

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

In Re: 1993 Depreciation Study) DOCKET NO. 930221-EI
by Gulf Power Company.) ORDER NO. PSC-93-1808-FOF-EI
_____) ISSUED: 12/20/93

The following Commissioners participated in the disposition of this matter:

J. TERRY DEASON, Chairman
SUSAN F. CLARK
JULIA L. JOHNSON
LUIS J. LAUREDO

NOTICE OF PROPOSED AGENCY ACTION

ORDER PRESCRIBING DEPRECIATION RATES FOR GULF POWER COMPANY

BY THE COMMISSION:

NOTICE IS HEREBY GIVEN by the Florida Public Service Commission that the action discussed herein is preliminary in nature and will become final unless a person whose interests are adversely affected files a petition for a formal proceeding, pursuant to Rule 25-22.029, Florida Administrative Code.

BACKGROUND

Gulf's current depreciation rates and amortization schedules were approved effective January 1, 1988. Consistent with Rule 25-6.0436, Florida Administrative Code, the Company filed a quadrennial comprehensive study covering dismantlement and depreciation requirements on December 30, 1991. The proposed effective date was to coincide with its next rate case which, at that time, was presumed to be sometime in 1994. Because this effective date request was primarily predicated on the implementation of a new mechanism for the calculation of dismantlement accruals as prescribed in Order No. 24741, Docket No. 890186-EI ("Investigation of the Ratemaking and Accounting Treatment for the Dismantlement of Fossil-fuel Generating Stations"), we approved deferring implementation of new rates and dismantlement accruals until January 1, 1994 or Gulf's next general rate proceeding, whichever came first. In addition, the Order in that case (PSC-92-0283-FOF-EI) closed the 1991 study docket, and Gulf was to submit a revised study in 1994 to match its new implementation date. The Company filed this current depreciation and dismantlement study on March 2, 1993.

DOCUMENT NUMBER DATE

13490 DEC 20 93

FPSC-RECORDS REPORTING

In connection with this current depreciation study docket and Docket No. 930139-EI, a stipulation between Gulf, the Office of Public Counsel and the Florida Industrial Power Users Group was approved by Order PSC-93-0771-FOF-EI issued May 20, 1993. This again deferred the implementation of the method prescribed in Order No. 24741 to be used in calculating the accruals for dismantlement in return for Gulf reducing its authorized return on equity (ROE) prospectively to 12.0% and also for the Company not filing a rate case in 1993. This stipulation did not resolve the matter of appropriate depreciation rates or the amount of dismantlement accruals using Gulf's method of calculation.

Since the time of the last represcription in 1988, net plant balances and Company planning have changed, both of which suggest the need to review and revise rates and dismantlement accruals where appropriate.

IMPLEMENTATION DATE

The implementation date of the new depreciation rates and schedules shall be January 1, 1994. This is the earliest practicable date for using the revised rates and schedules.

COMPLIANCE WITH THE UNIFORM SYSTEM OF ACCOUNTS

We find that during the course of reviewing Gulf's submitted study data, the Company has not always transferred the accumulated depreciation associated with a transfer of investment. Gulf asserts that it is appropriate to apply a materiality threshold of \$50,000 in deciding whether to transfer reserves with investment dollars. This practice is in conflict with standard depreciation principles and practices as well as with the Federal Energy Regulatory Commission's (FERC) Uniform System of Accounts (USOA) as adopted by Rule 25-6.014, Florida Administrative Code. The Code of Federal Regulations (CFR), Title 18, Subchapter C, Part 101, Instruction No. 12, Transfers of Property, specifically states that "any related amounts carried in the accounts for accumulated provision for depreciation or amortization shall be transferred in accordance with the segregation of such accounts." (Emphasis added) There is no mention of a materiality threshold. In addition, Gulf is the only investor-owned electric company in Florida that is not in compliance with this USOA requirement.

Accordingly, we find that the Company, beginning with the 1994 activity year, shall initiate procedures to transfer the appropriate reserve amount associated with investment transfers and bring its records and procedures into compliance with the CFR, Instruction No. 12. A follow up audit shall be performed to assure implementation within one year of the date of this Order. If at that time, the Company is found not to be in compliance, a show cause proceeding may be initiated.

INTEREST SYNCHRONIZATION

The accumulated reserve adjustments attributable to interest synchronization Job Development Investment Credit (JDIC) amount of \$615,677, System (\$600,763, Jurisdictional) shall be allocated as indicated below:

JDIC ALLOCATION			
ACCT.	1-1-93 BOOK RESERVE (SYSTEM)	ALLOCATION	RESTATED 1-1-93 RESERVE (SYSTEM)
Plant Crist Precipitator	\$2,538,429	\$615,677	\$3,154,106

In Order No. 19901, issued August 30, 1988, we ordered Gulf to book the monthly interest synchronization adjustments to a non-account-specific reserve entry and, at the next rescription of depreciation rates, allocate these accumulated amounts to specific accounts as needed. Order No. 23573, issued October 3, 1990, established new rates for Gulf customers and the booking of JDIC ceased. The Company proposed to allocate the accumulated JDIC in the amount of \$615,677, System, to three specific accounts: Account 356, Overhead Conductors and Devices; Account 364, Poles, Towers and Fixtures; and Account 392.2, Transportation Light Trucks. The basis for this allocation is that these accounts all have substantial reserve deficits as calculated using the Company's proposed rates. However, these deficits are not fully corrected by the Company's proposal.

