Jeffrey Stone

From: Brock, Ricky E. [REBROCK@southernco.com]
Sent: Tuesday, November 28, 2006 8:09 PM
To: Betty Gardner
Cc: Spatch, E. Paulette; John Slemkewicz; Cheryl Bulecza-Banks; Michael Springer; Jeffrey Stone
Subject: RE: Gulf Power Company -Amended Depreciation Study-Docket No. 050381-EI

Importance: High

Depreciation Study Staff 11-27...

Betty,
Attached are the responses to the questions posed in your e-mail below.
These will also be filed with the Clerk this evening.

Ricky Brock

-----Original Message-----
From: Betty Gardner [mailto:BGARDNER@PSC.STATE.FL.US]
Sent: Monday, November 27, 2006 4:23 PM
To: Brock, Ricky E.
Cc: Spatch, E. Paulette; John Slemkewicz; Cheryl Bulecza-Banks; Michael Springer
Subject: Gulf Power Company -Amended Depreciation Study-Docket No. 050381-EI

Upon further review of your November 9 responses to the initial review and the amended depreciation study, the following questions must be clarified:
(1) Plant Crist Unit 1 had no plant investment and was reported as retired for the 2005 depreciation study, but the amended study shows an investment in the amount of $2,202,603. Please provide a detailed explanation why the dollars are being presented in this modified study for Crist Unit 1.
(2) The currently approved depreciation study show negative net salvages for Plant Crist and Smith as 7 and 4 percent, respectively. Please provide a detailed explanation why the company chose negative 10 and 5 percent net salvage for Plant Crist and Smith, respectively. Please provide any supporting calculations or documentation.
(3) For the November 9 responses to the initial review, item no. 2, page 2 of 2 listed the combined cycle units under Southern electric system.
Please provide the approved depreciation order or docket number issued by the regulatory entity for each of the provided units. (This request was previously made orally to the company.)

Please call me on Tuesday, November 28 at (850-413-6742), so we can discuss an appropriate response time to the above questions and the fossil dismantlement spreadsheet provided by Michael Springer. Thanking you in advance.

1. Plant Crist Unit 1 had no plant investment and was reported as retired for the 2005 depreciation study, but the amended study shows an investment in the amount of $2,202,603. Please provide a detailed explanation why the dollars are being presented in this modified study for Crist Unit 1.

ANSWER:

In order to adequately address this question, some background information is necessary.

On August 28, 2002, Gulf Power entered into an agreement with the Florida Department of Environmental Protection (FDEP) to ensure that Gulf's Plant Crist would make necessary NOx emission reductions to support the Pensacola Metropolitan Planning Area's compliance with the eight hour ozone ambient air quality standard. The compliance activities associated with the FDEP agreement are recoverable costs through the Environmental Cost Recovery Clause (ECRC) pursuant to F.S. 366.8255(1)(d). At the time of the FDEP agreement, Crist Units 1, 2 and 3 were each scheduled to be retired by Gulf in 2011. As a result of the FDEP agreement, Crist Units 1, 2 and 3 were each required to be retired earlier than otherwise planned by Gulf (Crist Unit 1 was to be retired within 120 days of receiving an order from the FPSC authorizing Gulf to recover the costs of compliance with the FDEP agreement through the ECRC while Crist Unit 2 and Crist Unit 3 were each to be retired on or before May 1, 2006). This early retirement was initially addressed by the Commission in Order No. PSC-02-1396-PAA-EI issued on October 9, 2002. In that order, the Commission initially directed Gulf to file a new depreciation study within 90 days of the issuance of the related consummating order. The new depreciation study was to reflect the actual retirement dates of Crist Units 1, 2 and 3. The resulting incremental depreciation expense associated with the new retirement schedule would be recovered through the ECRC.

