Section 46(f)(6), IRC, states that "the amortization of ITC should be determined by the period of time actually used in computing depreciation expense for ratemaking purposes and on the regulated books of the utility." Since staff is recommending approval of the Company's proposed remaining lives, it is also important to change the amortization of ITCs to avoid violation of the provisions of Sections 46, IRC and 1.46, REGs.

Section 203(3) of the Tax Reform Act of 1986 (the Act) prohibits rapid flowback of depreciation related (protected) EDITs. Further, Rule 25-14.013, F.A.C., Accounting for Deferred Income Taxes Under SFAS 109, generally prohibits EDITs from being written off any faster than allowed under the Act. The Act, SFAS 109, and Rule 25-14.013, F.A.C, regulate the flowback of EDITs. Therefore, staff recommends that the flowback of EDITs be adjusted to comply with the Act, SFAS 109, and Rule 25-14.013, F.A.C.

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Issue 8: Should this docket be closed?

Recommendation: If no person whose substantial interests are affected by the proposed agency action files a protest within 21 days of the issuance of the order, this docket should be closed upon the issuance of a consummating order. (Fleming)

Staff Analysis: At the conclusion of the protest period, if no protest is filed this docket should be closed upon the issuance of a consummating order.

CAPITAL RECOVERY SCHEDULES

	12/31/2009	12/31/2009 Reserve	Estimated Net Salvage	Total
	Estimated			Unrecovered
	Investment			Costs
	(\$)	(\$)	(\$)	(\$)
Steam Plant Retirements				
Plant Crist Units 1, 2, & 3	10,692,669	10,648,149	0	44,520
Plant Crist Units 6 & 7	8,180,152	3,685,727	(790,000)	5,284,425
Plant Daniel Unit 1	2,425,000	2,357,000	(284,308)	352,308
Total Steam Plant Retirements	21,297,821	16,690,876	(1,074,308)	5,681,253
Distribution				
House Power Panels	1,666,102	1,431,512	0	234,590
Meter Retirements	12,176,660	4,352,459	(1,826,499)	9,650,700
Total Distribution	13,842,762	5,783,971	(1,826,499)	9,885,290
Total Capital Recovery Schedules	35,140,583	22,474,847	(2,900,807)	15,566,543

RESERVE ALLOCATIONS

Plant/Account	Book Reserve 12/31/2009 (\$)	Theoretical Reserve (\$)	Imbalance (\$)	Recommended Allocation (\$)	Allocated Reserve (\$)
Production					
Crist Units 1-3	10,648,149	10,692,669	(44,520)	44,520	10,692,669
Crist Upgrade Rets.	3,685,727	8,970,152	(5,284,425)	5,284,425	8,970,152
Crist	215,435,792	220,327,240	(4,891,448)	4,891,448	220,327,240
Daniel Upgrade Rets.	2,357,000	2,709,308	(352,308)	352,308	2,709,308
Daniel	115,618,336	120,315,779	(4,697,443)	4,697,443	120,315,779
Daniel Rail Tracks	1,974,385	1,220,020	754,365	(754,365)	1,220,020
Daniel Easements	54,144	37,191	16,953	(16,953)	37,191
Smith	68,777,167	69,906,816	(1,129,649)	1,129,649	69,906,816
Scherer	92,987,674	70,374,066	22,613,608	(22,613,608)	70,374,066
Scholz	28,713,458	26,273,401	2,440,057	(220,000)	28,493,458
Pea Ridge (Pace)	6,277,240	6,027,104	250,136	(240,325)	6,036,915
Smith CC	18,050,635	25,496,093	(7,445,458)	7,445,458	25,496,093
Distribution					
368 Line Transformers	82,633,306	75,023,757	7,609,549	(7,609,549)	75,023,757
369.3 House Power Panels	1,431,512	1,666,102	(234,590)	234,590	1,666,102
370 AMI Meter Rets.	4,352,459	14,003,159	(9,650,700)	9,650,700	14,003,159
370 Meters	10,326,660	8,795,886	1,530,774	(1,530,774)	8,795,886
373 Street Lighting	23,964,613	19,404,409	4,560,204	(744,967)	23,219,646
General					
392.3 Heavy Trucks	7,684,549	9,040,301	(1,355,752)	1,143,333	8,827,882
397 Communications Equip	9,094,580	7,951,247	1,143,333	(1,143,333)	7,951,247