The general guidelines we use for corrective reserve transfers are the following:

- No account should be reduced below its theoretical level;
- Accounts with short remaining lives showing inadequate reserves (as compared to the theoretical level) caused by prudent acceleration of retirement plans, should be corrected to the degree possible;
- Because of the uncertainty involved in determining service life estimates, correction of apparent reserve deficits becomes less critical as the expected life increases. That is, only large apparent imbalances should be addressed as the expected life reaches twenty or more years; otherwise, we are fine-tuning a figure which is inherently somewhat uncertain; and
- Relatively minor imbalances are not generally corrected, unless associated with short remaining lives, due to the inherent frailty of life and salvage estimates.

We find that the JDIC allocation shall be transferred to partially offset the unrecovered investment for the retiring precipitator at Plant Crist. In light of the possible impact of reserve transfers on cost allocations and jurisdictional separations, the Company shall make corresponding entries to the related depreciation expense accounts.

RECOVERY SCHEDULES

The recovery schedules that we approve are shown on Attachment A. These recovery schedules are designed to recover the net investment related to the Plant Crist Department of Energy project as well as the precipitator at Plant Crist and the fly ash pond at Plant Daniel.

The Plant Crist Department of Energy (DOE) project is currently planned for retirement in 1995. The Company has proposed a two year recovery schedule to recover the associated investment and estimated costs of removal. We find that it is appropriate to implement a recovery schedule as shown on Attachment A. The recovery period for this equipment shall be the remaining period this equipment will be in service. The monthly expenses for this schedule is obtained by dividing the net plant for the month by the number of months remaining in the recovery period. All activity

relating to this schedule shall be booked to this schedule and not to another depreciation category or account. This mechanism will adjust for any shifts in plans or unexpected positive or negative salvage.

In addition, certain production plant equipment is expected to be retired in connection with the projects planned to comply with environmental regulations. The existing fly ash pond at Plant Daniel will be capped and retired by the end of 1994 with the construction of a dry ash facility. Further, the precipitator at Plant Crist Unit 6 is planned for replacement during 1994 to improve particulate removal capabilities. While, theoretically, these assets should be recovered over their associated remaining period in service, we find that a four year recovery period is appropriate in this instance as an effort to smooth the related expense impact. Recovery schedules as shown on Attachment A are approved for the net unrecovered investments associated with these retirements. The resultant annual expenses for each of these schedules are \$542,132 (Plant Daniel fly ash pond) and \$483,915 (Plant Crist precipitator). The investments and associated reserves shall be withdrawn from their parent accounts and placed in separate subaccounts. All activity relating to subaccounts shall be booked to these subaccounts and not to another depreciation category or account.

The fundamental purpose of depreciation is the matching of expense to consumption. Asset or unit depreciation is ideally perfect. To the extent that the life of each asset can be predicted and the recovery of each asset can be accounted for and monitored, asset or unit depreciation would probably be the standard for all items of plant. However, with the detail record keeping and specific projections for life and salvage required for unit depreciation, this process has not been considered practicable, which led to the industry practice of using group depreciation.

Under group depreciation, it is recognized that some assets within the group will experience a life shorter than the average while others will experience a life longer than the average; on the average, recovery will be accomplished in spite of these anomalies. Group depreciation accomplishes the same end-point as unit depreciation with much less expenditure of effort. However, it is important to note that by the very nature of the group, there can be a variation of service lives among the contained items in the group, even if all those items are identical. If a group consists

of substantial portions expected to have inherently different life patterns, that group should be considered for subdividing into more homogeneous groups.

A practical use of unit depreciation is in the case of substantial or significant investments that are ultimately budgeted for final removal. The associated unrecovered investments should be segregated and recovered over their remaining service life. While the remaining life mechanism, if regularly monitored, is designed to recover the net investment over the remaining life of the group, when it is determined that the group contains substantial assets with significantly shorter expected remaining lives than the group average, those assets should be quantified, withdrawn from the group and addressed separately. If these short-lived assets are not recovered separately, recovery will be achieved over the remaining life of the replacing assets. The matching of expenses to consumption will no longer be accomplished.

The debate lies in the determination of the group. Gulf has asserted that the group is the account or site for which a depreciation rate is prescribed. However, the group should be a homogeneous category whether that is at a site level, an account level, a subaccount level, or some other stratified level. Gulf has argued that as depreciable property nearing retirement is subcategorized and recovered separately through the use of capital recovery schedules, the efficiencies gained by using group depreciation diminish. However, Gulf itself proposed a recovery schedule for the Plant Crist DOE project which is designed to provide recovery of the net unrecovered investment over the remaining period the equipment will be in service. Gulf's arguments objecting to the use of capital recovery schedules would support combining this short lived investment with that of the total site, thus achieving recovery over its proposed 18.3 years rather than two years. As with subcategorization, our rationale for capital recovery schedules is to provide more homogeneous categories thereby providing more accurate recovery, not a proliferation of record-keeping.

Gulf also has argued that the practice of capital recovery schedules can result in a distortion of the average service life and the group's depreciation rate. In addition, these investments being retired do not constitute either significant costs, a canceled construction project or premature plant closure; therefore, Gulf has asserted that no capital recovery schedule is necessary. To the contrary, without capital recovery schedules and

subcategorization, depreciation rates will be distorted since rates in the future will need to increase to recover the significant reserve deficiency associated with these investments no longer in service but nevertheless still in rate base. These deficiencies will not be recovered until the demise of the associated group including all future additions and replacements to that group. In the meantime, the Company will continue to earn on plant no longer serving the public.