Subsequent to the effective date of Order No. PSC-02-1396-PAA-EI, Gulf filed supplemental testimony in Docket No. 020007-EI to implement that portion of the Order that approved recovery through the ECRC of the incremental costs associated with the new retirement schedule. As noted in the testimony of Ms. Susan Ritenour, the estimated impact on the ECRC for 2003 was in excess of $466,000. As an alternative, Gulf proposed that it be allowed to depreciate/amortize the remaining undepreciated balance of Crist Units 1, 2 and 3 at the time of their actual retirement through the otherwise scheduled retirement date for these units in 2011. This alternative treatment would result in no incremental increase in depreciation/amortization expense related to the early retirement of Crist Units 1, 2 and 3 and consequently no incremental increase to the ECRC factors as a result of the early retirement. This alternative treatment was adopted by a stipulation approved by the

Commission in Docket No. 020007-EI. The stipulation was presented in the prehearing order (PSC-02-1590-PHO-EI at pages 22-23) and ultimately approved in the final order (Order No. PSC-02-1735-FOF-EI at pages 4 through 6). The language from the final order approving the stipulation is set forth in its entirety below:

III. STIPULATED COMPANY-SPECIFIC ENVIRONMENTAL COST RECOVERY ISSUES

We approve as reasonable the company-specific stipulations listed below.

B. Gulf Power Company

1. Allocation of the costs projected for 2003 associated with the implementation of the Ozone Agreement between Gulf and the Department of Environmental Protection

This issue has been rendered moot by the stipulation for Gulf Issue 2, below.

2. Implementation of Order No. PSC-02-1396-PAA-EI to allow Gulf to recover incremental depreciation expense for the revised depreciation schedule of Crist Units 1, 2 and 3 through the Environmental Cost Recovery Clause

The Commission’s directives in Order No. PSC-02-1396-PAA-EI should be modified to allow Gulf to depreciate/amortize Crist Units 1, 2, and 3 to reflect a December 31, 2011, retirement date for the units. This change means that there will be no incremental increase in depreciation/amortization expense resulting from the early retirement of Crist Units 1, 2, and 3 and consequently no impact on the ECRC. This stipulation is in substitution for the directives set forth in Order No. PSC-02-1396-PAA-EI that require Gulf to (1) revise the depreciation schedule for Crist Units 1-3 to reflect retirements on or before December 31, 2006, and (2) to submit a new depreciation study for the entire Crist Plant within 90 days of the

> Consummating Order in Docket No. 020943-EI. As a result of the Commission's approval of this stipulation, Gulf will no longer be required to submit a new depreciation study for the entire Crist Plant within 90 days of the Consummating Order in Docket No. 020943-EI, and Gulf will be required to reflect the December 31, 2011, retirement date for Crist Units 1, 2, and 3 as the scheduled date to complete the depreciation or amortization of net unrecovered assets for Crist Units 1, 2, and 3 in all future depreciation studies filed by Gulf through 2011 as required pursuant to Rule 25-6.0436(8)(a).

Plant Crist Unit 1 was properly reported as retired in the 2005 depreciation study since it had been retired in 2003 as required by the agreement with FDEP. In order to comply with the stipulation quoted above from Order No. PSC-02-1735-FOF-EI, the then remaining undepreciated investment in Crist Unit 1 of $2,203,603 was included in the total of $513,893,670 shown as invested in Plant Crist in the 2005 study. This data was included at the bottom of the parameter file along with adjusted totals for Crist plant. The amended 2005 study moved this Crist Unit 1 data under the Crist plant section of the parameter file.

In order to comply with the FDEP agreement, Crist Units 2 and 3 were retired on April 30, 2006. These units are properly reported as retired in the amended 2005 study since they had retired since the original 2005 study. Once again, in order to comply with the stipulation quoted above from Order No. PSC-02-1735-FOF-EI, the remaining undepreciated investment in Crist Unit 2 of $2,757,609 and Crist Unit 3 of $5,731,471 has been included along with the previously identified remaining undepreciated investment in Crist Unit 1 in the total of $540,774,334 shown as invested in Plant Crist in the amended 2005 study.

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2. The currently approved depreciation study show negative net salvages for Plant Crist and Smith as 7 and 4 percent, respectively. Please provide detailed explanation why the company chose negative 10 and 5 percent net salvage for Plant Crist and Smith, respectively. Please provide any supporting calculations or documentation.

