

BEFORE THE PUBLIC SERVICE COMMISSION

In re: Depreciation and dismantlement study at  
December 31, 2005, by Gulf Power Company.

DOCKET NO. 050381-EI  
ORDER NO. PSC-06-0348-PAA-EI  
ISSUED: April 24, 2006

The following Commissioners participated in the disposition of this matter:

LISA POLAK EDGAR, Chairman  
J. TERRY DEASON  
ISILIO ARRIAGA  
MATTHEW M. CARTER II  
KATRINA J. TEW

NOTICE OF PROPOSED AGENCY ACTION  
ORDER APPROVING DEPRECIATION RATES  
AND DISMANTLEMENT ACCRUALS FOR 2006

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.

BACKGROUND

By Order No. PSC-02-0787-FOF-EI, issued July 13, 2002, in Docket No. 010949-EI, In re: Request for rate increase by Gulf Power Company, the Commission approved Gulf Power Company's (Gulf or company) current depreciation rates, amortization schedules, and dismantlement provision with an effective date of January 1, 2002. Rule 25-6.0436, Florida Administrative Code, requires investor-owned electric utilities to file comprehensive depreciation studies at least once every four years. On May 31, 2005, Gulf filed its regular depreciation study in accordance with this rule. We have reviewed the study carefully, and based upon that review we approve a decrease in the amount of \$3,185,349 in annual depreciation expense from the 2002 Commission approved expenses, an increase of \$54,547 in annual accrual for fossil dismantlement, and an implementation date of January 1, 2006. Our reasons for this decision are explained below. We have jurisdiction under sections 350.115, 366.04, 366.05, and 366.06, Florida Statutes.

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FPSC-COMMISSION CLERK

DECISION

We approve January 1, 2006, as the implementation date for Gulf's new depreciation rates, amortization schedules, and dismantlement provisions as shown on Attachments A and B to this Order. We do so because Rule 25-6.0436, Florida Administrative Code, requires that data submitted in a depreciation study, including plant and reserve balances or company estimates, "shall be brought to the effective date of the proposed rates." In this regard, Gulf's supporting data and calculations match a January 1, 2006, implementation date.

Dismantlement

We approve a total annual provision for dismantlement of \$5,886,660 beginning January 1, 2006, as shown on Attachment A to this Order. This represents an increase of \$54,547 over the current approved annual accrual, and includes \$107,319 related to Plant Scherer Unit 3 unit power sale (UPS) contracts. The accruals reflect current estimates of dismantlement cost on a site-specific basis using the latest inflation forecasts and a 10% contingency factor.

In Order No. 24741 (Dismantlement Order), issued July 1, 1991, in Docket No. 890186-EI, In re: Investigation of the ratemaking and accounting treatment for the dismantlement of fossil-fueled generating stations, the Commission determined its policy for ratemaking and accounting for the treatment of costs associated with the dismantlement of fossil-fueled generating facilities. The Dismantlement Order determined that the provision for dismantlement should be accounted for as an annual fixed dollar accrual separate from the depreciation rate. Prior to the 1990's, the provision for dismantlement cost recovery was included in basic depreciation rates for each electric utility.

The Dismantlement Order established the methodology for calculating the annual accrual. 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.<sup>1</sup> The Dismantlement Order also provided that if a company is 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 Plant Scherer Unit 3 is dedicated to wholesale UPS contracts, the dismantlement expense is not included for earnings surveillance purposes.

Since Gulf's 2001 dismantlement study, base cost estimates for the various dismantlement activities have changed as shown below:

<b>FOSSIL DISMANTLEMENT BASE COST ESTIMATES</b>		
<b>PLANT</b>	<b>2001 Study</b>	<b>2005 Study</b>
<b>Plant Crist</b>	<b>\$ 56,368,000</b>	<b>\$ 67,387,000</b>
<b>Plant Daniel</b>	<b>17,052,500</b>	<b>19,700,500</b>
<b>Plant Schotz</b>	<b>10,126,000</b>	<b>10,955,000</b>

<sup>1</sup> These policies were codified in Rule 25-6.04364, Florida Administrative Code, adopted December 30, 2003.

<b>Plant Smith</b>	<b>23,676,000</b>	<b>25,836,000</b>
<b>Plant Scherer</b>	<b>5,109,000</b>	<b>3,839,625</b>
<b>Plant Smith Combustion Turbine</b>	<b>134,000</b>	<b>143,000</b>
<b>Plant Pace (Pea Ridge)</b>	<b>314,000</b>	<b>129,000</b>
<b>Plant Smith Unit 3</b>	<b>4,750,000</b>	<b>5,062,000</b>
<b>Total Base Cost Estimates</b>	<b>\$ 117,529,500</b>	<b>\$133,052,125</b>

Gulf's cost estimates are based on site-specific studies and reflect an increase of about 13% from the 2001 study. The major factors contributing to the changes in cost estimates are: (1) update of inflation factors, (2) the addition of Plant Crist Unit 7 selective catalytic reduction (SCR), and (3) the addition of Smith Unit 3 combined cycle.