Finally, Gulf has taken issue with the presumption that unrecovered costs - if significant - should be fully recovered by the time the assets are retired since it is unable to find any such requirement in the Florida Administrative Code or the FERC USOA. However, depreciation, as defined by any book or publication, is to provide a systematic recovery of invested capital over the period the assets represented by that capital are serving the public. The intent is that customers benefitting from the plant at any point of time will be bearing their appropriate share of the depreciation expense. The matching of expenses to consumption is the goal. Additionally, regarding the question of significance, Gulf's proposed recovery schedule for the Plant Crist DOE project's unrecovered investment of approximately \$207,000 is substantially less than the approved recovery schedules for the Plant Crist precipitator and the Plant Daniel fly ash pond, which total approximately \$4.5 million.

DEPRECIATION RATES AND AMORTIZATION SCHEDULES

We find it appropriate to approve the rates as set forth in Attachment B. Each account is briefly discussed below.

Dismantlement

We voted during the May 2, 1993 agenda conference to continue use of Gulf's current method in determining accruals for fossil fuel dismantlement costs. As a result, revised dismantlement accruals were submitted. In the past, the provision for dismantlement costs was included as a component of the net salvage factor in the depreciation rate design for production plant assets. In this study, however, the Company's proposed dismantlement accruals have been calculated separately from the depreciation rates and are to be applied as a fixed amount over the next four

years beginning in 1994. Included in these costs is a contingency factor of 10% to cover uncertainty in the estimates. We accept the Company's proposed dismantlement cost accruals which amount to \$4,679,921 annually.

Amortizations

Certain general support asset account investments are being amortized under Rule 25-6.0142, Florida Administrative Code. The amortization period for these accounts are shown on Attachment B.

Depreciation Rates

A. Production Plant

Production plant investments represent the major and most controversial area of potential change in depreciation requirements. It should be recognized that a considerable portion of the embedded investment (such as pumps, motors, ductwork, turbine generators and condensers) is subject to retirement on an interim basis and might be expected to have different life and salvage characteristics than the portions which are subject to longer lives and potentially high dismantlement costs.

Gulf stratified its total steam production plant by account (all units and sites combined) and then developed an historical life and curve shape for each strata. This life and curve shape were then applied to the investment strata in the account on an individual plant unit basis to simulate future interim retirements. Gulf has stated that the estimation of future retirements "recognizes the dispersion of retirements Gulf has experienced in the past." While this may be true, reliance on historical analysis to project the future is valid only to the extent that the past is considered to be indicative of the future. Judgment and planning are more important factors that should be considered when estimating the future life characteristics of any given plant. Probable future conditions must be considered as well as past life indications in determining appropriate depreciation parameters. This is where Gulf's analyses appear to fall short. We are concerned that the analyses do not give sufficient recognition to the impacts of the Clean Air Act Amendments of 1990, or the increasing competitive impacts of qualified facilities, and the cogeneration and alternative energy facilities that could significantly affect the remaining service life of the production plants. For this reason, the Company was asked for an engineering

projection of retirements by unit by account for each year along with a description of the types of equipment associated with each projection. Gulf responded that this type of information was not available and the cost of obtaining such would be prohibitive. We find this most curious since engineering projections were supplied in the Company's last prescription and are typically supplied by other companies.

We are left in a quandary with respect to steam production lives. Considering our concerns discussed above, it appears logical to retain the currently prescribed remaining lives and net salvages (excluding the dismantlement provision). Our depreciation rates for the steam production plants include the 1/1/94 reserve position restated to reflect the withdrawal of the reserves associated with the near-term retiring investments discussed previously in this Order.

Subcategorization

Gulf's current depreciation rates for its production plants were prescribed on a total plant site basis. Rule 25-6.04361, Florida Administrative Code, establishes subaccounts for electric plant under the accounts prescribed by FERC. For Production Plant, the rule states that "the following accounts shall be maintained, at a minimum, on a plant site basis. It is preferable, however, that the accounts be maintained for each individual unit within each plant site." The rationale for subcategorization is to provide more homogeneous categories thereby providing more accurate rates of recovery, not a proliferation of record-keeping. If homogeneity exists at a site level, then further subcategorization would perhaps be unnecessary. While Gulf has provided the details at a unit level and even an account by unit level, it has nevertheless proposed that rates continue to be maintained at a site level. It argues that rates by unit by site are not justified or necessary since application of a composite rate for each plant results in the same total accrual and corresponding reserve as if the rates were applied on a unit basis.

Currently prescribed depreciation rates for production plant for Florida Power & Light Company have been established for each unit of each production site (40 rates); Florida Power Corporation's rates are for each primary account for each production site (29 rates); and Tampa Electric Company's rates are for each unit of each production site (15 rates). None of these

companies has asserted that this established level of subcategorization is cost prohibitive and not justified or necessary. In addition, the level of intricate detail presented by Gulf supporting its forecasted interim retirements of its production plants simply does not correspond to its assertion that the detail needed to maintain depreciation rates by unit by site would be burdensome. While our finding in this case is to retain currently prescribed remaining lives for production plant and those lives and resultant rates just so happen to be at a production site level, this should not be construed that we agree that further subcategorization may not be in order. We will continue to address the need for additional subcategorization in the Company's next prescription.

B. Transmission Plant

1. Account 350.2, Easements and Rights of Way: The Company proposed SQ-75 year life represents the maximum probable life of its transmission lines. We find that the resultant average remaining life of 53 years with a zero net salvage factor is reasonable and acceptable.

2. Account 352, Structures and Improvements: The Company proposes to maintain the S3 curve shape and the 40 year average service life that underlie the current remaining life. Using the account average age of 7.9 years produces the recommended average remaining life of 32 years. The Company has proposed to maintain the current prescribed (5)% net salvage factor. We find these life and salvage factors are in line with current industry projections and are acceptable.

