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State of Florida



Public Service Commission

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TALLAHASSEE, FLORIDA 32399-0850

-M-E-M-O-R-A-N-D-U-M-

DATE: May 26, 2016 July 28, 2016

TO: Office of Commission Clerk (Stauffer)

FROM: Division of Accounting and Finance (Slemkewicz, Fletcher, Mouring)
Division of Economics (Wu) *Wu*
Division of Engineering (Wooten) *Wooten*
Office of the General Counsel (Brownless) *Brownless*

JS BJS ALM
POE
MJS

RE: Docket No. 160039-EI – Petition for approval of regulatory asset related to the retirement of Plant Smith Units 1 and 2, by Gulf Power Company.

AGENDA: ~~06/09/16~~ 08/09/16 – Regular Agenda – Proposed Agency Action – Interested Persons May Participate

COMMISSIONERS ASSIGNED: All Commissioners

PREHEARING OFFICER: Patronis

CRITICAL DATES: None

SPECIAL INSTRUCTIONS: None

Case Background

On February 24, 2016, Gulf Power Company (Gulf) filed a petition seeking approval to create a regulatory asset and defer recovery of the amounts related to the retirement of Plant Smith Units 1 and 2 (Units). The recovery of the regulatory asset would be deferred to a future proceeding with an effective date after the expiration date of the Stipulation approved in Order No. PSC-13-0670-S-EI,¹ which is the last billing cycle in June 2017. The decision to retire the Units was made after Gulf finalized its Mercury and Air Toxics Standards (MATS) rule compliance strategy for each of its coal-fired units. At December 31, 2015, the Net Book Value of the Units was approximately \$61.9 million and the estimated remaining inventory balance was \$2.9

¹Order No. PSC-13-0670-S-EI, issued December 19, 2013, in Docket No. 130140-EI, *In re: Petition for rate increase by Gulf Power Company.*

million. In response to a staff data request, Gulf provided the actual net book value and actual remaining inventory balances of \$60,244,659 and \$2,809,649, respectively, as of the actual retirement date of March 31, 2016.² The Office of Public Counsel is listed as an interested person in this docket.

This recommendation addresses the creation of the regulatory asset and the deferral of its recovery to a future proceeding. The Commission has jurisdiction over this matter pursuant to Sections 366.04 and 366.06, Florida Statutes (F.S.).

²Document No. 04002-16, filed June 24, 2016, in Docket No. 160039-EI, In re: Petition for approval of regulatory asset related to the retirement of Plant Smith Units 1 and 2, by Gulf Power Company.

Discussion of Issues

Issue 1: Should the Commission approve Gulf's request to create a regulatory asset related to the retirement of Plant Smith Units 1 and 2 and defer the recovery of the regulatory asset to a future proceeding?

Recommendation: Yes. The Commission should approve Gulf's request to create a regulatory asset related to the retirement of Plant Smith Units 1 and 2 and defer the recovery of the regulatory asset to a future proceeding. Further, the Commission should find that the approval to record the regulatory asset for accounting purposes does not limit the Commission's ability to review the amounts and recovery period for reasonableness in future proceedings in which the regulatory asset is included. (Slemkewicz, Wooten, Wu)

Staff Analysis: On February 24, 2016, Gulf filed a petition seeking approval to create a regulatory asset and defer recovery of the amounts related to the retirement of Plant Smith Units 1 and 2 (Units). Gulf's decision to retire the units was based on its MATS rule compliance strategy for its coal-fired generating units. Unit 1 began service in 1965 and was previously scheduled to be retired in 2030. Unit 2 began service in 1967 and was previously scheduled to be retired in 2032. Based on the MATS evaluation, the Units were retired on March 31, 2016. At December 31, 2015, the Net Book Value of the Units was \$61,880,482 and the estimated remaining inventory balance was \$2,852,159.

In its petition, Gulf asserts that its best option for compliance with MATS is the retirement of Plant Smith Units 1 and 2. Staff requested the MATS compliance alternatives that Gulf explored in an effort to determine the accuracy of this determination. In response to this request, Gulf submitted the Plant Smith Asset Evaluation, dated December 11, 2014.³ After a review of the provided analysis, staff is satisfied that the early retirement of Plant Smith Units 1 and 2 is the most cost-effective alternative.

