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DIVISION OF ECONOMIC REGULATION
(850) 413-6900

Public Service Commission

October 30, 2001

Ms. Susan Ritenour
Assistant Secretary & Treasurer
Gulf Power Company
One Energy Place
Pensacola, FL 32520

Re: DOCKET NO. 010789-EI

Dear Ms. Ritenour:

Staff's initial review regarding Gulf's depreciation study filed in the above referenced docket is attached. In order to complete the review and meet a February 19, 2002 agenda date, please provide the Company's response by November 26, 2001. This schedule anticipates an agenda conference date of February 19, 2002.

Should you have any questions, or need further information, please do not hesitate to contact either myself at (850) 413-6453, Betty Gardner at (850) 413-6742, or Beverly Meeks at (850) 413-6920.

Sincerely,

Patricia S. Lee
US/C Engineer Supervisor

PSL:bbm
Enclosure

cc: Division of the Commission Clerk & Administrative Services
Division of Economic Regulation
Division of Legal Services
Division of Electric Safety and Reliability
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**GULF POWER COMPANY
2001 DEPRECIATION STUDY
DOCKET NO. 010789-EI**

I. GENERAL

1. Tab 8 - Net Cost of Removal Study: Accounts 365, 367, 369.1, 369.2, 370, and 373 have a footnote stating that the company has implemented a new methodology which better assigns salvage to primary accounts.
 - a. Please provide an explanation of this new methodology.
 - b. When was the new methodology implemented?

2. Rule 25-6.0436 (6)(f), Florida Administrative Code, requires an explanation and justification for each study category of depreciable plant defining the specific factors that justify the life and salvage components and rates being proposed. The explanation and justification should include substantiating factors used by the company in the design of depreciation rates for the specific category, e.g., company planning, growth, technology, physical conditions, trends. For every account that Gulf Power Company (GPC or compant) is requesting a change in curve shape and/or average service life, staff would like to understand the specific reasons why
 - a. One band was selected for life analysis as opposed to another band;
 - b. A particular curve shape was selected as opposed to another;
 - c. A particular service life was selected.

In addition, please provide staff with the output from the various SPR runs that show the different variables.

3. Even though the various studied accounts sometime carry the note that salvage and/or cost of removal is declining or increasing, there is no narrative to explain the decline/increase in removal costs. Further, there is no written support. other than the historical summary of the net removal costs, for the company's choice for net salvage. Where GPC is proposing a change in the net salvage value, please provide the specific factors that explain and justify your proposals.

II. PRODUCTION PLANT

1. The 1998 year of activity shows a transfer of \$20,378 of investment at Plant Crist from Easements to Land.
 - a. Please explain what caused this transfer.

Gulf Power Company
Docket No. 010789-EI
October 29, 2001

- b. Also, while the reserve side shows a transfer-out in Easements, staff is unable to determine which account this amount was transferred to. Any help you can provide to help us understand will be appreciated.
2. GPC's 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 account by unit within the plant site, by account by plant site, or for some major project that will retire substantial dollars before recovery. Staff's inclination is to develop depreciation rates for each account within the plant site.
3. A comparison of the depreciation study information on Production with the ten-year site plan indicates some differences with the Pea Ridge unit. The depreciation study shows one unit with a retirement date of 2018; the ten-year site plan shows three units with an unknown retirement date. Please explain the difference in retirement dates. Are there three separate operating units at Pea Ridge?
4. Since the retirement date for Smith Unit A is 2006, has the company formed any firm retirement plans? If so, please provide. If no, when does GPC expect to begin formulation of the retirement plans for Smith Unit A?
5. In staff's opinion, Smith Unit 3 should be addressed in this docket where depreciation rates are being addressed. With this in mind, please provide the following information: Estimated net salvage, estimated date of retirement, and projected dismantlement cost estimates with an estimated dismantlement annual accrual.
6. Since the last depreciation study, Plant Daniel Units 1 and 2 indicate revised retirement dates from 2027 and 2031 to 2022 and 2026, respectively. Additionally, the information in the current depreciation study indicates that the proposed depreciation rate for the Daniel site is based on a 45-year life span for each unit, the same as presently used by Mississippi Power Company. Please provide a copy of the Mississippi Commission Order that prescribed the depreciation rate for this location.
7. GPC has stated that all transmission plant was analyzed using the actuarial method. Did the company perform any t-cuts on the various bands to obtain a best fit? (By t-cut, staff means that the graduation was performed with less than the total number of data points on the observed life table. In other words, it is the point beyond which observed data is excluded from the graduation.) If so, please provide the results. If no, why not?
8. Please provide a copy of the Georgia Public Service Commission's Order that prescribed the depreciation rates for Plant Scherer.