3. Account 353, Station Equipment: This account's investment has increased approximately 29% over the past five years and has experienced an average annual retirement ratio of around 1%. The Company's proposed 38 year average service life and R2 curve shape reflects this activity. Using the 14.5 year average age produces a 26 year average remaining life. Gulf has also proposed to maintain the current prescribed (5)% net salvage factor. We accept the Company's proposed life and salvage parameters as reasonable and in line with current industry projections for this account.

4. Account 354, Towers and Fixtures: We accept the Company's proposed remaining life of 19.2 years. This represents a general concurrence between the current underlying parameters and the Company's analysis for this account.

The Company has asserted that data records for this account do not provide a clear indication for expected net salvage. Therefore, continuation of the currently prescribed net salvage of negative 20% has been proposed. In reviewing the explanations provided by the Company for data since the last study, apparent contradictions and further questions have developed. In absence of a clear and tenable pattern which can be discerned from the information available, we agree with the Company not to change the current prescribed net salvage factor, since it falls within the range of normal industry expectations for Florida.

5. Account 355, Poles and Fixtures: Recognizing that recent activity does not suggest the need for change, we agree with the Company and find that the underlying life parameters of 37 year service life, and S0 curve shall be continued. Using the current age of 11.4 years results in an average remaining life of 29 years.

Since 1987, the Company has implemented an allocation of overhead expenses which increased the amounts shown for cost of removal for this type of plant; the cost of removal for the band 1987-1991 exceeds 100%, which is far in excess of the range of similar costs indicated by the industry in Florida. At this time, we approve a negative 35% net salvage for this account which reflects the maximum average cost of removal recognized by Florida electric power providers.

6. Account 356, Overhead Conductors and Devices: We accept the remaining life of 18.3 years, based on the Company's proposed S3 curve shape with continuation of the currently approved 35 year service life. Both the service life and curve appear to match recent activity for this Company, and future activity is expected to continue the pattern. We find that continuation of the currently prescribed net salvage of negative 20% is also appropriate, based on industry expectations.

7. Account 358, Underground Conductors and Devices: This account consists primarily of submarine cable installed during 1988 and 1989 at the Bayou Chico-Naval Air Station and Choctaw locations. It is our understanding that these submarine cables are not expected to experience any type of interim retirement pattern

and will be retired in place. This supports the Company's selection of an SQ curve. Gulf selected use of the 35 year service life that underlies Florida Power and Light's (FPL) currently prescribed average remaining life because FPL's investment is stated to be significantly larger and, therefore, more likely to incorporate observed life characteristics. The size of an account's investment is not a basis for estimating life. In selecting an average service life, many other factors should be considered such as the operating environment, company planning and service requirements. Further, when there is a minimum amount of retirement data for life analysis as is the case for this account, reliance upon industry projections and averages is a viable option. Thus, we have used a 40 year average service life instead of the proposed 35 year life. When used with an SQ curve and average age of 4.9 years, we find the average remaining life of 35 years results.

Even though these cables are normally retired in place with no expected gross salvage, some cost of removal is likely to be incurred (digging down to, capping off and securing the cables). The current salvage factor of (5)% is still appropriate for this account instead of the Company's proposed zero salvage factor.

8. Account 359, Roads and Trails: We find that the Company's proposed 54 year remaining life and zero net salvage are reasonable and acceptable.

C. Distribution Plant

1. Account 360.2, Easements and Right of Way: An easement is a depreciable asset under the USOA. However, since all of the investment in this account has been reclassified to fee simple land, we find that there is no longer a need for a depreciation rate for this account.

2. Account 361, Structures and Improvements: The Company has proposed a change in curve shape from the current SQ curve to an S3 curve shape with a 40 year average service life. We agree with this proposal since the current SQ curve does not recognize the interim retirements being experienced in this account. A 30 year average remaining life results. We find that the Company's proposal to maintain the current prescribed (5)% salvage factor is reasonable and in line with current industry projections.

3. Account 362, Station Equipment: According to the Company, the equipment in this account is similar to that in the Transmission Account 353 (Station Equipment) and is therefore expected to have similar life characteristics. Using a 38 year average service life and R2 curve shape results in an average remaining life of 29 years. We find this acceptable.

We agree with the Company's conclusion that the apparent trend in this account is a rise in removal costs. The last five years of activity have produced an average net salvage of around (6)%. Accordingly, we find the proposed (5)% salvage factor to be reasonable.

4. Account 364, Distribution Poles, Towers and Fixtures: We find that the Company's proposal to move to the S0 curve shape and an average service life of 32 years is in line with the experience for this account. We also find that the remaining life shall be 24 years.

The net salvage for this account is a composite of at least three major constituents: effects from retirement of fixtures on leased poles, retirement and disposal of creosote poles, and retirement of chromated-copper-arsenate (CCA) poles. About 40% of the current investment in this account is reported to relate to the CCA treated poles, which were installed beginning in 1988. There is no data yet on the life pattern and disposal cost in regard to this type of equipment. Gulf reports that approximately 13% of its fixtures are on leased poles, and also that recent retirements were predominantly creosote poles. From the information provided with each year's activity, about 75% of the removal costs relate to miscellaneous line replacement activity, which may include both older poles and fixtures on leased poles. It becomes clear that the Company has experienced an elevated cost of removal in recent years, but the underlying reasons for those costs will not have an impact on all of the investment in this account. Further, it becomes difficult to determine the level of impact which would logically be expected. Such a determination cannot be made in the absence of specific data on the breakdown of account investments and retirements. Without specific information upon which calculations may be based, we approve a net salvage factor of negative 50%, as a conservative response to the observed increase in cost of removal as it would apply to the future retirement of the overall account.

