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November 17, 2008

Ms. Ann Cole  
Florida Public Service Commission  
2540 Shumard Oak Boulevard  
Tallahassee FL 32399-0850

Dear Ms. Cole:

RE: Docket No. 080009-EI

Per your request, attached are Gulf Power's responses to questions dated October 17, 2008 related to the Nuclear Cost Recovery workshop scheduled for November 20, 2008. We appreciate the opportunity to provide these responses and look forward to the workshop.

Sincerely,

*Susan D. Ritenour (lw)*

mv

Enclosures

Cc: Beggs & Lane  
Jeffrey A. Stone

**Separate and Apart - Uprate Projects**

Order No. PSC-08-0581-PHO-EI, shows the stipulation language (Issues 6F and 7H) which states, "the NCRC should be limited to those costs that are separate and apart from nuclear costs that would have been necessary . . . had there been no uprate project." Question 1 through 4; explore the definition and presentation of separate and apart costs for the uprate projects in the NCRC filings.

Question 1) This question addresses the method of identifying costs for activities that would occur absent uprate activities. For each of the following, explain your proposed methodology, including number of years to be reviewed, to sufficiently identify and quantify such costs for purposes of the NCRC filings. Please add any additional items you believe should be included.

- a) Replacement of existing asset near or at the end of useful life with like kind.
- b) Replacement of existing asset near or at the end of useful life with an improvement. (Example: a pending upgrade to address performance/reliability)
- c) Replacement or renewal of existing contracts.
- d) Known maintenance activities that are budgeted, planned, or tentatively scheduled.

**Response:**

[N/A for Gulf.](#)

Question 2) Please provide sample schedules demonstrating your response to Question 1.

**Response:**

[N/A for Gulf.](#)

Question 3) This question addresses the method of identifying costs for uprate activities that impact the contracts, maintenance, and asset replacements schedules that existed prior to pursuing the uprate project. For each of the following, explain your proposed methodology, including number of years to be reviewed, to sufficiently identify and quantify such costs for purposes of the NCRC filings. Please add any additional items you believe should be included.

- a) Replacement of existing asset before the end of its useful life with like kind.
- b) Replacement of existing asset before the end of its useful life with an improvement. (Example: an upgrade purely addressing added capacity and/or energy production.)

- c) Replacement or renewal of existing contracts.
- d) Change in scope of maintenance activities.

**Response:**

N/A for Gulf.

Question 4) Please provide sample schedules demonstrating your response to Question 3.

**Response:**

N/A for Gulf.

**Separate and Apart - New Power Plant Projects**

Some transmission activities associated with the new power plant project may be in addition to those needed for the physical direct interconnection and tie-in with the transmission system.

Questions 5 through 8 are directed at increasing transparency regarding transmission expansion costs for growth and general transmission service requirements, as being separate and apart from those explicitly necessary to address delivery of the additional capacity and energy from the identified nuclear generation site to the transmission grid.

Question 5) This question addresses the method of identifying costs for transmission expansions, new construction, and relocation activities that would occur absent construction of the new nuclear power plant. For each of the following, explain your proposed methodology, including number of years to be reviewed, to sufficiently identify and quantify such costs for purposes of the NCRC filings. Please add any additional items you believe should be included.

- a) Expanded transmission and/or associated facilities.
- b) New transmission and/or associated facilities.
- c) Relocated transmission and/or associated facilities.
- d) Change in scope of O&M activities

**Response:**

a) The annual Transmission Plan assessment is performed by Southern Company Transmission (SCT) for the next 10-year planning horizon. The assessment is conducted to ensure system performance as required by associated North American Electric Reliability Corporation (NERC)

Standards TPL-001-1, TPL-002-0, TPL-003-0, and TPL-004-0 as well as the SCT Planning Guidelines.

If a violation is identified, either a viable operating procedure and/or a transmission improvement (corrective action plan) is proposed. Any operating procedures are approved by Gulf Power System Operations. The following information is included for each transmission improvement/project: 1) project justification, 2) schedule for implementation, and 3) expected required in-service date. For transmission improvements, lead times necessary to implement plans are considered to ensure the required in-service date will be met. Specialized studies are also conducted annually to address additional TLP-003-0 and TPL-004-0 requirements. These may include stability studies as well as the Extreme Event Study.

- b) Separate transmission studies would be conducted to identify the transmission facility additions and/or upgrades that would be necessitated by the installation of new nuclear facilities.
- c) Transmission facilities are relocated for several reasons: 1) governmental agencies, such as Florida Department of Transportation may require relocation to facilitate road widening projects; 2) customers may request to relocate lines to accommodate land development needs; 3) Gulf Power may have to relocate facilities to facilitate line extensions or upgrades. In all cases a preliminary design is proposed and estimates are developed to determine the cost of the project.
- d) O&M expenditures would be reallocated across the entire transmission system if any new facilities were to replace some portion of existing facilities. O&M amounts, if any, associated with the newly constructed transmission facilities related to the nuclear generation would be recovered in the nuclear cost recovery clause until these facilities are moved into base rates.