Gulf's currently approved annual accrual for fossil fuel dismantlement is \$5,832,103. Its proposed annual accrual of \$5,836,672 is based on inflation factors from Economy.com as of April 2005. At our staff's request, Gulf updated its accrual to reflect the most recent inflation factors. This updated accrual, reflecting inflation factors as of January 2006, represents an increase over the current accrual of \$54,557. We find that it is reasonable for the accrual to reflect the most recent inflation estimates.

As with previous studies, Gulf has included a 10% contingency factor to cover uncertainty in the dismantlement cost estimates. The factor is comprised of a 5% pricing contingency and a 5% scope omission contingency. The pricing contingency provides a level of confidence that the estimates are reasonable. 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 a recognition that hazardous waste environmental assessments can only be performed at the time of dismantlement.

#### Depreciation Rates and Amortization Schedules

We approve new remaining lives, net salvages, reserves, and resulting depreciation rates as shown on Attachment B to this Order. These rates result in a decrease in annual depreciation expense by \$3,185,349, based on January 1, 2006 investments, and the removal of Plant Scherer Unit 3. These rates are derived from our review of the company's depreciation study. A summary of the changes in annual expense is as follows:

Expenditures By Function	
Production	(\$2,311,387)
Transmission	46,088
Distribution	218,944

General	(1,193,551)
Total Rates/Amortizations	(\$3,239,906)
Provision for Dismantlement	54,557
Total Change in Annual Expenses	(\$3,185,349)

In the current study, the significant changes in expenses relate to the exclusion of Plant Scherer Unit 3, change in average service lives, increase in net salvage, and the resulting increase/decrease in depreciation rates for production plant.

#### Production

A major impact to production plant is the exclusion of Plant Scherer Unit 3, a coal fired generating unit located in Georgia. Gulf has a 25 % ownership interest in Scherer Unit 3 and it 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 has been 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 would continue until 2010. We 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. Also, we will monitor the termination of the unit power sale contracts and the possible return of capacity to the Florida ratepayers in future depreciation studies.

#### Transmission, Distribution, and General Plant

The transmission, distribution, and general plant accounts show an increase in service life and salvage parameters over the last depreciation study. The remaining lives recognized here simply reflect an update of activity. We find the proposed changes to plant accounts service life, expected retirement dispersion, and net salvage to be reasonable and in line with Florida industry practices.

#### Distribution

For 2006, Gulf requests approval for the establishment of a 50 year average service life, net salvage value of zero, and a whole life rate of 2 percent for distribution account 360.2, Easements and Rights of Way. We find this to be reasonable and in line with Florida industry practices for a new account.

The recommended remaining lives for general plant reflect an update of each account's activity since the last review. Underlying service lives and mortality dispersions are still considered appropriate and reasonable. Also, the amortized general plant investments represent

high volume items of small value which do not warrant individual tracking. These investments represent less than 0.5 per cent of Gulf's proposed January 1, 2006 total plant in service. The use of amortization is consistent with the Commission's efforts to simplify the depreciation study process, where possible, and is reasonable and acceptable.

Investment Tax Credits and Deferred Income Taxes

With our approval of revised depreciation rates and recovery schedules, we will also approve revisions to the current amortization of investment tax credits (ITC) and the flow back of excess deferred income taxes to match the actual recovery periods for the related property. We direct the company to file detailed calculations of the revised ITC amortization and flowback of EDIT at the same time it files its surveillance report covering the period ending December 31, 2006.

Based on the foregoing, it is

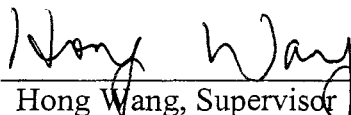
ORDERED by the Florida Public Service Commission that the depreciation rates and dismantlement accruals for 2006 are approved for Gulf Power Company as set out in this Order and Attachments A and B, which are incorporated herein. It is further

ORDERED that the provisions of this Order, issued as proposed agency action, shall become final and effective upon the issuance of a Consummating Order unless an appropriate petition, in the form provided by Rule 28-106.201, Florida Administrative Code, is received by the Director, Division of the Commission Clerk and Administrative Services, 2540 Shumard Oak Boulevard, Tallahassee, Florida 32399-0850, by the close of business on the date set forth in the "Notice of Further Proceedings" 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 24th day of April, 2006.

BLANCA S. BAYÓ, Director  
Division of the Commission Clerk  
and Administrative Services

By:   
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Hong Wang, Supervisor  
Case Management Review Section

( S E A L )

MCB

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 that is available under Section 120.57, 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 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. Any person whose substantial interests are affected by the action proposed by this order may file a petition for a formal proceeding, in the form provided by Rule 28-106.201, Florida Administrative Code. This petition must be received by the Director, Division of the Commission Clerk and Administrative Services, 2540 Shumard Oak Boulevard, Tallahassee, Florida 32399-0850, by the close of business on May 15, 2006.

In the absence of such a petition, this order shall become final and effective upon the issuance of a Consummating Order.