5. Account 365, Overhead Conductors and Devices: We accept the Company's proposal of a 24 year remaining life, resulting from an S1 curve and 32 year service life. We have some concern, however, that the analysis of this account, as performed by the Company, may emphasize the ups and downs of recent activity, and thus detract from perception of the real characteristics of the life pattern for the equipment/investment which is being examined. Nevertheless, we find the change is in line with the experience of the Company and within the range of industry expectations.

The Company's proposal for net salvage is a change from negative 10% to positive 10%, but the study states that "no clear pattern is apparent." The Company explains that salvage from 1988 to 1990 is discounted because it related to large retirements of oil circuit reclosers which are not expected to be recurring. The Company concludes that "salvage can be expected to exceed removal costs," although this was not the case prior to 1987, nor was it the case in 1992. Also, we note that scrapped materials from other accounts are commingled with scrapped materials associated with this account. We do not agree with the conclusion or the proposed change formulated by the Company, and are concerned that no reason has been provided for this Company to be different from similar companies in Florida. Therefore, we find that the Company shall retain a negative 10% net salvage to be consistent with experience of other companies in the industry.

6. Account 366, Underground Conduit: The Company's proposal represents an update of age and accounting activity since the last review. Using the currently prescribed L4 curve and 50 year average service life results in the proposed 32 year average remaining life. The Company's proposal to retain the current net salvage factor of zero reflects both this account's experience and industry expectations. We find these to be reasonable and acceptable.

7. Account 367, Underground Conductors and Devices: Beginning in 1986, Gulf began installing jacketed cable which, according to Company engineers, is expected to have a 30 year life. Weighting this with the service life of the unjacketed cable and other components that comprise this account, the Company has proposed a 28 year average service life and retention of the current R3 curve. The result is an average remaining life of 20 years. We find this to be reasonable and in line with current industry projections.

It would appear that positive net salvage has been realized since about 1983 in this account. However, under normal circumstances, this type of plant is abandoned in place and any salvage realized is more than offset by the cost of cutting and capping the cable. For this reason, we accept the Company's proposal to maintain the current salvage factor of zero.

8. Account 368, Line Transformers: It is our understanding that the computer runs supporting the Company's proposed curve shape and average service life represent a statistical aging (simulation) rather than actual historical survivors. While we agree that the curve shape should be in the R family, we disagree with the Company's statement that the retirement history for this account is adequate to yield valid results with the SPR analyses. This account's annual retirement rate over the last five years has only averaged around 1% with a growth rate of about 28%. Furthermore, the narrative states that "Gulf's engineers noted no change in technology, other than a conversion to stainless steel transformers at beach locations." With this statement and only the SPR runs for support of the proposed change to an 29 year average service life and R1 curve shape, we find that a change in the current life parameters is not warranted. Using the account's average age of 10.6 years together with a 25 year average service life and R2 curve shape produces an average remaining life of 16.5 years.

With only a 1% annual retirement rate over the last five years, there is not a convincing argument that the net salvage being experienced is typical of the universe and warrants a change as proposed by the Company to (25)%. This is a cradle-to-grave account and under this accounting method, very little gross salvage is realized. Under this same procedure, very little removal costs are realized unless there are special considerations for disposal. The Company provided no additional information to support the proposed increase in removal costs. We do recognize, however, that with the inclusion of engineering and supervision costs, removal costs have risen over the last five years. Thus, we find that a change from the current (5)% to a (15)% net salvage factor is reasonable and in line with current industry projections.

9. Account 369.1, Services-Overhead: We accept the Company's proposal to maintain the average service life of 27 years and the S1 curve. A remaining life of 19.4 years results. This is in line with current industry experience and is reasonable.

We find continuation of the net salvage factor of negative 30%, which is mid-range for the industry. The Company's proposal for zero net salvage relates to a recent decrease in the amount of removal cost booked. However, Gulf has recently adopted several practices which do not lend credibility to the salvage data provided in the current study. For example, scrapped material from overhead services is combined with the scrapped material from overhead distribution lines, and none of the value from salvage is booked to the Overhead Services Account. Although the value of this scrap material is currently low, and the material from distribution line scrapped is likely to make up the greater portion of the combined scrap, we do not conclude from these expectations that future gross salvage for this account is correctly set at zero. Additionally, the Company has indicated that "little time is needed to 'clip and remove' each end of a service." It appears that the data includes only the small cost associated with that activity and excludes any travel or other costs. The implications of these facts render the salvage data meaningless for determination of future net salvage.

10. Account 369.2, Services-Underground: We find that the Company's proposal of a 24 year remaining life, based on the 30 year service life and S3 curve, is in line with current industry projections and is acceptable.

We find that the Company shall retain the currently approved net salvage of negative 10%, based on industry-wide experience. The Company's proposal of zero net salvage does not reflect expected minimum costs to cut and cap off when the service is retired.

11. Account 369.3, Services-Housepower Boxes: We accept the Company's proposed 10.6 year average remaining life, based on a 27 year service life and an R3 curve, and 0% net salvage factor. These values are in line with both Company and industry experience.

12. Account 370, Meters: We find that the Company's proposed 17.6 year remaining life is in line with current industry projections and is acceptable. This is based on a 27 year average service life and an S1 curve shape.

While the last ten year band of net salvage activity has averaged around (4)%, the cost of removal has dropped and the gross salvage has increased in the last five year band (1988-1992) with an average net salvage of (2)%. Thus, we find no reason to change the currently prescribed (3)% net salvage factor.

13. Account 373, Street Lighting & Signal System: The remaining life for this account is 11.8 years resulting from continued use of the R0.5 curve with a service life of 15 years and the current age of 5.3 years. We do not find conclusive evidence that a change to the S1 curve shape, as proposed by the Company, is warranted at this time.

Based on data supplied by the Company regarding increased costs of removal, we find the proposed net salvage factor of negative 10% to be acceptable.

