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January 27, 2015

Ms. Jenny Wu  
Division of Economics  
Florida Public Service Commission  
2540 Shumard Oak Boulevard  
Tallahassee FL 32399-0868

Re: Gulf Power Company's 2014 Annual Status Report - Depreciation

Dear Ms. Wu:

Enclosed is Gulf Power Company's response to Staff's First Data Request pertaining to Gulf's 2014 Depreciation Status Report.

Sincerely,

A handwritten signature in black ink that reads "Robert L. McGee, Jr." in a cursive style.

Robert L. McGee, Jr.  
Regulatory and Pricing Manager

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Enclosures

Cc w/encl.: Beggs and Lane  
Jeffrey A. Stone, Esquire  
Office of Public Counsel

1. Referring to the schedule ELECTRIC PLANT IN SERVICE ACTUAL: DECEMBER 2013, please explain how the Plant Additions for the Asset Retirement Obligation accounts were determined. Please include in your response a sample computation, in Excel file, to demonstrate how Scherer Plant's 2013 addition of \$105,544 for the account was computed.

RESPONSE:

The Plant Additions for the Asset Retirement Obligation (ARO) accounts were determined by five different transactions that affected the Plant Scherer ARO line item. These transactions included two new Plant Scherer ARO's and three cost estimate adjustments to previously recorded Plant Scherer ARO's.

Please see the DVD labeled Staff's First Data Request consisting of the file "Question 1 - Added Asset Report 1200" for a detailed list of the transactions as well as the Excel file "Question 1 - ARO Additions Sample Computation" for a sample computation of one of the five transactions that make up the \$105,544 of Plant Additions.

2. Referring to the schedule ELECTRIC PLANT IN SERVICE ACTUAL: DECEMBER 2013, please explain how the Plant Retirements for the Asset Retirement Obligation accounts were determined. Please include in your response a sample computation, in Excel file, to demonstrate how Scherer Plant's 2013 retirements of negative \$21,786 for this account was computed.

RESPONSE:

Plant Retirements for the Asset Retirement Obligation (ARO) accounts were determined based on recorded ARO settlements in a particular month. There were nine individual retirements related to Plant Scherer ARO's in 2013. These retirements were computed and recorded automatically by the PowerPlant system, using a ratio of settlement dollars to liability dollars.

Please see the DVD labeled Staff's First Data Request consisting of the file "Question 2 - Retired Asset Report 1201" for a detailed list of these retirements. The Asset 1201 report summarizes the nine retirements into three line items by work order for the entire year, regardless of the month in which the retirement occurred.

As requested, also included is the Excel file "Question 2 - ARO Retirements Sample Computation" which provides a sample computation of one of the three summarized retirements that make up the \$21,786 Plant Retirements. Since the ratios between settlement dollars and the liability change monthly, the excel spreadsheet will not tie exactly to the report.

3. Referring to the schedule ACCUMULATED PROVISIONS FOR DEPRECIATION AND AMORTIZATION ACTUAL: DECEMBER 2013, please explain the differences between what associated with the Dismantlement-Fixed accounts and the Asset Retirement Obligation accounts. Please include in your response a sample computation, in Excel file, to demonstrate how Scherer Plant' s 2013 Dismantlement-Fix provision of \$103,880 and 2013 Asset Retirement Obligation provision of \$138, 189 was computed, respectively.

**RESPONSE:**

The Dismantlement-Fixed accounts are the amounts approved in Commission Order No. PSC-10-0458-PAA-EI. In the case where a dismantlement amount listed on schedule ACCUMULATED PROVISIONS FOR DEPRECIATION AND AMORTIZATION ACTUAL: DECEMBER 2013, doesn't tie to the PSC order, the difference is related to amounts recorded for Asset Retirement Obligation (ARO) dismantlement.