Question 6) Please provide sample schedules demonstrating your response to Question 5.

**Response:**

Below is an example of a schedule that demonstrates the information produced for a project identified in an annual Transmission Assessment. This is followed by an example of a schedule showing the estimated cost of the project.

## ***Example Schedule***

**P.E. 0000**  
**Substation A – Substation B 115 kV T.L.**  
**\$XXX,XXX**

<u>System Conditions</u>	<u>Line Loading</u>
Generating Unit X Off	Substation A – Substation B 115 kV T.L.
Generating Unit Y at XX MW	X.XX miles 477.0 26/7 ACSR
Open XYZ Tap -	Rate B=125 MVA @ 75 deg. C
	X.XX miles 336.4 26/7 ACSR
	Rate B=100 MVA @ 75 deg. C
I. 2009 Summer Peak (G09SHZ001)	59 MVA (59%)
II. 2010 Summer Peak (GI0SHZ001)	60 MVA (60%)
III. 2011 Summer Peak (G11 SHZ001)	63 MVA (63%)
IV. 2012 Summer Peak (G12SHZ001)	60 MVA (60%)
V. 2013 Summer Peak (G13SHZ001)	63 MVA (63%)
VI. 2014 Summer Peak (G14SHZ002)	74 MVA (74%)
VII. 2015 Summer Peak (G15SHZ001)	74 MVA (74%)
VIII. 2016 Summer Peak (GI6SHZ001)	77 MVA (77%)
IX. 2017 Summer Peak (GI7SHZ001)	78 MVA (78%)
X. 2018 Summer Peak (G18SHZ00)	100 MVA (100%)

**Cost Estimate Example**

Gulf Power Company

PE No.

**BUDGET ESTIMATE OF PLANT EXPENDITURES AND RETIREMENTS**

**0000**

Authorized Date: October 1, 2003

Estimated Starting Date: January 2017

Revision No.: 6

7/14/2008

Estimated Completion Date: December 30, 2018

Title **Substation A - Substation B 115 kV Reconductor**

Details By Jobs And Supporting Data:

Year	Previous Estimate	Present Estimate	Variance
	October 2006 Submitted		
2013	\$XXX	\$XXX	\$XXX
2014	\$XXX	\$XXX	\$XXX
2017	\$XXX	\$XXX	\$XXX
2018	\$XXX	\$XXX	\$XXX
<b>TOTAL</b>	<b>\$XXX</b>	<b>\$XXX</b>	<b>\$XXX</b>

Item 1. Rebuild the Substation A - Substation B 115 kV line

Rebuild the existing X.XX miles of predominantly 336 ACSR transmission line with a new 795 ACSR 115 kV, 100 degree C designed transmission line.

	TOTAL	2017	2018
Plant Additions	XXX	XXX	XXX
Gulf E & S	XXX	XXX	XXX
Design	XXX	XXX	XXX
<b>TOTAL</b>	<b>\$XXX</b>	<b>\$XXX</b>	<b>\$XXX</b>

In this space, an explanation of the need of the project is provided including an change in timing, etc.

Trans Line - \$XXX

Item No.	MEMO ESTIMATED PLANT EXPENDITURES							MEMO Maintenance Charges	Original Cost Of Plant Retired
	Previous Authorized Amount	Expended To Date	Plant Additions	Plant Transfers (Credits)	Plant Removal Cost	Plant Salvage (Credits)	Total Cash Required		
1	\$XXX		\$XXX		\$XXX		\$XXX		\$XXX
<b>Total</b>	<b>\$XXX</b>		<b>\$XXX</b>	<b>\$XXX</b>	<b>\$XXX</b>	<b>\$XXX</b>	<b>\$XXX</b>	<b>\$XXX</b>	<b>\$XXX</b>
Original Estimated Cost	<b>ESTIMATED EXPENDITURES BY YEARS</b>								
	\$XXX	Prior Years							
		2017	\$XXX		\$XXX		\$XXX		
		2018	\$XXX		\$XXX		\$XXX		\$XXX
		<b>TOTAL</b>	<b>\$XXX</b>		<b>\$XXX</b>		<b>\$XXX</b>		<b>\$XXX</b>

Question 7) This question addresses the method of identifying costs for transmission expansions, new construction, and relocation activities that impact the contracts, maintenance, and asset replacements schedules that existed prior to pursuing the transmission activities.

For each of the following, explain your proposed methodology, including number of years to be reviewed, to sufficiently identify and quantify such costs for purposes of the NCRC filings. Please add any additional items you believe should be included.