D. General Support Plant

1. Account 390, Structures and Improvements: The Company has used the life span forecast method on a location basis to study this account. A date of final retirement was developed for each location with interim retirements based on the L3 curve using the 43 year life table. This produced an average remaining life of 28 years for the account which is on the low side of industry projections. Relatively small interim retirements are expected through the lifetime of a structure and the majority of the investment continues until final retirement. Building alterations or the replacement of such things as carpet, air conditioning or other mechanical components will mean that a small percentage of the investment is expected to retire on an on-going basis. The use of an interim retirement rate acknowledges that certain components of these structures will be changed out and retired before the structure itself is retired. Therefore, we find that a 34 year remaining life is appropriate, which results from using a 1% interim retirement rate calculated from historical activity and using the average year of final retirement of 2035 as calculated from the data supplied by the Company.

When structures of this type are retired, the salvage realized at that time is likely to be offset by the removal costs. The Company's proposal to maintain the current zero salvage factor reflects this philosophy. We find this to be reasonable and the Company shall continue use of the zero salvage factor.

2. Account 392.1-Automobiles: The Company has proposed to maintain the current six year average service life with an L4 curve shape. This produces an average remaining life of 3.0 years which is in line with current industry projections. We find this is acceptable.

The most recent five year band of salvage activity shows gross salvage ranging from 12% to 23% with an average of 17%. Accordingly, we accept the Company's proposal to retain the current salvage factor of 20% as reasonable.

3. Account 392.2-Light Trucks: The Company has stated that "light trucks are being subjected to more rigorous duty" and as a result, will have a shorter average service life. The Company has defined "more rigorous duty" to mean more mileage in less time. We accept the Company's proposed life parameters as in line with its recent retirement activity. Using the S3 curve and 6 year average service life produces the remaining life of 2.8 years.

The Company proposes to maintain the current salvage factor of 20%. The last five years of net salvage have ranged from 7% to 21% with an average of around 18%. Based on this, we accept the 20% salvage factor as reasonable.

4. Account 392.3-Heavy Trucks: Over the past five years, the investment in this account has increased by approximately 34%, while the retirement rate has increased from less than 1% to over 8%. Based on its analysis, the Company has proposed an 11 year average service life with an L2 curve shape. This results in the proposed 7.1 year average remaining life. This is in line with this account's experience, and we find it to be acceptable.

The Company's proposal is to maintain the current net salvage factor of 20% which is based on the belief that the 9 year band of data (1984-1992) is indicative of the future experience of this account; however, the most current five year band (1988-1992) shows an average of around 15%. We therefore find a 15% net salvage factor.

5. Account 392.4-Trailers: The Company's proposal represents an update of age and accounting activity since the last review. Using the currently prescribed SQ curve and a 25 year average service life results in the proposed 17.6 year remaining life. We find this to be reasonable and acceptable.

We are concerned with the 20% net salvage factor proposed by the Company. While we recognize that this category usually contains material handling equipment and trailers, we do not believe that a 20% future net salvage factor is likely to be achieved. The most recent five year band (1988-1992) indicates a 15% net salvage. Accordingly, we find a 15% future net salvage factor is appropriate.

6. Account 393-Stores Equipment: The Company's proposal represents updating the account for age and accounting activity and maintaining the underlying life and salvage parameters. As there has been relatively no retirement activity in this account (less than one-half of a percent), we find this to be acceptable.

7. Account 394-Tools, Shop and Garage Equipment: The Company's proposal represents updating the account for age and accounting activity and maintaining the underlying life and salvage parameters. Since there has been relatively no retirement activity in this account (around one percent), we find that this proposal is reasonable.

8. Account 395-Laboratory Equipment: Based on its submitted computer runs, the Company proposes to maintain the current 20 year average service and change the curve shape from an L1.5 to an L2. The retirement pattern (less than 1% over the past five years) precludes any meaningful analysis and makes reliance on industry averages necessary. Even though there is not a significant difference in the resultant remaining life, we find that the current curve shape shall be retained. Using the 20 year average service life together with the average age of 6.2 years produces the average remaining life of 14.9 years.

We find continued use of the current zero salvage factor to be reasonable and acceptable.

9. Account 396-Power Operated Equipment: We accept the Company's proposal to maintain the current life and salvage parameters. Using the SQ curve shape and 20 year average service life results in a 9.0 year average remaining life. We find this to be reasonable and in line with current industry projections. We also find that continued use of the current 15% salvage factor is acceptable.

10. Account 397-Communication Equipment: The Company currently maintains the investment and reserve balances and activity for this type of equipment in two different accounts: One for depreciable plant and the other for amortizable plant. Since one of the prime reasons for amortization is to reduce recordkeeping tasks, we are surprised to learn that Gulf maintains this account's actuarial data combined between amortizable and depreciable. The type of equipment, as we understand it, that is amortizable is Gulf's telephone system equipment only while the depreciable account contains various microwave, radio (base station and portable) and fiber optic equipment. Gulf has stated that the entire account (both amortizable and depreciable added together) is included in the actuarial data base used in the CADLAS analysis and that the actuarial data necessary to perform life analysis for this account is maintained in total and cannot be segregated between the amortizable and depreciable property. This negates any life analysis performed on this data since it includes the amortizable investment as well as the depreciable investment. We find that the Company shall maintain these two sub-accounts separated between amortizable and depreciable, and the necessary steps shall be instituted to segregate the actuarial data on a prospective basis.

We are concerned about the age distribution for this account which shows investment surviving from as far back as 1947. This account has been profoundly affected by technological advances; therefore, investment that represents equipment still in service that is about 45 years old is suspect. Because of the age of the surviving investment, we strongly urge the Company to perform a physical inventory on this account and make the necessary accounting adjustment to its books based on the inventory results.