ARO dismantlement is recorded on the books to a regulatory asset or regulatory liability rather than the accumulated reserve. However, for purposes of the Depreciation Annual Status Report, the ARO amounts are added back to the schedule as notated at the bottom of the schedule. The amount of \$103,880 shown for Scherer Plant's 2013 Dismantlement-Fix provision includes the PSC approved dismantlement accrual amount of \$98,878 as well as a correction in the amount of \$5,002 for an ARO dismantlement amount that was inadvertently excluded from the schedule ACCUMULATED PROVISIONS FOR DEPRECIATION AND AMORTIZATION ACTUAL in a prior year.

The Asset Retirement Obligation accounts are straight line depreciation expenses related to ARO plant in service assets. Please see the DVD labeled Staff's First Data Request containing the file "Question 3 - ARO Provision Computation".

Refer to electric Plant In Service Actual: December 2013 of Excel file FPSC13SCH71-SCH75 with rates.xlsx for questions 4- below regarding plant additions and retirements.

4. Account Asset Retirement Obligation (Steam Production: Daniel Plant)  
Please explain why there is a negative \$84,985.94 plant addition.

RESPONSE:

In February 2013, it was determined that the expected retirement date for Plant Daniel's ARO Ash Pond should be extended from the year 2026 to the year 2046. This extension resulted in a credit to the plant in service balance in order to accurately reflect the current value of the ARO plant in service asset based on the revised retirement date information.

5. Account 392 Transportation Equipment - Marine (General Plant)  
Please explain why there is a negative \$31.19 plant addition.

RESPONSE:

The (\$31.19) plant addition represents allocated Administrative and General overhead costs.

6. Account Base Coal - 7 year (Steam Production: Scholz Plant)  
Please explain why there is a positive \$539.50 plant retirement.

RESPONSE:

For clarification purposes, the line " - 7 YR" is not related to the above Base Coal line, it is related to Gulf's Amortizable Property.

The positive \$539.50 retirement is related to credit charges that came through on an amortizable property work order caused by a December accrual being more than the actual February billing.

Please refer to worksheet Electric Plant In Service Actual: December 2013 and Accumulated Provisions for Depreciation and Amortization Actual: December 2013 of Excel file FPSC13SCH71-SCH75 with Rates.xlsx for questions 7-11 below regarding plant adjustments.

7. Account Land (Steam Production: Scherer Plant)  
Please explain the nature and cause for the adjustment of negative \$1,921 recorded.

RESPONSE:

The (\$1,912) land adjustment represents the reduction of land value due to timber sales at Plant Scherer.



8. Account 350.0 Land (Transmission)
- a. Please explain the nature and cause for the adjustment of negative \$14,500 recorded.
  - b. Please explain why there is no corresponding transfer/adjustment booked on reserve side.

RESPONSE:

- A. The (\$14,500) adjustment represents a reduction in land value due to the donation of a metal building to the City of Crestview.
- B. The building was located on the land when it was purchased; therefore, the investment was included in non-depreciable account 350-Land. No reserve was calculated or booked on the building.

9. Account 360.0 Land (Distribution)
- a. Please explain the nature and cause for the adjustment of negative \$3,314.26 recorded.
  - b. Please explain why there is no corresponding transfer/adjustment booked on reserve side.

RESPONSE:

- A. The (\$3,314) adjustment represents a reduction of land value due to an exchange of land on the Scenic Hills substation site.
- B. Fee land is non-depreciable; therefore no reserve was calculated or booked.

10. Account 390.0 Structures and Improvements (General Plant)  
Please explain the nature and cause for the adjustment of negative \$10,506 recorded.

RESPONSE:

The (\$10,506) adjustment represents a reduction of site preparation costs due to the movement of gravesite relocation costs from Plant In Service Account 101 to Non-Utility Property Account 121 for the Pensacola Highway 29 Operation Center land account.

11. Please explain why the adjustments of the Total Electric Plant-in-Service booked, which is negative \$30,232.60, does not net to zero.

