State of Florida

Public Service Commission

CAPITAL CIRCLE OFFICE CENTER • 2540 SHUMARD OAK BOULEVARD
TALLAHASSEE, FLORIDA 32399-0850

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

DATE: August 8, 2016

TO: Carlotta S. Stauffer, Commission Clerk, Office of Commission Clerk

FROM: John Slemkewicz, Public Utility Analyst II, Division of Accounting & Finance JS

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

Please add the following email and its attachment to the above-referenced docket file.

From: Vandiver, Denise [mailto:VANDIVER.DENISE@leg.state.fl.us]
Sent: Monday, August 08, 2016 10:21 AM
To: Bart Fletcher
Cc: Kelly, JR; Rehwinkel, Charles; Morse, Stephanie; 'Fletcher, Jim R.'; Holly Henderson; Jeffrey A. Stone (JAS@beggslane.com)
Subject: Plant Smith

Bart:
Pursuant to your conversation with Charles, these are suggested redline changes that Gulf and OPC have discussed and would like to be considered.

Thank you

Denise N. Vandiver
Office of Public Counsel
111 West Madison Street
Pepper Building, Room 812
Tallahassee, Florida 32399-1400
Phone: 850-717-0330

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.[2] 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.

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.

[2] Confidential 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*

As a result of the Stipulation,[3] Gulf's depreciation and amortization accrual rates in effect as of the effective date of the Stipulation remain in effect. Therefore, the utility is prohibited from requesting an amortization rate until the Stipulation term expires. However, the utility is required to reflect the retirement of the plant on its books and records. ~~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.

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 the actual retirement date of March 31, 2016. Based on a review of Gulf's filing and its responses to Staff's First Data Request,[4] and Staff's Third Data Request, it is staff's opinion that the Units' Net Book Value of $60,244,659 and the remaining inventory balance of $2,809,649 represent the appropriate amounts of the proposed regulatory asset as of March 31, 2015.

Because the Stipulation does not allow Gulf to request an amortization rate during the Term of the Stipulation, ~~The~~ 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, in this case, 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 included in the next depreciation or dismantlement studies~~ an amortization rate can be established. 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 for reasonableness in future proceedings in which the regulatory asset is included. Also, because of the specific circumstances of the stipulation

[3] Document 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).
[4] Document 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.*

related to continuing depreciation and amortization rates, the creation of a regulatory asset does not involve deferral of costs that would otherwise be recovered, in part, during the term of the Agreement. The OPC has represented that the early retirement of Plant Smith was discussed as a possibility during negotiations and can be fairly construed as having been considered in the context of the continuation of depreciation and amortization rates.