The Company's proposal represents a change in curve shape from an R3 to an S1 but maintains the current 24 year average service life. While we have no real problem with this proposal, the 24 year average service life is longer than current industry projections. Using the S1 curve and 24 year average service life results in the Company's proposed 18.6 year average remaining life which we find acceptable. However, as mentioned above, we have concerns about the age distribution and its implications; therefore, we suggest that the Company monitor this account for significant developments.

With the limited retirement experience for this account (1% annual retirement rate-1988-1992), we find that a change in the net salvage factor from the current (3)% to the Company's proposed (2)%

is not justified at this time. Accordingly, the current net salvage factor of (3)% shall be retained.

INVESTMENT TAX CREDITS AND DEFERRED INCOME TAXES

Section 46(f)(6) of the Internal Revenue Code (IRC) states that the amortization of ITCs should be determined by the period of time used in computing depreciation expense for purposes of reflecting regulated operating results of the utility. Since we find a change in depreciation rates, we find that it is also appropriate to change the amortization of ITCs.

Section 203(e) of the Tax Reform Act of 1986 (TRA) prohibits rapid write-back of protected (depreciation related) deferred taxes. In addition, Rule 25-14.013, Accounting for Deferred Income Taxes under SFAS 109, Florida Administrative Code, prohibits, without good cause shown, excess deferred income taxes associated with temporary differences from being reversed any faster than allowed under Section 203(e). Therefore, both the TRA and Rule 25-14.013, Florida Administrative Code, prohibit faster write-off of protected excess deferred taxes. Consequently, we find that the flowback of excess deferred taxes shall be altered to comply with the TRA and Rule 25-14.013.

The Company submitted calculations detailing the impact of its proposed depreciation rates on the amortization of investment tax credits and the flowback of excess deferred income taxes if the requested depreciation rates are approved. We have reviewed the calculations and find them to be reasonable. However, we have made adjustments to the Company's depreciation study. As a result, the ITC amortization and the flowback of excess deferred income taxes will also change.

Consequently, we find that the current amortization of ITCs and the flowback of excess deferred income taxes shall be revised to reflect the approved depreciation rates and recovery schedules. Also, the utility shall be required to file detailed calculations of the revised ITC amortization and flowback of excess deferred taxes at the time it files its January 1994 surveillance report.

Based on the foregoing, it is

ORDERED by the Florida Public Service Commission that the depreciation rates and amortization schedule set forth in Attachment B to this Order are hereby approved for Gulf Power Company. It is further

ORDERED that the implementation date for the new depreciation rates and schedules shall be January 1, 1994. It is further

ORDERED that beginning in 1994, Gulf Power Company shall institute procedures to transfer reserve whenever there is a transfer of investment as required by the Uniform System of Accounts as discussed within the body of this Order. A follow-up audit shall be performed to assure implementation within one year of the date of this Order. If at that time the Company is found not to be in compliance, a show cause proceeding may be initiated. It is further

ORDERED that the Job Development Investment Credit amount of \$615,677 System (\$600,763 Jurisdictional) shall be allocated as indicated within the body of this Order. It is further

ORDERED that the appropriate recovery schedules are as shown in Attachment A to this Order and as discussed within the body of this Order. The investments and associated reserves shall be withdrawn from their parent accounts and placed in separate subaccounts. All activity relating to subaccounts shall be booked to these subaccounts and not to another depreciation category or account. It is further

ORDERED that we hereby approve an annual dismantlement accrual in the amount of \$4,679,921. It is further

ORDERED that the appropriate lives, net salvages, reserves and resultant depreciation rates are as shown on Attachment B. It is further

ORDERED that the current amortization of investment tax credits and the flowback of excess deferred income taxes shall be revised to reflect the approved depreciation rates and recovery schedules. Gulf Power Company shall file detailed calculations of the revised investment tax credits amortization and flowback of excess deferred taxes at same time it files its January 1994 surveillance report. It is further

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ORDERED that this Order shall become final and this docket shall be closed unless an appropriate petition for formal proceeding is received by the Division of Records and Reporting, 101 East Gaines Street, Tallahassee, Florida 32399-0870, by the close of business on the date indicated in the Notice of Further Proceedings or Judicial Review.

By ORDER of the Florida Public Service Commission, this 20TH day of DECEMBER, 1993.



STEVE TRIBBLE, Director
Division of Records and Reporting

(S E A L)
DLC:bmi

NOTICE OF FURTHER PROCEEDINGS OR JUDICIAL REVIEW

The Florida Public Service Commission is required by Section 120.59(4), Florida Statutes, to notify parties of any administrative hearing or judicial review of Commission orders that is available under Sections 120.57 or 120.68, Florida Statutes, as well as the procedures and time limits that apply. This notice should not be construed to mean all requests for an administrative hearing or judicial review will be granted or result in the relief sought.

The action proposed herein is preliminary in nature and will not become effective or final, except as provided by Rule 25-22.029, Florida Administrative Code. Any person whose substantial interests are affected by the action proposed by this order may file a petition for a formal proceeding, as provided by Rule 25-22.029(4), Florida Administrative Code, in the form provided by Rule 25-22.036(7)(a) and (f), Florida Administrative Code. This petition must be received by the Director, Division of Records and Reporting at his office at 101 East Gaines Street, Tallahassee, Florida 32399-0870, by the close of business on JANUARY 10, 1994.

In the absence of such a petition, this order shall become effective on the day subsequent to the above date as provided by Rule 25-22.029(6), Florida Administrative Code.