III. TRANSMISSION PLANT

1. For those accounts that have the worksheet entitled "Additions and Retirements Ratios" (Attachment A, page 7), please provide an explanation of the source of the data shown in the various columns and its purpose. In addition, please provide the same information for the accompanying plotted chart (Attachment B, page 8).
2. Account 353 - Station Equipment
 - a. Please provide an explanation of the referenced 2000 retirements on the Life Analysis sheet (Attachment C, page 9).
 1. Why was this equipment retired after only 4 years in service?
 2. How was this equipment used in connection with transmission station equipment?
 3. Explain why is there no gross salvage realized from the retirements of the operator consoles, disk tape drives, printers and work stations?
 - b. A review of the Net Removal Cost Historical Analysis page raises the following questions:
 1. What has caused the increase in retirements over the past four years?
 2. Explain why no gross salvage was realized from the 1997, and the 1999 - 2000 retirements. Given the increasing trend in retirements, no realized gross salvage appears suspect.
 3. What has caused the dramatic decrease in the cost of removal over the past four years?
4. Account 356 - Overhead Conductors
 - a. Please explain the increase in cost of removal for the years 1999 and 2000.
 - b. Please explain the gross salvage of \$166,425 for 2000.

IV. DISTRIBUTION PLANT

1. Account 362 - Station Equipment - A review of the Net Removal Cost Historical Analysis page raises the following questions:
 - a. What has caused the increase in retirements over the past four years?
 - b. Explain why no gross salvage was realized from the 1997, and the 1999 - 2000 retirements. Given the increasing trend in retirements, no realized gross salvage appears suspect.
 1. What has caused the dramatic decrease in the cost of removal over the past six years?
 - c. Account 364 - Poles, Towers and Fixtures
 - a. What has been the cause for the decrease in both gross salvage and cost of removal for the years 1998 - 2000?
 - b. Please explain the cause for the negative gross salvage for 1998 and 1999.
3. Account 365 - Overhead Conductors
 - a. What has caused the decline in cost of removal and gross salvage for the years 1997 - 2000?
4. Account 369.1 - Overhead Services
 - a. What has caused the increase in cost of removal for the years 1999 and 2000?
 - b. What has caused the increase in gross salvage for the years 1997 - 2000?
5. Account 369.2 - Underground Services
 - a. Please explain the cause for the increase in gross salvage and cost of removal for the years 1997 - 2000.
 - b. What equipment is being salvaged?

6. Account 369.3 - Services-Housepower Boxes
 - a. A footnote on the Net Cost of Removal page indicates this account is being systematically retired in place. Over what period of time is this being done and why?
 - b. When will this account be completely retired?
7. Account 370 - Distribution Meters
 - a. What is the source of the gross salvage realized in 2000?
8. Account 373 - Street Lighting and Signal Systems
 - a. What has caused the large fluctuation in gross salvage and cost of removal for the years 1997 - 2000?