- a) Expanded transmission and/or associated facilities.
- b) New transmission and/or associated facilities.
- c) Relocated transmission and/or associated facilities.
- d) Change in scope of O&M activities

**Response:**

Any transmission improvement that results from a new planning study or an external entity request is added to the current system model in order to determine the effect it will have on Gulf's transmission system for that 10-year timeframe. Any revisions to existing projects that are required as a result of a new project would be designed, estimated and included in the estimated cost of the new project. O&M expenditures would be reallocated across the entire transmission system if any new facilities were to replace some portion of existing facilities. O&M amounts, if any, associated with the newly constructed transmission facilities related to the nuclear generation would be included in the nuclear cost recovery clause until these facilities are moved into base rates.

Question 8) Please provide sample schedules demonstrating your response to Question 7.

**Response:**

See Response to question no 6.

**AFUDC**

To encourage investment and provide certainty for recovery of costs associated with the construction of nuclear power plants, Section 366.93 (2)(b), Florida Statutes, states that for need determination petitions submitted on or before December 31, 2010, associated carrying costs shall be equal to the pretax AFUDC rate in effect upon this act becoming law. Rule 25-6.0423 (5)(b)1., Florida Administrative Code, further specifies that, "Mar power plant need petitions submitted on or before December 31, 2010, the associated carrying costs shall be computed based on the pretax AFUDC rate in effect on June 12, 2007."

For FPL, the applicable AFUDC rate for recovery of carrying costs is 7.42% throughout the construction life of nuclear plants approved pursuant to need determination petitions submitted on or before December 31, 2010. Per Order No. PSC-08-0265-PAA-EI, issued April 28, 2008, FPL's authorized AFUDC rate was revised to 7.65% effective January 1, 2008.

For PEF, the applicable AFUDC rate for recovery of carrying costs is 8.848% throughout the construction life of nuclear plants approved pursuant to need determination petitions submitted on or before December 31, 2010.

Question 9) If either company's otherwise applicable AFUDC rate changes (higher or lower) during the construction cycle of said nuclear plants, how should the return associated with the incremental difference between the AFUDC rate specified by Statute for purposes of computing carrying costs and that Company's actual AFUDC rate during the construction cycle of the plants be treated for ratemaking purposes?

**Response:**

The difference in the carrying cost resulting from the difference in the legislated AFUDC rate and the utility's actual AFUDC rate during construction should be properly reflected in the CWIP balance. Any difference would ultimately be included in the capitalized amount that is moved to plant-in-service when construction is completed and included in base rates.

Question 10) Should the return associated with the incremental difference between the AFUDC rate specified by Statute for purposes of computing carrying costs and the Company's actual AFUDC rate during the construction cycle of the plant(s) be quantified by Company and recognized in the determination of the amount included in rate base at the time the plant(s) go into commercial service?

**Response:**

Yes, see response to question no. 9.

Question 11) Do you believe the effects of the incremental difference in AFUDC should be tracked? If so, please provide sample schedules demonstrating how these amounts should be tracked.

**Response:**

There is no additional benefit that would result from separately tracking or reporting the effects of the incremental difference in AFUDC. The AFUDC amount (net of any advanced recovery) will be identifiable in the CWIP balance.



## **Project Dashboard**

Many factors influence utility efforts to complete projects on budget and on schedule. Some factors may cause a utility to elect not to complete or preclude completion of a project. Given the complicated nature of these projects, it may be reasonable for the utilities to provide timely disclosure of relevant factors that are within utility control, as well those that are not within their control, that influence decisions regarding these projects. A document containing such information would be summary in nature and mirror information reviewed and relied upon by utility management in addressing such matters in their efforts to complete the project on budget and schedule. For discussion purposes, that document is referred to as a project dashboard. Questions 12 through 14 seek comments regarding a project dashboard or alternative means of achieving the same purpose as a project dashboard.

Question 12) Do you believe a project dashboard, or equivalent document, is needed or useful? If so, please respond to the following questions.

- a) What form should the information take?
- b) What time period or interval should be used?
- c) How often should the information be filed?
- d) How should the dashboard present projected and achieved milestones?
- e) How should the dashboard present projected and actual costs?
- f) How should the dashboard present influencing factors within the utility's control?
- g) How should the dashboard present influencing factors outside of utility's control?
- h) What other overview information concerning project schedule and cost should be included?

### **Response:**

Gulf believes that a summary document reflecting a project's overall timeline, milestones, actual and projected costs for the duration of the project, and risk factors would be a useful tool for management to monitor a project's progress and make decisions regarding the continuation of a project. Such information is the type of information that would be included in the annual filings required by FPSC Rule 25-6.0423, but a summary form of this information could be requested as part of the discovery process. Although Gulf is considering nuclear as an option for future generation needs, the nuclear development process is just beginning; therefore, the Company is currently not in a position to provide details regarding information to be included in filings and how it would be presented.