COMPARISON OF DEPRECIATION COMPONENTS AND RESULTING RATES

	Current				Company Proposal				Staff Recommendation			
	Average Remaining Life (Yrs.)	Net Salvage (%)	Reserve (%)	Remaining Life Rate (%)	Average Remaining Life (Yrs.)	Net Salvage (%)	12-31-2009 Estimated Reserve (%)	Remaining Life Rate (%)	Average Remaining Life (Yrs.)	Net Salvage (%)	12-31-2009 Reserve (%)	Remaining Life Rate (%)
Steam Production												
Crist Plant Units (4-7)	22.0	(10.0)	40.01	3.2	23.7	(4.2)	22.90	3.4	24.0	(4.0)	20.00 *	3.5
Crist Easements								3.8	29.0	0	0	3.4
Crist Base Coal 5-years			5-Yr Amortization				5-Yr Amortization				5-Yr Amortization	
Crist Amort 5-years			5-Yr Amortization				5-Yr Amortization				5-Yr Amortization	
Crist Amort 7-years			7-Yr Amortization				7-Yr Amortization				7-Yr Amortization	
Daniel Plant	19.6	(8.0)	48.01	3.1	21.5	(10.0)	50.28	2.8	22.0	(10.0)	50.60 *	2.7
Daniel RR Track	31.0	0.0	68.02	1.0	36.5	0.0	72.02	0.8	37.0	0.0	44.51 *	1.5
Daniel Easements	31.0	0.0	65.27	1.1	36.5	0.0	70.17	0.8	37.0	0.0	48.20 *	1.4
Daniel Cooling Lake 23-years			23-Yr Amortization				23-Yr Amortization				23-Yr Amortization	
Scholz Plant	5.4	(3.0)	80.61	4.2	1.5	(2.8)	92.36	7.0	4.5	(3.0)	91.69 *	2.5
Scholz Base Coal 5-years			5-Yr Amortization				5-Yr Amortization				5-Yr Amortization	
Scholz Amort 5-years			5-Yr Amortization				5-Yr Amortization				5-Yr Amortization	
Scholz Amort 7-years			7-Yr Amortization				7-Yr Amortization				7-Yr Amortization	
Smith Plant	23.0	(5.0)	48.26	2.5	19.4	(5.2)	41.15	3.3	19.4	(5.0)	40.98 *	3.3
Smith Base Coal 5-years			5-Yr Amortization				5-Yr Amortization				5-Yr Amortization	
Smith Amort 5-years			5-Yr Amortization				5-Yr Amortization				5-Yr Amortization	
Smith Amort 7-years			7-Yr Amortization				7-Yr Amortization				7-Yr Amortization	
Scherer Plant	31.0	(5.0)		1.9	33.3	(6.2)		2.0	33.0	(6.0)	30.10 *	2.3
Scherer Amort 7-years			7-Yr Amortization				7-Yr Amortization				7-Yr Amortization	
Other Production												
Smith CT	11.5	0.0	95.88	0.4	7.5	0.0	75.83	3.2	7.5	0.0	75.83	3.2
Pace (Pea Ridge) Plant	12.5	0.0	37.69	5.0	8.5	0.0	57.69	5.0	8.5	0.0	57.59 *	5.0
Smith CC	31.0	0.0	4.77	3.1	31.6	(0.1)	(0.68)	3.2	32.0	0.0	13.60 *	2.7
Transmission												
350 Easements	33.0	0.0	46.64	1.7	28.7	0.0	45.75	1.9	34.0	0	46.63	1.6
352 Structures and Improvements	30.0	(5.0)	34.61	2.3	35.6	(5.0)	31.84	2.1	36.0	(5)	32.90	2.0
353 Station Equipment	35.0	(5.0)	28.88	2.2	35.2	(5.0)	23.43	2.3	35.0	(5)	24.56	2.3
354 Tower and Fixtures	29.0	(25.0)	57.22	2.3	27.3	(20.0)	61.41	2.2	27.0	(20)	58.49	2.3
355 Poles and Fixtures	27.0	(40.0)	29.39	4.1	30.4	(40.0)	30.97	3.6	30.0	(40)	31.70	3.6
356 Overhead Conductors	38.0	(35.0)	38.09	2.6	37.4	(30.0)	37.63	2.5	37.0	(30)	35.77	2.5
358 Underground Conductors	29.0	0.0	36.25	2.2	26.0	0.0	46.07	2.1	26.0	0	45.05	2.1
359 Roads and Trails	25.0	0.0	41.28	2.2	22.6	0.0	68.53	1.4	27.0	0	47.04	2.0
Distribution												
360 Easements	50.0	0.0		2.0	47.2	0.0	6.59	2.0	52.0	0	6.20	1.8
361 Structures and Improvements	30.0	(5.0)	36.03	2.3	32.0	(5.0)	39.40	2.1	32.0	(5)	35.61	2.2
362 Station Equipment	31.0	(5.0)	32.03	2.4	32.8	(5.0)	32.45	2.2	33.0	(5)	31.20	2.2
364 Poles, Towers, and Fixtures	24.0	(75.0)	47.29	5.4	24.3	(75.0)	54.62	5.0	24.0	(75)	54.44	5.0
365 Overhead Conductors	27.0	(10.0)	33.62	2.8	27.1	(20.0)	34.78	3.1	27.0	(20)	35.73	3.1
366 Underground Conduit	30.0	0.0	59.43	1.4	26.6	0.0	64.66	1.3	27.0	0	64.70	1.3
367 Underground Conductors	21.0	0.0	29.95	3.3	22.8	(8.0)	31.51	3.4	23.0	(8)	32.57	3.3
368 Line Transformers	21.0	(25.0)	36.35	4.2	21.2	(20.0)	39.96	3.8	21.0	(20)	36.00 *	4.0
369 Services-Overhead	23.0	(35.0)	49.6	3.7	23.9	(45.0)	53.86	3.8	24.0	(45)	53.72	3.8
369 Services-Underground	33.0	(5.0)	27.54	2.4	31.2	(10.0)	29.93	2.6	31.0	(10)	30.13	2.6
370 Meters	25.0	0.0	30.92	2.8	25.4	10.0	28.61	2.4	25.0	10	22.50 *	2.7
373 Street Lighting	12.5	(5.0)	41.02	5.1	13.8	(10.0)	42.01	4.9	13.8	(10)	41.74 *	4.9