V. GENERAL PLANT

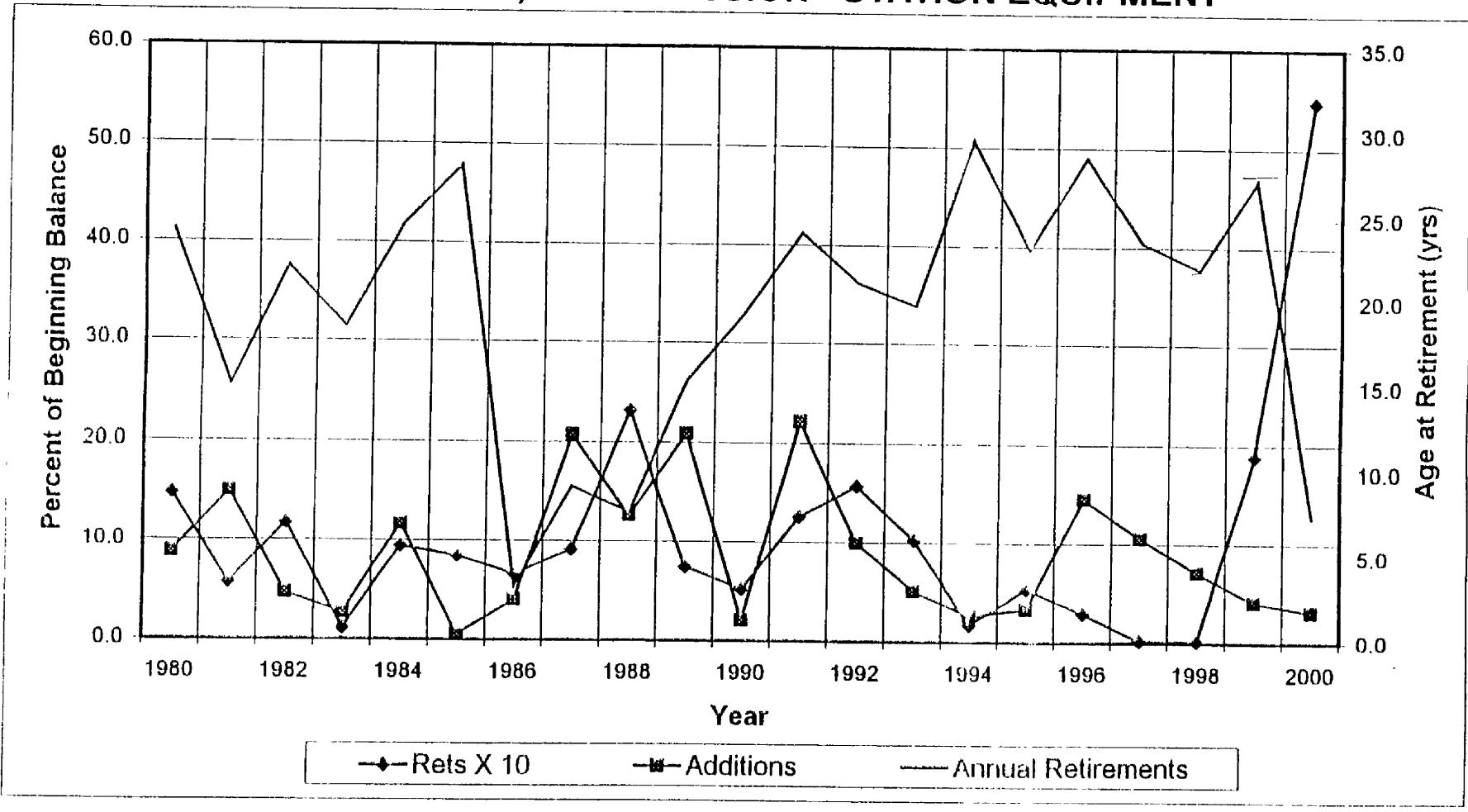
1. Transportation
 - a. What are GPC's current guidelines for the retirement of transportation equipment? (For example, age, mileage, etc.)
 - b. The 2000 year of activity (Tabs 10 and 11) shows equal amounts of investment and reserve adjustments into the transportation accounts. Please explain the reason for these adjustments and how the reserve amount was calculated.
2. Account 397 - Communications Equipment
 - a. Please provide the following breakdown in investment and reserve as of 12/31/2000 and 12/31/2001:
 - % - Fiber
 - % - Fiber Electronics
 - % - Switching
 - % - Other
 - b. Please provide the amount of investment and depreciation reserve in fiber cable as of 12/31/2000 and 12/31/2001.
 - c. Please provide the number of sheath miles represented by the fiber investment as of