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

FOSSIL DISMANTLEMENT ACCRUAL  
ATTACHMENT A

PLANT	CURRENT ACCRUAL (01/01/2002)	COMPANY PROPOSED ACCRUAL (5/31/2005)	CHANGE IN ACCRUAL	STAFF RECOMMENDED ACCRUAL (01/01/2006)	CHANGE IN ACCRUAL
	(\$)	(\$)	(\$)	(\$)	(\$)
Plant Crist	2,866,326	3,026,105	159,779	3,053,458	187,132
Plant Smith	1,240,212	1,128,506	(111,706)	1,139,444	(100,768)
Plant Scholz	527,395	514,117	(13,278)	521,738	(5,657)
Plant Daniel	724,822	751,989	27,167	754,764	29,942
Total Steam (non-UPS)	5,358,755	5,420,717	61,962	5,469,404	110,649
Plant Smith CT	11,259	4,545	(6,714)	4,612	(6,647)
Plant Pace (Pea Ridge)	24,927	6,048	(18,879)	6,102	(18,825)
Smith Combined Cycle	251,316	297,504	46,188	299,223	47,907
Total Other Production	287,502	308,097	20,595	309,937	22,435
Total non-UPS Dismantlement	5,646,257	5,728,814	82,557	5,779,341	133,084
Plant Scherer (UPS)	185,846	107,858	(77,988)	107,319	(78,527)
Total Dismantlement	5,832,103	5,836,672	4,569	5,886,660	54,557

**GULF POWER COMPANY  
DOCKET NUMBER 050381-EI  
2005 DEPRECIATION STUDY  
ATTACHMENT B**

ACCOUNT NUMBER	ACCOUNT DESCRIPTION	AVERAGE REMAINING LIFE	NET SALVAGE	RESERVE	REMAINING LIFE RATE
Steam Production Plant		(YRS)	(%)	(%)	(%)
	Plant Daniel	19.6	(8)	48.01	3.1
	Plant Crist	17.9	(7)	38.35	3.8
	Plant Scholz	5.4	(3)	80.61	4.2
	Plant Smith	15.2	(4)	44.85	3.9
	Plant Scherer	31.0	(5)	44.82	1.9
Other Production Plant					
310.0	Plant Daniel Easements	31.0	0	65.77	1.1
311.0	Plant Daniel Rail Tracks	31.0	0	68.02	1.0
316.0	Production. Plant Furniture		5 Year Amortization		
316.0	Production. Plt Furniture		7 Year Amortization		
	Smith Combine Turbine	11.5	0	95.88	0.4
	Pace (Pea Ridge)	12.5	0	37.69	5.0
	Smith Combined Cycle	21.0	0	4.68	4.0
Transmission Plant					
350.0	Easements	33.0	0	46.64	1.7
352.0	Structures & Improvements	30.0	(5)	34.61	2.3
353	Station Equipment	35.0	(5)	28.88	2.2
354	Towers & Fixtures	29.0	(25)	57.22	2.3
355	Poles & Fixtures	27.0	(40)	29.39	4.1
356.	OH Conductors & Devices	38.0	(35)	38.09	2.6
358.0	UG Conductors & Devices	29.0	0	36.25	2.2
359.0	Roads & Trails	25.0	0	41.28	2.2
Distribution Plant					
361.0	Structures & Improvements	30.0	(5)	36.03	2.3
362.0	Station Equipment	31.0	(5)	32.03	2.4
364.0	Poles, Towers, & Fixtures	24.0	(75)	47.29	5.4
365.0	Overhead Conductors	27.0	(10)	33.62	2.8
366.0	Underground Conduit	30.0	0	59.43	1.4
367.0	Underground Conductors & Devel	21.0	0	29.95	3.3
368.0	Line Transformers	21.0	(25)	36.35	4.2
369.1	Overhead Services	23.0	(35)	49.60	3.7
369.2	Underground Services	33.0	(5)	27.54	2.4
369.3	Service-House Power Boxes	6.1	0	83.86	2.6
370.0	Meters	25.0	0	30.92	2.8
373.0	Street Lights	12.5	(5)	41.02	5.1
General Plant					
390.0	Structures & Improvements	28.0	(5)	39.24	2.3
392.2	Transportation Equip-Lt. Trucks	4.6	13	48.81	8.3
392.3	Transportation Equip-Hy Trucks	5.9	17	40.80	7.2
392.4	Transportation Equip- Trailers	9.2	15	43.01	4.6
396.0	Structures & Improvements	7.6	20	43.06	4.9
397.0	Communication Equipment	8.7	0	58.85	4.7
Amortizable Plant					
391.1	Office Furniture/Non-Computers		7 Year Amortization		
391.2	Computer Equipment		5 Year Amortization		
392.0	Marine and Other Equipment		5 Year Amortization		
393.0	Stores Equipment -Portable		7 Year Amortization		
394.0	Tools, Shop, & Garage Equipment		7 Year Amortization		
395.0	Laboratory Equipment-Portable		7 Year Amortization		
397.0	Communication Equipment-Official		7 Year Amortization		
398.0	Miscellaneous Equipment Official		7 Year Amortization		