RESPONSE:

Transfers within Plant In Service Account 101 are normally booked to reflect the movement of assets from one physical location to another with no change in value; therefore they net to zero.

Adjustments to Plant In Service Account 101 are booked to correct the costs of an asset or to move to another account, such as maintenance. These transactions increase or decrease Plant In Service and do not net to zero.

Please refer to worksheet Electric Plant In Service Actual: December 2013 of Excel file FPSC13SCH71-SCH75 with Rates.xlsx for questions 12-23 below regarding plant transfer.

12. Account 353 Station Equipment (Transmission)

Please explain the nature and cause for the transfer of \$106,369 recorded in this account; and identify the source Account(s) from which the plant was transferred, if any.

**RESPONSE:**

The table below explains the \$106,369 transfer amount.

<b>Amount</b>	<b>Explanation</b>
\$7,109	A concrete pole was moved from account 355 on the Crist-Brentwood transmission line to account 353 at Scenic Hills transmission substation.
\$1,678	Transformers were moved from account 368 mass property to account 353 at Highland City transmission substation.
\$97,582	Station equipment being moved to and from account 353 transmission stations and account 362 distribution stations.

13. Account 355 Poles and Fixtures (Transmission)

Please explain the nature and cause for the transfer of negative \$7,109 recorded in this account; and identify the source Account(s) from which the plant was transferred, if any.

RESPONSE:

The (\$7,109) transfer represents a concrete pole that was moved from account 355 on the Crist-Brentwood transmission line to account 353 at Scenic Hills transmission substation.

14. Account 356 Overhead Conductors & Devices (Transmission)  
Please explain the nature and cause for the transfer of \$18,385 recorded in this account; and identify the source Account(s) from which the plant was transferred, if any.

RESPONSE:

The \$18,385 transfer represents a data transceiver that was moved from account 362 at the Grand Ridge distribution substation to account 356 at Sinai Cemetery-Bainbridge transmission line.

15. Account 362 Station Equipment (Distribution)

Please explain the nature and cause for the transfer of negative \$87,485 recorded in this account; and identify the source Account(s) from which the plant was transferred, if any.

RESPONSE:

The table below explains the (\$87,485) transfer amount.

<b>Amount</b>	<b>Explanation</b>
(\$97,582)	Station equipment being moved to and from account 353 transmission stations and account 362 distribution stations.
(\$18,385)	A data transceiver that was moved from account 362 at the Grand Ridge distribution substation to account 356 at Sinai Cemetery-Bainbridge transmission line.
(\$4,349)	Movement of a remote terminal unit from account 362 in East Bay distribution substation to account 397 in Communication Testing Equipment.
\$32,831	Transformers and regulators that were moved to and from account 368 line transformers and account 362 at various substations.



16. Account 364 Poles, Towers & Fixtures (Distribution)  
Please explain the nature and cause for the transfer of negative \$23,167 recorded in this account; and identify the source Account(s) from which the plant was transferred, if any.

RESPONSE:

The (\$23,167) transfer represents distribution line poles and fixtures that were moved from account 364 to account 390 at the Crestview Training Facility and the Fort Walton Training Facility.

17. Account 365 Overhead Conductors & Devices (Distribution)

Please explain the nature and cause for the transfer of negative \$1,348,403 recorded in this account; and identify the source Account(s) from which the plant was transferred, if any.

RESPONSE:

The table below explains the (\$1,348,403) transfer amount.

<b>Amount</b>	<b>Explanation</b>
(\$53,003)	Wire and cable costs were moved from account 365 to account 390 at the Crestview Training Facility and the Fort Walton Training Facility.
(\$1,295,400)	Underground ground rod costs were moved from account 365 to account 367.

18. Account 367 Underground Conductors & Devices (Distribution)  
Please explain the nature and cause for the transfer of negative \$1,372,378 recorded in this account; and identify the source Account(s) from which the plant was transferred, if any.

RESPONSE:

The table below explains the (\$1,372,378) transfer amount.