ANSWER:

Gulf's amended study shows an increase in the cost of removal (negative salvage). This is a direct result of recognizing a longer unit life. While Gulf's study did not increase the investment in the section 7 parameter file, the longer unit lives generated more removal cost for the additional interim retirements. This was discussed in the response to Item No. 5 of Staff's Initial Review Request. The following table shows the difference between the original and amended studies.

Amended 2005 Depreciation Study				Original 2005 Depreciation Study			
	Removal	Investment	COR Rate		Removal	Investment	COR Rate
Crist	49,431,697	513,896,670	10%	Crist	34,474,794	513,896,670	7%
Smith	7,721,560	143,108,530	5%	Smith	5,266,450	143,108,530	4%

3. For the November 9 responses to the initial review, item no. 2, page 2 of 2 listed the combined cycle units under Southern electric system. Please provide the approved depreciation order or docket number issued by the regulatory entity for each of the provided units.

ANSWER:

Alabama Power Company (APC) combined cycle units (Washington County Cogen, GE Cogen, Barry Units 6 and 7, and Theodore Cogen) were included in the Company's last depreciation study dated October 31, 2004, with 40 year lives. The depreciation study does not require approval by the Alabama Public Service Commission (APSC). The APSC has adopted a Rate Stabilization and Equalization plan (Rate RSE) that provides for periodic annual adjustments based upon the Company's earned return on end-of-period retail common equity. The APSC has also approved a rate mechanism that provides for adjustments to recognize the placing of new generating facilities in retail service and for the recovery of retail costs associated with certificated purchased power agreements (Rate CNP). APC filed for recovery under their Rates RSE and CNP on February 13, 2006, with the APSC in Docket Nos. 18117 and 18416. In this filing, 40 year lives were used for the above listed combined cycle units in the calculation of depreciation expense for the 12 months ended December 31, 2005. APC's depreciation study using the 40 year lives was also filed with the Federal Energy Regulatory Commission (FERC) on May 26, 2005 in Docket No. ER05-1042-000. FERC accepted for filing APC's depreciation rates with the requested effective date of April 1, 2005.

Georgia Power Company's (GPC's) last depreciation study filed with the Georgia Public Service Commission (GPSC) was prepared as of December 31, 2003. GPC combined cycle units, McIntosh 10 and 11, were placed in service after the filing of this study; therefore, these units were not included. However, in GPC's 2004 rate case, Docket No. 18300-U, the depreciation expense for these units based on 35-year service lives was included in the calculation of revenue requirements for their test year ending July 31, 2005. The inclusion of the depreciation expense for these units is shown in Exhibit RH-12 of the direct testimony of GPC witness Ron Hinson filed on July 1, 2004. Also, in GPSC Staff Data Request No STF-SK-1, GPC responded to question no. 13 regarding how they proposed to depreciate the McIntosh combined cycle units as follows: "35 year service life was assumed based on similar facilities in operations in the Southern System." Also, the 35 year life for the McIntosh combined cycle units was entered into evidence during the rate case hearing on September 20, 2004, while GPC witness Ron Hinson was being cross-examined by the GPSC staff attorney. The final order in Docket No. 18300-U dated December 21, 2004, was silent as to the depreciable lives for these units and there was no adjustment to depreciation expense for these units, indicating the Commission's approval of the 35 year life for each unit as filed by GPC.

Mississippi Power Company (MPC) combined cycle units, Daniel 3 and 4, are leased units and are not owned by MPC. The Mississippi Public Service Commission (MPSC) approved this lease on October 17, 2000, in Docket No. 2000-UA-0627. An analysis provided to the MPSC staff assumed a 35 year life for these units for purposes of financing comparisons. The Company's retail base rates are set under the Performance Evaluation Plan (PEP), a rate plan approved by the MPSC annually. The lease payments for Daniel Units 3 and 4 are included in MPC's 2005 PEP filing dated March 13, 2006, in Docket No. 2003-UN-0898.

The remaining combined cycle units are owned by Southern Company's unregulated subsidiary, Southern Power. Southern Power is not required to obtain regulatory approval for the depreciable lives of their generating units.