COMPARISON OF DEPRECIATION COMPONENTS AND RESULTING RATES

	Current				Company Proposal				Staff Recommendation			
	Average	Net	Remaining		Average	Net	12-31-2009	Remaining	Average	Net	12-31-2009	Remaining
	Remaining	Salvage	Reserve	Life Rate	Remaining	Salvage	Estimated	Life Rate	Remaining	Salvage	Reserve	Life Rate
(Yrs)	(%)	(%)	(%)	(Yrs)	(%)	(%)	(%)	(Yrs)	(%)	(%)	(%)	
General												
390 Structures and Improvements	28.0	(5.0)	39.24	2.3	29.5	(5.0)	34.22	2.4	30.0	(5)	34.70	2.3
392 Light Trucks	4.6	13.0	48.81	8.3	4.5	12.0	42.40	10.0	4.5	12	46.17	9.3
392 Heavy Trucks	5.9	17.0	40.8	7.2	5.1	15.0	35.54	9.7	5.1	15	44.66 *	7.9
393 Trailers	9.2	15.0	43.01	4.6	6.8	12.0	57.58	4.5	6.8	12	55.32	4.8
396 Power Operated Equipment	7.6	20.0	43.06	4.9	3.7	20.0	64.53	4.2	3.7	20	62.66	4.7
397 Communications Equipment	8.7	0.0	58.85	4.7	9.0	0.0	53.34	5.2	9.0	0	43.30 *	6.3
General Plant-Amortizable												
Furniture/Non-Computer	7-Yr Amortization				7-Yr Amortization				7-Yr Amortization			
Computer Equipment	5-Yr Amortization				5-Yr Amortization				5-Yr Amortization			
Marine Equipment	5-Yr Amortization				5-Yr Amortization				5-Yr Amortization			
Stores Equipment	7-Yr Amortization				7-Yr Amortization				7-Yr Amortization			
Tools, Shop & Garage Equipment	7-Yr Amortization				7-Yr Amortization				7-Yr Amortization			
Laboratory Equipment	7-Yr Amortization				7-Yr Amortization				7-Yr Amortization			
Communication Equipment	7-Yr Amortization				7-Yr Amortization				7-Yr Amortization			
Misc. Equipment	7-Yr Amortization				7-Yr Amortization				7-Yr Amortization			
Capital Recovery Schedules												
Crist Units 1, 2, & 3 Retired	22.0	(10)	40.01	3.2	23.7	(4.2)	22.90	3.4	2-Yr Capital Recovery Schedule			
Crist Units 6 & 7 Upgrades	22.0	(10)	40.01	3.2	23.7	(4.2)	22.90	3.4	4-Yr Capital Recovery Schedule			
Daniel Unit 1 Upgrade	19.6	(8)	48.01	3.1	21.5	(10.0)	50.28	2.8	4-Yr Capital Recovery Schedule			
369 House Power Panels, Services	6.1	0	83.86	2.6	5.2	0.0	88.35	2.3	4-Yr Capital Recovery Schedule			
370 AMI Meters Rets	25.0	0	30.92	2.8	25.4	10.0	28.61	2.4	4-Yr Capital Recovery Schedule			