<b>Amount</b>	<b>Explanation</b>
(\$553)	Cable costs were moved from account 367 to account 390 at the Fort Walton Training Facility.
\$1,295,400	Underground ground rod costs were moved from account 365 to account 367.
(\$2,667,225)	Transfers to correct the unitization of work orders from account 367 to accounts 368, 369 and 373.

19. Account 368 Line Transformers (Distribution)

Please explain the nature and cause for the transfer of \$1,054,318 recorded in this account; and identify the source Account(s) from which the plant was transferred, if any.

RESPONSE:

The \$1,054,318 transfer represents the following:

<b>Amount</b>	<b>Explanation</b>
(\$35,837)	Transformers, arresters, cutouts, etc. were moved from account 368 to account 390 at the Crestview Training Facility and the Fort Walton Training Facility.
(\$34,509)	Transformers and regulators were moved from account 368 to account 353 or 362 at various substations and vice versa.
\$1,124,664	Transfers to correct the unitization of work orders from account 367 to account 368.

20. Account 369.2 Services - Underground (Distribution)

Please explain the nature and cause for the transfer of \$482,359 recorded in this account; and identify the source Account(s) from which the plant was transferred, if any.

RESPONSE:

The \$482,359 represents transfers to correct the unitization of work orders from account 367 to account 369.

21. Account 373 Street Lights & Signal Systems (Distribution)

Please explain the nature and cause for the transfer of \$1,060,202 recorded in this account; and identify the source Account(s) from which the plant was transferred, if any.

RESPONSE:

The \$1,060,202 represents transfers to correct the unitization of work orders from account 367 to account 373.

22. Account 390 Structures and Improvements (General Plant)

Please explain the nature and cause for the transfer of \$112,560 recorded in this account; and identify the source Account(s) from which the plant was transferred, if any.

RESPONSE:

The \$112,560 transfer represents various types of distribution line equipment that were moved from accounts 364, 365, 367, and 368 to account 390 at the Crestview Training Facility and the Fort Walton Training Facility.

23. Account 397 Communication Equipment - Others (General Plant)  
Please explain the nature and cause for the transfer of \$4,349 recorded in this account; and identify the source Account(s) from which the plant was transferred, if any.

RESPONSE:

The \$4,349 transfer represents the movement of a remote terminal unit from account 362 in East Bay distribution substation to account 397 in Communication Testing Equipment.



Please refer to worksheet Accumulated Provisions For Depreciation And Amortization Actual: December 2013 and Electric Plant in Service Actual: December 2013 of Excel file FPSC13SCH71-SCH75 with Rates.xlsx for question 24-29 below regarding reserve transfers and adjustments.

24. Account Plant-Units 4 through 7 (Crist Plant)
- a. Please explain the nature and cause for the transfer/adjustment of \$3,419,646 recorded.
  - b. Please identify the source Account(s) from which the reserve was transferred, if any.
  - c. Please explain why there is no corresponding transfer/adjustment booked on plant side.

RESPONSE:

- A. The \$3,419,227 represents dismantlement dollars related to Crist Plant Units 1 – 3. These dollars were originally recorded as cost of removal in the Plant-Units 4 through 7 depreciation group and therefore the adjustment is required to properly charge them against the Dismantlement – Fixed depreciation group. See answer 25 below for detail regarding the additional \$419 transfer/adjustment.
- B. The cost of removal was moved from the 312 and 315 accounts to the Dismantlement-Fixed reserve account.
- C. Cost of removal and dismantlement dollars do not affect Plant in Service, therefore no entry was booked on the plant side.

25. Account Easements (Crist Plant)

- a. Please explain the nature and cause for the transfer/adjustment of negative \$419 recorded.
- b. Please identify the source Account(s) from which the reserve was transferred, if any.
- c. Please explain why there is no corresponding transfer/adjustment booked on plant side.

