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Public Service Commission

July 21, 1997

Ms. Susan D. Cranmer
Assistant Secretary and Assistant Treasurer
Gulf Power Company
500 Bayfront Parkway
Pensacola, FL 32520

Re: Docket # 970643-EI

Dear Ms. Cranmer:

Staff has begun the review of the information filed by your Company in the above referenced docket. As a result, some additional information is needed at this time. We are providing a list of questions in hard copy form, as well as on disc formatted in WordPerfect 6.1.

Please provide your responses and information by August 29, 1997. Should you have any questions or concerns in regard to the information needed, please do not hesitate to telephone me at 850-413-6453, or Jeanette Bass at 850-413-6461.

Sincerely,

Patricia S. Lee
US/C Engineer Supervisor

PSL/JB:lts
enclosures

cc: Division of Records and Reporting
Division of Legal Services
Division of Electric and Gas
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DOCKET NUMBER 970643-EI
GULF POWER COMPANY 1997 DEPRECIATION FILING
INITIAL REVIEW

PRODUCTION PLANT

The study states that GULF has addressed interim retirements for each of its production plants in an approach similar to Tampa Electric. Each retirement unit has been reviewed and stratified into a life category from 1-20 years, 21-35 years, or 36 years through the life-of-plant. These categories were then the basis for determining the Average Lives for each generating plant.

Staff has reviewed the sample detailed schedules provided under Tab 6 of the study and we have several questions.

1. Pages 44-46 are rather difficult to read. Staff would appreciate another copy. We will also need the similar pages for each of your production plants.

2. We are assuming that the information shown on pages 44-46 are survivors by vintage for the various retirement units comprising each of your various life strata categories.
    a. Please describe how the surviving distributions were developed.

    b. We are particularly troubled by the indication of negative survivors shown for Plant Crist Common, Account 312 (vintages 1995, 1981, and 1952). Surviving investment relates to that portion of the gross additions originally placed in a given vintage that is surviving or still in service today. Negative survivors would indicate negative original placements, which is not logical. We are just as concerned with those vintages showing survivors as small as $1 or $8 as shown in the distribution for the 35 year life strata category for 1972 and 1949. Please review this information and all other distributions that show negative or other questionable survivors for any given vintage.

3. Your proposal is to maintain depreciation rates at the total plant site level. Ideally, where large components of the investment have a remaining life foreseeably different from the average, there is an argument for separate rates. This might be by unit within the plant site, or for some major project that will retire substantial dollars before recovery. Our proposal will be to develop depreciation rates for each unit within each plant site.

4. If any major overhauls are planned during the next four years (1998-2001), please provide a description of the overhaul including the work planned to be performed, any retirement units expected to be replaced as a direct result, and in what year(s)

each overhaul is planned to take place. Please provide the January 1, 1998 estimated investment and reserve associated with the equipment currently planned for replacement during each overhaul.

5. Please provide the reasoning behind the 7-year life extension for Plant Crist, Units 1-3.

6. Please provide the support for extending the estimated retirement date for Plant Daniel, Units 1 and 2, from 2012 and 2016 as shown in the last study to 2027 and 2031, respectively, as shown in the current study.

7. Please provide the rationale for extending the estimated retirement date for the Plant Daniel Rail Tracks from 2026, as given in the last study to 2031, as given in the current study.

8. Please provide the support for the three-year life span extension for the Plant Scholz Units 1 and 2.

9. Please provide the support for extending the estimated retirement date for the Plant Smith Combustion Turbine from 2001, as shown in the last study, to 2006 as shown in the current study.

FOSSIL DISMANTLEMENT

10. Are we correct that the dismantlement costs for Plant Daniel and Plant Scherer are based on 1993 and 1994 site specific cost studies escalated to year end 1997?

11. How does the dismantling scope used in this current study differ from that used in previous studies?

12. On page 1, Volume 1, of the Dismantlement Cost Study, the Company lists 5 items that have changed or updated since the last review. Please provide an explanation as to why these changes were made and why they should be considered appropriate.

13. Please explain what a "pull down" methodology in unit pricing entails and how it differs from a "reverse construction" methodology.

14. In the last study, a "reverse construction" methodology in unit pricing was assumed because "the Southern Company has not dismantled any fossil plants in the recent past." In the current study, the same reason is given for the Company to assume the "pull down" methodology. Please help us understand how the same reason can be the support for differing pricing methodologies.