COMPARISON OF EXPENSES

Account Number	Plant Balance (\$)	Book Reserve (\$)	Current Approved		Company Proposal			Staff Recommendation		
			Remaining Life Rate (%)	Expenses (\$)	Remaining Life Rate (%)	Expenses (\$)	Change in Expenses (\$)	Remaining Life Rate (%)	Expenses (\$)	Change in Expenses (\$)
Steam Production										
Crist Plant Units (4-7)	1,101,636,199	220,327,240	3.2	35,252,358	3.4	37,455,631	2,203,273	3.5	38,557,267	3,304,909
Crist Easements	5,103	0			3.8	194	194	3.4	174	174
Crist Base Coal, 5 years	141,840	141,840			5-Yr Amortization	0	0	5-Yr Amortization	0	0
Crist Amort- 5 years	74,905	10,229			5-Yr Amortization	5,497	0	5-Yr Amortization	5,497	0
Crist Amort- 7 years	4,488,860	2,029,801			7-Yr Amortization	597,327	0	7-Yr Amortization	597,327	0
Daniel Plant	237,778,220	120,315,779	3.1	7,371,125	2.8	6,657,790	(713,335)	2.7	6,420,012	(951,113)
Daniel RR Track	2,741,618	1,220,220	1.0	27,416	0.8	21,933	(5,483)	1.5	41,124	13,708
Daniel Easements	77,160	37,191	1.1	849	0.8	617	(232)	1.4	1,080	231
Daniel Cooling Lake 23-years	8,954,192	8,954,192	23-Yr Amortization	0	23-Yr Amortization	0	0	23-Yr Amortization	0	0
Scholz Plant	31,074,395	28,493,458	4.2	1,305,125	7.0	2,175,208	870,083	2.5	776,860	(528,265)
Scholz Base Coal, 5 years	71,300	71,300			5-Yr Amortization	0	0	5-Yr Amortization	0	0
Scholz Amort- 5 years	0	0			5-Yr Amortization	0	0	5-Yr Amortization	0	0
Scholz Amort- 7 years	174,495	83,008			7-Yr Amortization	20,388	0	7-Yr Amortization	20,388	0
Smith Plant	170,587,642	69,906,816	2.5	4,264,691	3.3	5,629,392	1,364,701	3.3	5,629,392	1,364,701
Smith Base Coal, 5 years	108,300	108,300			5-Yr Amortization	0	0	5-Yr Amortization	0	0
Smith Amort- 5 years	7,532	893			5-Yr Amortization	4,577	0	5-Yr Amortization	4,577	0
Smith Amort- 7 years	1,029,933	370,911			7-Yr Amortization	153,610	0	7-Yr Amortization	153,610	0
Scherer Plant	233,808,883	70,374,066	1.9	4,442,217	2.0	4,676,018	233,801	2.3	5,377,420	935,203
Scherer Amort- 7 years	186,463	28,116			7-Yr Amortization	8,268	0	7-Yr Amortization	8,268	0
Total Steam Production	1,792,939,040	522,473,360		53,453,448		57,406,450	3,953,002		57,592,996	4,139,548
Other Production										
Smith CT	4,963,481	3,763,853	0.4	19,854	3.2	158,831	138,977	3.2	158,831	138,977
Pace (Poa Ridge) Plant	10,481,920	6,086,915	5.0	524,096	5.0	524,096	0	5.0	524,096	0
