

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

In re: Request by Gulf Power Company for approval to initiate amortization of a cogeneration facility projected to be placed in service in April 1998.

DOCKET NO. 980366-EQ
ORDER NO. PSC-98-0790-FOF-EQ
ISSUED: June 8, 1998

The following Commissioners participated in the disposition of this matter:

JULIA L. JOHNSON, Chairman
J. TERRY DEASON
SUSAN F. CLARK
JOE GARCIA
E. LEON JACOBS, JR.

NOTICE OF PROPOSED AGENCY ACTION
ORDER APPROVING DEPRECIATION FOR INVESTMENT
IN COGENERATION FACILITY

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 substantially affected files a petition for a formal proceeding, pursuant to Rule 25-22.029, Florida Administrative Code.

On March 13, 1998, Gulf Power Company ("Gulf" or "the Company") filed a request for permission to initiate amortization relating to a cogeneration facility located near Pace, Florida. The Company described the cogeneration facility as consisting of three combustion turbines and related equipment which will provide 15 MW total generation capability. The total projected cost for the facility is approximately \$10 million, which Gulf intends to book into specific accounts in the "Other Production" section of the Company's books and records. Gulf reports that it currently expects a service period of 20 years for this facility. At our request, Gulf provided additional information relating to expected routine retirements, fuel expense(s), formats for dispatch, and various other matters. For the following reasons, we deny Gulf's request for amortization and, instead, approve depreciation for its investment in the cogeneration facility on the terms below.

DOCUMENT NUMBER-DATE

06108 JUN-88

FPSC RECORDS/REPORTING

In the early portion of the service life of an installation, the whole life rate is typically used. In the course of operation, various additions, retirements, and other activity may impact the capital recovery position relating to the installation. The determination of an appropriate depreciation rate moves to the remaining life methodology, in order to respond to changes in life pattern and reserve level.

In the case of this facility, we believe that analysis of recovery position in future depreciation studies likely may indicate a need for revision in the recovery rate. A depreciation mechanism will allow for a smooth transition, in case any such revision is needed.

Gulf's request for capital recovery by amortization is based on its view that the investment, service period, and salvage factors for this facility will remain unchanged for the entire period of service. We are not confident that the parameters underlying appropriate recovery will remain unaltered and, accordingly, do not believe that amortization is the most appropriate method of capital recovery for Gulf's investment. We find that a depreciation mechanism will provide more flexibility in the event of future change and is thus more appropriate for this facility.

Upon review of all the information provided by Gulf, we find that Gulf's investment in the cogeneration facility should be depreciated at a whole life rate of 5%, calculated by use of a 20-year service life and zero net salvage. Further, we find that Gulf should initiate capital recovery through this depreciation mechanism at the in-service date of the cogeneration facility.

We note that this order addresses only capital recovery for Gulf's investment in the cogeneration facility and should not be regarded as a prudence review for cost recovery purposes.

Based on the foregoing, it is

ORDERED by the Florida Public Service Commission that Gulf Power Company's request for approval to initiate amortization for its investment in a cogeneration facility is denied. It is further

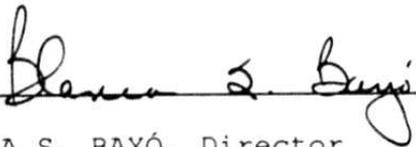
ORDER NO. PSC-98-0790-FOF-EQ
DOCKET NO. 980366-EQ
PAGE 3

ORDERED that Gulf Power Company shall, at the in-service date of the subject cogeneration facility, initiate capital recovery for its investment in the cogeneration facility by means of a 5% whole life depreciation rate. It is further

ORDERED that the provisions of this Order, issued as proposed agency action, shall become final and effective unless an appropriate petition, in the form provided by Rule 25-22.036, Florida Administrative Code, is received by the Director, Division of Records and Reporting, 2540 Shumard Oak Boulevard, Tallahassee, Florida 32399-0850, by the close of business on the date set forth in the "Notice of Further Proceedings or Judicial Review" attached hereto. It is further

ORDERED that in the event this Order becomes final, this Docket shall be closed.

By ORDER of the Florida Public Service Commission this 8th day of June, 1998.



BLANCA S. BAYÓ, Director
Division of Records and Reporting

(S E A L)

WCK

NOTICE OF FURTHER PROCEEDINGS OR JUDICIAL REVIEW

The Florida Public Service Commission is required by Section 120.569(1), 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

ORDER NO. PSC-98-0790-FOF-EQ
DOCKET NO. 980366-EQ
PAGE 4

should not be construed to mean all requests for an administrative hearing or judicial review will be granted or result in the relief sought.

Mediation may be available on a case-by-case basis. If mediation is conducted, it does not affect a substantially interested person's right to a hearing.

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, 2540 Shumard Oak Boulevard, Tallahassee, Florida 32399-0850, by the close of business on June 29, 1998.

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.

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 substantially 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.