GULF POWER COMPANY
 ADDITIONS AND RETIREMENTS RATIOS
 ACCOUNT 353, TRANSMISSION - STATION EQUIPMENT

4/16/2001

[1]	[2]	[3]	[4]	[5]	[6]	[7]	[8]	[9]
Year	Additions \$	Retirements \$	BOY Balance \$	Age at Retirement years	Additions Ratio %	Retirements Ratio %	Rets X 10 Ratio %	Additions Factor
1980	1,260,827	365,246	24,578,603	24.02	5.1	1.5	14.9	3.5
1981	2,237,740	145,765	25,474,184	14.97	8.8	0.6	5.7	15.4
1982	754,166	325,841	27,566,159	21.91	2.7	1.2	11.8	2.3
1983	447,848	31,706	27,994,484	18.33	1.6	0.1	1.1	14.1
1984	1,948,446	269,647	28,410,626	24.43	6.9	0.9	9.5	7.2
1985	97,627	253,821	30,089,425	27.88	0.3	0.8	8.4	0.4
1986	707,524	197,995	29,933,231	3.17	2.4	0.7	6.6	3.6
1987	3,671,166	278,567	30,442,760	9.12	12.1	0.9	9.2	13.2
1988	2,502,970	782,392	33,835,359	7.61	7.4	2.3	23.1	3.2
1989	4,330,101	264,077	35,555,937	15.29	12.2	0.7	7.4	16.4
1990	473,265	204,817	39,621,961	19.20	1.2	0.5	5.2	2.3
1991	5,142,257	502,930	39,890,409	24.06	12.9	1.3	12.6	10.2
1992	2,592,345	704,087	44,529,736	21.06	5.8	1.6	15.8	3.7
1993	1,391,332	476,447	46,417,994	19.72	3.0	1.0	10.3	2.9
1994	736,091	83,078	47,332,879	29.58	1.6	0.2	1.8	8.9
1995	932,418	259,875	47,985,892	23.18	1.9	0.5	5.4	3.6
1996	4,142,283	142,502	48,658,435	28.58	8.5	0.3	2.9	29.1
1997	3,241,335	11,442	52,658,216	23.61	6.2	0.0	0.2	283.3
1998	2,307,652	9,011	55,888,109	22.00	4.1	0.0	0.2	256.1
1999	1,403,683	1,099,311	58,186,750	27.29	2.4	1.9	18.9	1.3
2000	1,070,775	3,200,218	58,491,122	7.40	1.8	5.5	54.7	0.3
2001	21,867,000	142,000	56,361,679	17.00	38.8	0.3	2.5	154.0
			78,086,679					
Totals	63,258,851	9,750,775						6.5

GULF POWER COMPANY ACCOUNT 353, TRANSMISSION - STATION EQUIPMENT



GULF POWER COMPANY
 Depreciation Study as of December 31, 2001
 Life Analysis

Production _____ Transm. X Distribution _____ General _____

Account 353 - Station Equipment

BAND	PRIOR		CURRENT	
	ASL	CURVE	ASL	CURVE
5-Year	_____	_____	<u> 45 </u>	<u> R0.5 </u>
10-Year	_____	_____	<u> 53 </u>	<u> S-.5 </u>
15-Year	_____	_____	<u> 51 </u>	<u> S-.5 </u>
20-Year	_____	_____	<u> 51 </u>	<u> R0.5 </u>
Full () (63)	_____	_____	<u> 55 </u>	<u> R0.5 </u>
Other () ()	_____	_____	_____	_____
Selection	<u> 45 </u>	<u> R2 </u>	<u> 45 </u>	<u> S-.5 </u>
Balance	<u>\$55,656,207</u>		<u>\$78,086,679</u>	

Notes:

Longer ASL is evident.

Avg. Age of Retirements 15.62

Move toward recent indications. Suggest: 45 - S-.5

Avg. Age of Survivors 13.37

2001 Addition consists of:

- 12 kv 5 mvar capacitor bank.
- 115 kv 5 mvar capacitor bank.
- Smith 230 kv Sub Re-arrangement and Improvements.
- Transmission Substation Additions and Improvements
- Transmission Line Additions and Improvements.

2000 retirement w/ 1996 vintage:

- Operator consoles
- Disk tape drives
- Printers
- Work Stations