15. In the last study, the Company applied an 8% engineering overhead cost percentage and a 2% administrative and general overhead percentage to the direct cost estimates of dismantling. In this current study, these overhead percentages have been reduced to 1%. Please explain the reasoning behind this change in overheads.

16. Referring to Tab 9 of the Depreciation Study, on page 1, Assumption 2, the Company indicates that costs will be incurred the year after each unit's retirement date and during the year after the plant's retirement date. Beginning on page 3, the Company has begun the first year of dismantlement in the same year as the retirement date. Why shouldn't the dismantlement process be assumed to begin in the year following the retirement of the plant?

17. Referring to Tab 9, page 14, please explain why dismantlement begins two years after the retirement date of the Plant Scherer Common facilities?

18. In the Tab 9 "Fossil Dismantlement", on Schedule 2, the Column "L" is titled "Avg. Mult.". Please explain how this average multiplier is derived.

19. Referencing the Schedule 2 specified in question 18 above, please provide a narrative explanation based on Plant Crist, Unit 1, to spell out all steps from Column C, Cost Estimate 12/31/97, through Column M, Four Year Average Expense.

20. Please provide the following schedules on disk:
    a. Schedule 2: Annual Fossil Dismantlement Cost - Levelized Expense Calculation.

    b. Schedule 3: Escalation Rates - "Review of the U. S. Economy" February 1997 - 25 Year Forecast.

TRANSMISSION PLANT

21. Regarding the investment in Account 350, Easements and Rights of Way, Gulf states: "Easements and Land Rights are intangible costs and should not have a life of greater than 40 years." It is not clear why the accounting category of "intangible cost" would limit the life of these assets. Please clarify the Company's rationale behind the limitation of a 40-year maximum life for this investment. Also, please provide current the age distribution for the surviving investment in this account.

22. For Account 359, Roads and Trails, there is a footnote on page 20 of Tab 6 which states: "The investment in this account should be depreciated over a life not exceeding 40 years (similar to easements)." The tabulation of results on that page

shows an average service life of 50 years. Please resolve the inconsistent presentation, and provide the age distribution for the surviving investment in this account.

23. a. For the Account 361 Structures and Improvements in the Distribution Function, Gulf proposes to retain the average service life of 40 years. However, for the Account 352, Structures and Improvements in the Transmission Function, Gulf proposes to increase the average service life from 40 years to 45 years. Is the proposed change based entirely on statistical analysis of the retirement record for Account 352?

    b. Is there any notable difference between the types of structures in the Distribution Function as compared to those in the Transmission Function?

DISTRIBUTION PLANT

24. For Account 368, Line Transformers, a footnote states: "Both the prior study and the current study provided some indication that the life should be increased....".

    a. Is Gulf referring entirely to statistical implication derived from analysis of retirement history?

    b. Has Gulf recognized any change in the characteristics or performance of the line transformers related to this investment? In other words, can the Company relate the proposed increase to any recognized characteristic or change in characteristic pertaining to this type of equipment?

    c. Please provide the age distribution for the surviving investment in this account. SPR results are shown, but no survivor information was given in the original filing.

25. For Account 369.1, Overhead Services, the SPR results are included in the filing. Please provide an age distribution for current surviving investment as well.

26. Please provide an age distribution for current surviving investment in Account 373, Street Lighting and Signal System.

GENERAL PLANT

27. In the information following tabulated Analysis Results for Account 390, Structures and Improvements, Gulf discusses the activity in this account and its implications. Limited retirement experience and little change since the last prescription are cited.

The Company then states the following conclusion: "Therefore, as long as the current prescribed rate is deemed appropriate, the remaining life should be adjusted by four years." Please explain the reasoning behind this conclusion.

28. Gulf reports that its policy with respect to owning automobiles is changing. The Company now either rents vehicles or reimburses employees for the use of p 14. privately owned vehicles. The January 1, 1997 investment in autos is $277,000, down from $2.1 M in the prior study.
    a. When does the Company anticipate retiring the autos which currently remain in service?

    b. Please provide a current age distribution for the surviving investment in this account.

29. Please provide a current age distribution for investment in the following accounts:
    a. Account 392.2, Light Trucks.

    b. Account 392.4, Trailers.