Smith CC	187,471,269	25,496,093	3.1	5,811,609	3.2	5,999,081	187,472	2.7	5,061,724	(749,885)
Total Other Production	202,916,670	35,296,861		6,355,559		6,682,008	326,449		5,744,651	(610,908)
Transmission										
350 Easements	12,707,117	5,925,900	1.7	216,021	1.9	241,435	25,414	1.6	203,314	(12,707)
352 Structures and Improvements	8,426,310	2,772,525	2.3	193,805	2.1	176,953	(16,852)	2.0	168,526	(25,279)
353 Station Equipment	100,888,004	24,777,410	2.2	2,219,536	2.3	2,320,424	100,888	2.3	2,320,424	100,888
354 Tower and Fixtures	38,868,886	22,734,772	2.3	893,984	2.2	855,115	(38,869)	2.3	893,984	0
355 Poles and Fixtures	76,122,945	24,129,547	4.1	3,121,041	3.6	2,740,426	(380,615)	3.6	2,740,426	(380,615)
356 Overhead Conductors	63,854,916	22,843,042	2.6	1,660,228	2.5	1,596,373	(63,855)	2.5	1,596,373	(63,855)
358 Underground Conductors	14,094,503	6,349,055	2.2	310,079	2.1	295,985	(14,094)	2.1	295,985	(14,094)
359 Roads and Trails	61,447	28,903	2.2	1,352	1.4	860	(492)	2.0	1,229	(123)
Total Transmission	315,024,128	109,561,154		8,616,046		8,227,571	(388,475)		8,220,261	(395,785)
Distribution										
360 Easements	204,176	12,658			2.0	4,084	4,084	1.8	3,675	3,675
361 Structures and Improvements	16,745,219	5,963,267	2.3	385,140	2.1	351,650	(33,490)	2.2	368,395	(16,745)
362 Station Equipment	159,050,636	49,617,252	2.4	3,817,215	2.2	3,499,114	(318,101)	2.2	3,499,114	(318,101)
364 Poles, Towers, and Fixtures	119,993,792	65,326,472	5.4	6,479,665	5.0	5,999,690	(479,975)	5.0	5,999,690	(479,975)
365 Overhead Conductors	118,489,613	42,336,293	2.8	3,317,709	3.1	3,673,178	355,469	3.1	3,673,178	355,469
366 Underground Conduit	1,217,455	787,727	1.4	17,044	1.3	15,827	(1,217)	1.3	15,827	(1,217)
367 Underground Conductors	111,391,188	36,274,834	3.3	3,675,909	3.4	3,787,300	111,391	3.3	3,675,909	0
368 Line Transformers	208,399,324	75,023,757	4.2	8,752,772	3.8	7,919,174	(833,598)	4.0	8,335,973	(416,799)
369 Services-Overhead	49,215,768	26,438,494	3.7	1,820,983	3.8	1,870,199	49,216	3.8	1,870,199	49,216
369 Services-Underground	41,248,654	12,429,711	2.4	989,968	2.6	1,072,465	82,497	2.6	1,072,465	82,497
370 Meters	39,092,826	8,795,886	2.8	1,094,599	2.4	938,228	(156,371)	2.7	1,055,506	(39,093)
373 Street Lighting	56,934,426	23,749,961	5.1	2,902,126	4.9	2,788,317	(113,809)	4.9	2,788,317	(113,809)
Total Distribution	921,953,077	346,756,312		33,253,130		31,919,225	(1,333,905)		32,358,248	(894,882)