Question 13) Please provide an example project dashboard demonstrating your response to Question 12.

**Response:**

[See response to question no. 12.](#)

Question 14) If you believe a project dashboard, or equivalent document, is not needed or useful, explain why.

**Response:**

[See response to question no. 12.](#)

**Project Feasibility Study**

Rule 25-6.0423(5)(~)5., F.A.C., requires 'By May 1 of each year, along with the filings required by this paragraph, a utility shall submit for Commission review and approval a detailed analysis of the long-term feasibility of completing the power plant.' Various orders affirming the need for the projects require utilities to continue assessing the reasonableness and prudence of the project. Questions 15 through 17 explore options for purposes of compliance with the rule and the respective orders and the intent of such requirements.

CR3 Uprate

In making our decision whether to grant a determination of need, we have necessarily relied on the representations of the proposed power plant's cost effectiveness made by PEF. This reliance is especially critical where, as in PEF's petition before us in this case, there are no request for proposal results or other market-based checks on the utility's representations. Accordingly, while we grant PEF's requested exemption, PEF is on notice that we will closely scrutinize the reasonableness and prudence of any capital cost greater than those represented by PEF through its testimony and exhibits. (Order No. PSC-07-0119-FOF-EI at page 3)

Levy&2

PEF shall provide a long-term feasibility analysis as part of its annual cost recovery process which, in this case, shall also include updated fuel forecasts, environmental forecasts, non-binding capital cost estimates, and information regarding discussions pertaining to joint ownership. In addition, PEF should account for sunk costs. Providing this information on an annual basis will allow us to monitor the feasibility regarding the continued construction of Levy Units 1 and 2. (Order No. PSC-08-0518-FOF-EI at page 24)

EPU - No specific statement in Order No. PSC-08-0021-FOF-EI.

Turkey Point 6 & 7

FPL shall provide a long-term feasibility analysis as part of its annual cost recovery process which, in this case, shall also include updated fuel forecasts, environmental forecasts, break-even costs, and capital cost estimates. In addition, FPL should account for sunk costs. Providing this information on an annual basis will allow us to monitor the feasibility regarding the continued construction of Turkey Point 6 and 7. (Order No. PSC-08-0518-FOF-EI at page 29)

Question 15) Do you support rule development addressing the annual long-term feasibility reports?

- a) Explain why.
- b) If you support rule development please provide a draft straw-man proposal.
- c) If you support standardized schedules or minimum filing requirements, please provide drafts of such schedules or minimum filing requirements.

**Response:**

No. Compliance with Rule 25-6.0423(5)(c)5., F.A.C. can be achieved without rule development addressing specific information to be included in annual long-term feasibility reports.

Question 16) Do you support project specific long-term feasibility reports as stand-alone documents for purposes of compliance with the rule, respective orders, and the intent of such requirements?

- a) Explain why.
- b) If you support stand-alone long-term feasibility reports, please provide a draft straw man proposal of the table of contents for such annual reports.

**Response:**

No. The necessary information can be provided on Schedule P-9, which is included as part of the filings required by May 1 of each year.

Question 17) Do you prefer an option other than those discussed in questions 15 and 16 for purposes of compliance with the rule, respective orders, and the intent of such requirements?

- a) Explain why.

b) Please provide a draft straw-man proposal of the scope of information to be provided in your preferred alternative option.

**Response:**

Yes. Gulf would propose the continued use of Schedule P-9 to provide the necessary data and detailed analysis to support the feasibility of completing a new plant. A standard form addressing specific information to be provided is not necessary to be in compliance with Rule 25-6.0423(5)(c)5.

**NFR Schedules**

There may be a desire or need to codify the schedules in a rule. Prior to the 080009-EI docket, there had been dialog on the structure, content, scope, detail and presentation of information included in these drafted schedules. Questions 18 through 25 explore opportunities to further improve the NFR schedules based on your respective reviews of the actual filings and experiences with each company's schedules.

Question 18) Which schedules, if any, should be changed?

Question 19) For each schedule that you believe should be changed, explain why?

Question 20) For each schedule that you believe should be changed, please provide a draft straw-man proposal showing the change(s).

Question 21) Which schedule(s), if any, should be deleted?

Question 22) For each schedule that you believe should be deleted, explain why?

Question 23) Is there a need for one or more new schedules?

Question 24) For each schedule that you believe should be added, explain why?

Question 25) For each schedule that you believe should be added, please provide a draft straw-man proposal showing each new schedule.

**Response (questions 18 through 25):**

Gulf has not had any direct experience in preparing or filing any of the NFR schedules, therefore we are not in a position to recommend any changes, deletions, or additions at this time.