RESPONSE:

- A. The (\$419) reserve adjustment for Crist Plant easements was recorded in order to transfer depreciation that had been booked from 310.1 to 312. Easement plant additions of \$5,103 occurred when the scrubber work order moved to plant in service with an estimate for easements. When the work order was unitized, no actual easements had been purchased, so those additions were reversed automatically and the easement investment balance became zero. As the plant balance was zero, the accumulated depreciation in the account was transferred.
- B. The reserve was transferred from account 310.1 to account 312.
- C. The corresponding reversal of additions on the plant side was booked in 2012.

26. Account Dismantlement-Fixed (Crist Plant)
- a. Please explain the nature and cause for the transfer/adjustment of negative \$3,330,630 recorded in this account.
  - b. Please identify the source Account(s) from which the reserve was transferred, if any.
  - c. Please explain why there is no corresponding transfer/adjustment booked on plant side.

RESPONSE:

- A. The (\$3,419,227) represents dismantlement dollars related to Crist Plant Units 1 – 3. These dollars were originally recorded as cost of removal in the Plant-Units 4 through 7 depreciation group and therefore the adjustment is required to properly charge them against the Dismantlement – Fixed depreciation group. The additional \$88,596 was to properly classify dismantlement reserve dollars related to Crist Plant SCR assets.
- B. The (\$3,419,227) cost of removal was moved from the 312 and 315 accounts to the Dismantlement-Fixed reserve account. The \$88,596 was moved out of the 254 regulatory liability account to the 108 accumulated reserve account.
- C. Cost of removal and dismantlement dollars do not affect Plant in Service, therefore no entry was booked on the plant side.

27. Account Asset Retirement Obligation (Crist Plant)
- a. Please explain the nature and cause for the transfer/adjustment of \$248,393 recorded.
  - b. Please identify the source Account(s) from which the reserve was transferred, if any.
  - c. Please explain why there is no corresponding transfer/adjustment booked on plant side.

RESPONSE:

- A. \$214,484 of the transfer/adjustment was related to the retirement of the Crist Plant SCR ARO asset. The \$33,909 was to properly record transitional depreciation for a new ARO related to the Crist Plant Gypsum Storage Pond.
- B. The \$214,484 was transferred from the 254 regulatory liability account to the 317 account. The other side of the transitional depreciation entry of \$33,909 was to a 182 regulatory asset account.

There is a corresponding retirement on the plant side related to the \$214,484. There was no entry required on the plant side related to the \$33,909.

28. Account Asset Retirement Obligation (Scherer Plant)
- a. Please explain the nature and cause for the transfer/adjustment of \$10,807 recorded.
  - b. Please identify the source Account(s) from which the reserve was transferred, if any.
  - c. Please explain why there is no corresponding transfer/adjustment booked on plant side.

RESPONSE:

- A. \$10,807 was to properly record transitional depreciation for a new ARO related to the Scherer Plant Pac/Ash Cell.
- B. The other side of the transitional depreciation entry was to a 182 regulatory asset account.
- C. There was no entry required on the plant side related to the \$10,807.

29. Please explain why the transfers/adjustments of the Total All Depreciation And Amortization booked to reserve does not net to zero but \$347,797 instead.

RESPONSE:

The transfers/adjustments do not net to zero because the other side of the transfer/adjustment was not to the accumulated reserve account, therefore it would not be included in the Annual Status Report schedule. See below for details.

<b>Amount</b>	<b>Reason It Doesn't Zero Out</b>
\$ 214,484	The other side of the entry is to a 254 regulatory liability account.
\$ 33,909	The other side of the entry is to a 182 regulatory asset account.
\$ 88,596	The other side of the entry is to a 254 regulatory liability account.
\$ 10,807	The other side of the entry is to a 182 regulatory asset account.

Please refer to worksheet Accumulated Provisions for Depreciation and Amortization Actual: December 2013 of Excel file FPSC13SCH71-SCH75 with Rates.xlsx for questions 30-33 below regarding cost of removal and salvage/other credits.