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Any objection or protest filed in this docket before the issuance date of this order is considered abandoned unless it satisfies the foregoing conditions and is renewed within the specified protest period.

If this order becomes final and effective on the date described above, any party adversely affected may request judicial review by the Florida Supreme Court in the case of an electric, gas or telephone utility or by the First District Court of Appeal in the case of a water or wastewater utility by filing a notice of appeal with the Director, Division of Records and Reporting and filing a copy of the notice of appeal and the filing fee with the appropriate court. This filing must be completed within thirty (30) days of the effective date of this order, pursuant to Rule 9.110, Florida Rules of Appellate Procedure. The notice of appeal must be in the form specified in Rule 9.900(a), Florida Rules of Appellate Procedure.

GULF POWER COMPANY
 1993 DEPRECIATION STUDY
 APPROVED RECOVERY SCHEDULES

	1-1-94 INVESTMENT	1-1-94 RESERVE	EST. ADDS.	EXPECTED SALVAGE	NET TO BE RECOVERED	PERIOD OF RECOVERY
	(\$)	(\$)	(\$)	(\$)	(\$)	(Yrs.)
Plant Crist:						
DOE Project	605,000	226,872	0	(36,300)	414,428	2 Yr.
Precipitator	4,714,764	3,154,106 *	0	(375,000)	1,935,658	4 Yr.
Plant Daniel:						
Fly Ash Pond	245,851	99,324	0	(2,022,000)	2,168,527	4 Yr.
TOTAL	5,565,615	3,480,302	0	(2,433,300)	4,518,613	

*Denotes restated reserve

The monthly expense for each recovery schedule shall be calculated by dividing the net amount to be recovered by the months remaining for recovery. This will take care of additions and interim retirements as well as actual salvage and any shifts in retirement dates. All activity relating to these schedules shall be recorded to these schedules and not to another depreciation category or account.

GULF POWER COMPANY
 1993 STUDY

ACCOUNT	COMMISSION APPROVED RATES			
	AVERAGE REMAINING LIFE (YRS.)	NET SALVAGE (%)	ESTIMATED RESERVE (%)	REMAINING LIFE RATE (%)
STEAM PRODUCTION PLANT				
Plant Crist	23.0	(2.0)	40.89	2.7
Plant Scholz	19.4	0.0	66.62	1.7
Plant Smith	21.0	(3.0)	47.20	2.7
Plant Daniel	25.0	(3.0)	40.40	2.5
Plant Scherer	34.0	0.0	21.88	2.3
OTHER DEPRECIABLE STEAM PRODUCTION				
310-Plant Daniel Easements	29.0	0.0	45.77	1.9
310-Plant Crist Easements	31.0	0.0	39.72	1.9
311-Plant Daniel Rail Road	33.0	0.0	50.42	1.5
316 - Production Pit Furniture Equip.		5 Year Amorization		
316 - Production Pit Furniture Equip.		7 Year Amorization		
OTHER PRODUCTION PLANT				
Plant Smith	7.5	0.0	85.03	2.0
TRANSMISSION PLANT				
350-Easements	53.0	0.0	34.71	1.2
352-Structures & Improvements	32.0	(5.0)	16.22	2.8
353-Station Equipment	26.0	(5.0)	34.12	2.7
354-Towers and Fixtures	19.2	(20.0)	60.43	3.1
355-Poles and Fixtures	29.0	(35.0)	31.92	3.6
356-Overhead Conduct. & Devices	18.3	(20.0)	51.81	3.7
358-UG Cond & Devices	35.0	(5.0)	6.52	2.8
359-Roads & Trails	54.0	0.0	25.36	1.4
DISTRIBUTION PLANT				
361-Structures & Improvements	30.0	(5.0)	22.71	2.7
362-Station Equipment	29.0	(5.0)	23.62	2.8
364-Poles, Towers & Fixtures	24.0	(50.0)	34.57	4.8
365-Overhead Conductors	24.0	(10.0)	33.64	3.2
366-Underground Conduit	32.0	0.0	37.73	1.9
367-Undergrd Conduct. & Devices	20.0	0.0	30.63	3.5
368-Line Transformers	16.5	(15.0)	34.24	4.9
369.1-Overhead Services	19.4	(30.0)	42.13	4.5
369.2-Underground Services	24.0	(10.0)	18.95	3.8
369.3-Service-Housepower Boxes	10.6	0.0	65.41	3.3
370-Meters	17.6	(3.0)	43.28	3.4
373-Street Lights	11.8	(10.0)	23.08	7.4
GENERAL PLANT				
390-Structures & Improvements	34.0	0.0	22.74	2.3
392.1-Transportation-Automobiles	3.0	20.0	53.08	9.0
392.2-Transportation-Light Trucks	2.8	20.0	36.78	15.4
392.3-Transportation-Heavy Trucks	7.1	15.0	28.99	7.9
392.4-Transportation-Trailers	17.6	15.0	26.06	3.3
393-Stores Equipment	6.8	0.0	57.27	6.3
394-Tools, Shop & Garage Equip	22.0	0.0	17.28	3.8
395-Laboratory Equipment	14.9	0.0	11.58	5.9
396-Power Operated Equipment	9.0	15.0	57.66	3.0
397-Communication Equipment	18.6	(3.0)	27.54	4.1
391.1-Office Furniture		7 Year Amorization		
391.2-Electronic Office Equip		5 Year Amorization		
392-Marine and Other Equip		5 Year Amorization		
393-Stores Equipment		7 Year Amorization		
394-Tools, Shop, & Garage Equip.		7 Year Amorization		
395-Laboratory Equipment		7 Year Amorization		
397-Communication Equipment		7 Year Amorization		
398-Miscellaneous Equipment		7 Year Amorization		