COMPARISON OF EXPENSES

Account Number	Plant Balance (\$)	Book Reserve (\$)	Current Approved		Company Proposal			Staff Recommendation		
			Remaining Life Rate (%)	Expenses (\$)	Remaining Life Rate (%)	Expenses (\$)	Change in Expenses (\$)	Remaining Life Rate (%)	Expenses (\$)	Change in Expenses (\$)
General										
390 Structures and Improvements	64,301,502	22,312,294	2.3	1,478,935	2.4	1,543,236	64,301	2.3	1,478,935	0
392 Light Trucks	5,939,851	2,742,329	8.3	493,008	10.0	593,985	100,977	9.3	552,406	59,398
392 Heavy Trucks	19,768,862	8,827,882	7.2	1,423,358	9.7	1,917,580	494,222	7.9	1,561,740	138,382
393 Trailers	1,069,871	591,812	4.6	49,214	4.5	48,144	(1,070)	4.8	51,354	2,140
396 Power Operated Equipment	593,660	371,969	4.9	29,089	4.2	24,934	(4,155)	4.7	27,902	(1,187)
397 Communications Equipment	18,363,156	7,951,247	4.7	863,068	5.2	954,884	91,816	6.3	1,156,879	293,811
Total General	110,036,902	42,797,533		4,336,672		5,082,763	746,091		4,829,216	492,544
General Plant-Amortizable										
Furniture/Non-Computer	2,595,115	1,331,617	7-Yr Amortization	359,255	7-Yr Amortization	359,255	0	7-Yr Amortization	359,255	0
Computer Equipment	1,968,040	1,539,898	5-Yr Amortization	584,293	5-Yr Amortization	584,293	0	5-Yr Amortization	584,293	0
Marine Equipment	58,760	37,436	5-Yr Amortization	0	5-Yr Amortization	0	0	5-Yr Amortization	0	0
Stoves Equipment	796,336	289,584	7-Yr Amortization	96,019	7-Yr Amortization	96,019	0	7-Yr Amortization	96,019	0
Tools, Shop & Garage Equipment	1,502,347	598,581	7-Yr Amortization	262,973	7-Yr Amortization	262,973	0	7-Yr Amortization	262,973	0
Laboratory Equipment	3,364,133	1,935,232	7-Yr Amortization	358,162	7-Yr Amortization	358,162	0	7-Yr Amortization	358,162	0
Communication Equipment	3,010,141	1,130,266	7-Yr Amortization	258,466	7-Yr Amortization	258,466	0	7-Yr Amortization	258,466	0
Misc. Equipment	4,352,298	1,776,420	7-Yr Amortization	283,511	7-Yr Amortization	283,511	0	7-Yr Amortization	283,511	0
Total General Plant-Amortizable	19,647,170	8,639,034		2,202,679		2,202,679	0		2,202,679	0
Capital Recovery Schedules										
Crist Units 1, 2, & 3 Retired	10,692,669	10,692,669	3.2	342,165	3.4	363,551	21,386	2-Yr Recovery	0	(342,165)
Crist Units 6 & 7 Upgrades	8,180,152	8,970,152	3.2	261,765	3.4	278,125	16,360	4-Yr Recovery	0	(261,765)
Daniel Unit 1 Upgrade	2,425,000	2,709,308	3.1	75,175	2.8	67,900	(7,275)	4-Yr Recovery	0	(75,175)
369 House Power Panels, Services	1,666,102	1,666,102	2.6	43,319	2.3	38,320	(4,999)	4-Yr Recovery	0	(43,319)
370 AMI Meter Rets	12,176,660	14,003,159	2.8	340,946	2.4	292,240	(48,706)	4-Yr Recovery	0	(340,946)
Total Capital Recovery Schedules	35,140,583	38,041,390		1,063,370		1,040,136	(23,234)		0	(1,063,370)
Grand Total	3,397,657,570	1,103,565,644		109,280,904		112,560,832	3,279,928		110,948,051	1,667,147
Less:										
Scherer Plant	233,801,883	70374066	1.9	4,442,217	2.0	4,676,018	233,801	2.3	5,377,420	935203
Scherer Amort- 7 years	186,463	28116	7-Yr Amortization	8,268	7-Yr Amortization	8,268	0	7-Yr Amortization	8,268	0
Total Less Scherer	3,163,670,224	1,033,163,462		104,830,419		107,876,546	3,046,127		105,562,363	731,944

GULF POWER COMPANY
FOSSIL DISMANTLEMENT ACCRUAL

PLANT	CURRENT ACCRUAL ⁷ (01/01/2007) \$	COMPANY PROPOSED ACCRUAL (5/27/2009) \$	COMPANY PROPOSED CHANGE IN ACCRUAL \$	STAFF RECOMMENDED ACCRUAL \$	STAFF RECOMMENDED CHANGE IN ACCRUAL \$
Plant Crist	2,659,829	6,153,381	3,493,552	6,458,948	3,799,119
Plant Smith	950,810	1,206,414	255,604	1,249,287	298,477
Plant Scholz	521,738	1,005,669	483,931	799,767	278,029
Plant Daniel	754,764	598,065	(156,699)	684,446	(70,318)
Plant Scherer (UPS) ⁸	107,319	76,722	(30,597)	98,878	(8,441)
Total Steam	4,994,460	9,040,251	4,045,791	9,291,326	4,296,866
Plant Smith CT	4,612	3,246	(1,366)	3,258	(1,354)
Plant Pace (Pea Ridge)	6,102	17,307	11,205	17,334	11,232
Smith Combined Cycle	234,069	262,635	28,566	280,020	45,951
Total Other Production	244,783	283,188	38,405	300,612	55,829
Total Dismantlement	5,239,243	9,323,439	4,084,196	9,591,938	4,352,695

⁷ Order No. PSC-07-0012-PAA-EI, issued January 2, 2007, in Docket No. 050381-EI, In re: Depreciation and dismantlement study at December 31, 2005, by Gulf Power Company.

⁸ UPS – Unit Power Sales contract