Because the Units are being retired early, certain entries must be made to Gulf's books and records. Rule 25-6.0436(6), Florida Administrative Code (F.A.C.), requires a utility to compile an annual depreciation status report showing changes to categories of depreciation that will require a revision. In addition, Rule 25-6.0436(7)(a), F.A.C., provides that:

Prior to the date of retirement of major installations, the Commission shall approve capital recovery schedules to correct associated calculated deficiencies where a utility demonstrates that (1) replacement of an installation or group of installations is prudent and (2) the associated investment will not be recovered by the time of retirement through the normal depreciation process.

³Confidential Document No. 02442-16, filed April 25, 2016, in response to Staff's Second Data Request Item No. 1, in Docket No. 160039-EI, *In re: Petition for approval of regulatory asset related to the retirement of Plant Smith Units 1 and 2, by Gulf Power Company*.

Gulf's current depreciation rates are based on retirement dates of 2030 and 2032 for the Units. Therefore, the investment in the Units will not be recovered through the normal depreciation process due to the early retirement of the Units.

As a result of the Stipulation,⁴ Gulf's depreciation and amortization accrual rates in effect as of the effective date of the Stipulation remain in effect. Also, Gulf is not required to file any depreciation or dismantlement studies during the term of the Stipulation that ends with the last billing cycle of June, 2017. However, Gulf is required to file depreciation and dismantlement studies by either December 31, 2018, or a period defined as not more than 1 year nor less than 60 days before the filing of its next general rate proceeding, whichever is sooner. On July 14, 2016, Gulf filed a depreciation and dismantlement study that was assigned Docket No. 160170-EI.⁵

In response to a staff data request, Gulf provided the actual net book value and actual remaining inventory balance of \$60,244,659 and \$2,809,649, respectively, as of the actual retirement date of March 31, 2016. Based on a review of Gulf's filing and its responses to Staff's First Data Request⁶ and Staff's Third Data Request, it is staff's opinion that the Units' Net Book Value of \$60,244,659 \$61,880,482 and the estimated remaining inventory balance of \$2,809,649 \$2,852,159 represent the appropriate amounts of the proposed regulatory asset as of March 31, 2016. December 31, 2015. The actual amounts to be recorded as a regulatory asset will be slightly less due to the additional accumulated depreciation incurred between January 1, 2016, and March 31, 2016.

The early retirement of the Units will require that future revisions be made to the depreciation rates, amortization, and capital recovery schedules. ~~As previously stated, Gulf is generally not required to file any depreciation or dismantlement studies before December 31, 2018.~~ The concept of deferral accounting allows companies to defer costs and seek recovery through rates at a later time. The alternative would be for a company to seek a rate case each time it experiences an exogenous event. In staff's opinion, it is appropriate to create a regulatory asset for the amounts associated with the early retirement of the Units and defer recovery until the amounts can be addressed included in the next depreciation study or base rate proceeding. ~~dismantlement studies.~~ Further, the Commission should find that the approval to record the regulatory asset for accounting purposes does not limit the Commission's ability to review the amounts and recovery period for reasonableness in future proceedings in which the regulatory asset is included.

⁴Document No. 07112-13, filed November 22, 2013, in Docket No. 130140-EI, *In re: Petition for rate increase by Gulf Power Company* (pp. 12-13).

⁵Docket No. 160170-EI, *In re: Petition for approval of 2016 depreciation and dismantlement studies, approval of proposed depreciation rates and annual dismantlement accruals and Plant Smith Units 1 and 2 regulatory asset amortization, by Gulf Power Company.*

⁶Document No. 01656-16, filed March 30, 2016, in Docket No. 160039-EI, *In re: Petition for approval of regulatory asset related to the retirement of Plant Smith Units 1 and 2, by Gulf Power Company.*

Issue 2: Should this docket be closed?

Recommendation: If no person whose substantial interests are affected by the proposed agency action files a protest within 21 days of the issuance of the order, this docket should be closed upon the issuance of a consummating order. (Brownless)

Staff Analysis: At the conclusion of the protest period, if no protest is filed this docket should be closed upon the issuance of a consummating order.