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May 26, 2009

**Gulf Power Company**  
**Pensacola, Florida**

The attached report summarizes the study we conducted of the annual depreciation (capital recovery) rates for the projected depreciable electric plant of Gulf Power Company ("Gulf Power" or "the Company") as of December 31, 2009 ("the study date"). The study was made to determine the appropriate book depreciation factors and rates to be applied to the plant in service to enable recovery of the plant investment, adjusted for net removal, over its remaining useful life. The scope of the study included a review and analysis of the average service lives and remaining lives of the property. Also included in the study were a determination of net removal and the annual depreciation of dismantlement costs of Production Plant ("Dismantlement Costs").

The study was made using methods and procedures generally accepted in the industry and consistent with the Florida Public Service Commission ("Commission") practice and the Florida Administrative Code 25-6.0436. The Commission requires utilities in the State of Florida to file a depreciation rate study every four years and change, as necessary, the depreciation rates currently in use.

**Dismantlement Costs**

The annual depreciation expense for Gulf Power's Dismantlement Costs was revised as of the projected December 31, 2009 study date based on Commission requirements. The Dismantlement Costs were updated by the Company using current estimates.

**Production Plant**

It is recommended that Gulf Power depreciation rates of its Production Plant investment continue to be calculated using the straight-line remaining life method currently used by the Company. Specifically, depreciation of Production Plant is developed using the life span technique in which the remaining life of a generating unit is based on its estimated retirement date. The average remaining life of a generating plant reflects the adjustment for the effects of interim retirements. Under the generally accepted life span method used by the Company, the net investment of Production Plant is recovered through depreciation over the average remaining life of each generating unit.

The Production depreciation rates also reflect the effects of net removal of interim retirements. For this study, the net removal rate of interim retirements was estimated at 20%, which was the same rate used in the prior study.

The depreciation rates recommended in this report for the Company's Production Plant investment are designed to recover, through the depreciation expense provision, the total cost of plant, allowing for net removal, over the remaining useful life of the plant that result from the estimated retirement dates.

**Interim Retirements**

Because some investment at a generating plant is retired prior to the final retirement date of the plant, depreciation of Production Plant reflect interim retirements. In this study, consistent with prior studies, each retirement unit has been stratified into one of three life categories by Gulf Power engineers. These life categories are 1-20 years, 21-35 years, and 36 years through the life-of-plant. These categories were the basis for determining the average service lives, average remaining lives, and net removal of interim retirements for the depreciable investment at each generating plant.

**Retirement Dates**

The estimated retirement dates for Gulf Power's generating plants reflect the Company's current estimate of the life span of its generating units. For this study, the life span was extended by ten years for Plant Daniel Units 1 and 2 and Plant Scherer Unit 3. Also, the life span was extended five years for the Plant Smith Combined Cycle Unit. The life spans of Gulf Power's generating units are consistent with the life estimates and trends used within the Southern Company's electric system.

**Parameters for Transmission, Distribution, and General Plant**

The analysis of the average service life, mortality dispersion curves, and net removal estimates for Gulf Power included a review of historical lives and trends for each property account of depreciable electric plant. Average services lives were analyzed with the aid of either the actuarial method or the Simulated Plant Record ("SPR") method. The estimates of net removal were based on a review of Company net removal experience. The lifing and net removal analysis resulted in recommended changes in average service lives, dispersions, and/or net removal for certain Transmission, Distribution and General accounts.

**Conclusion**

The proposed depreciation rates are shown in Tab 6, Analysis Results. Tab 6 also shows the comparison of the recommended depreciation rates and parameters to the rates currently in use.

We recommend Gulf Power adopt the depreciation rates included in this study. Based on the study, it is our opinion that the depreciation factors as recommended are reasonable and appropriate for Gulf Power capital recovery. The depreciation factors recommended in this study are designed to recover, through the depreciation expense provision, the total cost of plant, allowing for net removal, over the remaining useful life of the plant based on the facts and conditions known at the time of the study.

Respectfully submitted,

*American Appraisal*

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