30. Account Fuel Holders and Accessories (Smith Plant Unit 3 Combined Cycle)  
Given zero retirement of this account, please explain the cause of \$1,386 cost of removal.

**RESPONSE:**

The \$1,386 cost of removal was booked for a cooling tower discharge header at Smith Unit 3 in December 2013. A retirement for \$55,555 was made in January 2014 for the discharge header.

31. Account 355 Poles and Fixtures (Transmission)  
Please explain why the cost of removal of this account is 308% (\$3.23 million cost of removal versus \$1.05 million retirement).

RESPONSE:

The relationship of Cost of Removal (COR) to retirements is influenced by several factors. First, the cost of the poles and fixtures installed, some of which date back to the 1940's, are substantially less than the pole and fixtures installed recently. Therefore, the original retirement costs are substantially less. Secondly, much of the construction related to recent transmission line projects was impacted by environmental conditions at the time the work was performed. During the recent construction period (2011-2014) these projects were negatively impacted by: excessive rainfall, work in swamp and marsh areas, higher than normal water level tables, soil conditions, and access to poles and fixtures. These environmental conditions required additional ground matting to provide equipment access to some of these remote areas. Additionally other current environmental requirements related to gopher turtles, osprey, pitcher plants, or other protected plant and animals also impacted the cost of removing these assets. Lastly, there was increased labor costs associated with competing for scarce labor resources having experience in conducting transmission line construction of the magnitude, complexity, and environmental conditions required for these projects. All these factors impacted the increased cost of removal for this account.



32. Account 355 Poles and Fixtures (Distribution)  
Please explain why this account incurred negative \$1,082 salvage and other credit.

RESPONSE:

The account referenced in this question should be Account 364.

\$2,447 was erroneously charged to FERC 364 in July 2013. The total salvage and other credits should be \$1,365. The correction to move the erroneous charges from 364 to 370 will be made in January 2015.

33. Account 369.2 Services-Underground (Distribution)  
Please explain the nature and cause of the positive (versus negative for all the other accounts) cost of removal of \$48,421 for this account.

RESPONSE:

Cost of Removal of \$74,209 booked to 369.2 in December 2012 was determined to be construction expenditures. An entry was made in January 2013 to correct the overstated cost of removal.

Please refer to worksheet Electric Plant In Service Actual: December 2013 of Excel file FPSC13SCH71-SCH75 with Rates.xlsx for questions 34 below regarding depreciation expense.

34. Account 370 Meters-AMI Equipment (Distribution)  
 Referring to the Table I below, please explain why the Company recorded annual depreciation expense is larger than the maximum annual depreciation expense of the account. The maximum annual depreciation expense is calculated assuming all plant additions of the account occurred at the beginning of 2013.

		(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)=(8)-(9)	(11)=(10)/(9)
		Balance							Company	Staff Calculated		
Acc.	Acc.	Rate	First of Year	Additions	Retirements	Adj.	Transfers	End of Year	Reported	Max Dep.	Δ	%
Description	No.								D. Expense	Expenses		
Meters - AMI	370	6.7%	40,391,581	215,929	(205,764)	0.00	1,387,127	41,788,873	2,791,261	2,720,703	70,558	2.59%

RESPONSE:

It appears that the Staff-calculated depreciation expense shown in Table 1 does not include the \$1.4 million in asset transfers that were made in February 2013. These transfers caused the recorded annual depreciation expense to be larger than the maximum annual depreciation expense calculated in Table 1.

Please refer to Order No. PSC-10-07458-PAA-EI, pages 2 -3 and attachment A for questions 35-36

35. In 2013, did Gulf have any capital recovery schedule in relation to Attachment A?

RESPONSE:

No.

36. If your response to question 35 is affirmative, please list all the expenses and activities associated with the recovery schedule(s) identified in question 35.

RESPONSE:

N/A