STATE OF FLORIDA

TIMOTHY DEVLIN, DIRECTOR
DIVISION OF ECONOMIC REGULATION
(850) 413-6900

Public Service Commission

July 24, 2009

Susan D. Ritenour
Secretary and Treasurer and Regulatory Manager
Gulf Power Company
One Energy Place
Pensacola, FL 32520-0781

Re: Docket No. 090319-EI, Gulf Power Company 2009 Depreciation and Dismantlement Study

Dear Ms. Ritenour:

The staff is in the process of reviewing the depreciation and dismantlement study filed by Gulf Power Company in the above referenced docket. As a result some questions and concerns have arisen which are covered on the attached.

Please provide your response by September 25, 2009. If there are any questions, please contact Pat Lee at (850) 413-6453.

Sincerely

Dave Dowds
Supervisor, Cost Analysis Section

DD/PL:kb
Attachment
cc: Office of Commission Clerk
General Counsel (Fleming)
Office of Public Counsel
Division of Economic Regulation (Devlin, Hinton)

Dismantlement

1. Please provide the following information for Gulf's recent 2009 Dismantlement Study.

   a. Please specify the employees assumed in the study that will conduct the dismantlement by site, job title, description of work performed, and labor rate.

   b. If the labor rates used in the study include loadings, please identify the specific components of the loadings and how they are computed. Please provide any associated work papers and supporting documents.

   c. Please identify what unloaded labor rates were used in the study (e.g., local union pay scales, RS Means, etc.)

   d. If the response to (a), (b), and/or (c) have changed since the 2005 Dismantlement Study, please identify what changes have been made with any supporting documents, including but not limited to job title, description of work performed, loaded and unloaded labor rates, local union pay scales, etc.

2. Please explain how the cost of removing asbestos and other contaminants are considered in Gulf's 2009 dismantlement cost estimates.

3. In the 2009 Dismantlement Study, the Company states that Plant Crist Unit 1, Unit 2, and Unit 3 were retired and dismantled. Please provide any work papers and supporting documents pertaining to the dismantlement of each of these units, including but not limited to an indication of each unit's total dismantlement cost, its dismantlement reserve at the time of dismantlement, the method used for dismantlement, and the dates of retirement and dismantlement.

4. Please provide the escalation/inflation factors used to arrive at the accruals in the 2009 Dismantlement Study and the 2005 Dismantlement Study.

5. Please provide any and all supporting documentation used to derive the escalation rates utilized in Gulf's 2009 Dismantlement Study.

6. Please provide, in electronic format, the escalation rates located in the fossil dismantling study including the projected future dollar dismantlement cost by plant site.

7. Please provide any supporting documentation to justify the contingency factor of 10 percent on pages 26 and 27 of Gulf Power Company's 2009 Dismantlement Study (Volume 1).

8. Please refer to the 2009 Dismantlement Study, Volume 1, Section 7, page 26, specifically the contingency information. Please explain the "pull down" methodology in unit pricing. In addition, please list all utilities in Florida utilizing this method.

9. Please refer to 2009 Dismantlement Study, Volume 1, Section 7, page 26, specifically the contingency information. Paragraph 2 states that ". . . Southern Company has not dismantled any fossil plants in the recent past." Please define the word recent.

10. In Gulf's 2005 Dismantlement Study, Volume 1, Section 9, page 8, the total scrap value shown for Plant Crist Unit 7 is $4,242,000 and total labor cost is $22,731,000. In the 2009 Dismantlement Study, Volume 1, Section 9, page 6, the total scrap value shown for Plant Crist Unit 7 is $4,465,000 and total labor cost $26,618,000.

    a. Please explain what accounts for the increase in total scrap value.

    b. Please explain what accounts for the increase in total labor cost.

11. In Gulf's 2005 Dismantlement Study, Volume 1, Section 9, page 14, the total scrap value shown for Plant Daniel Unit 2 is $1,273,000 and the total labor cost is $5,905,500. In the 2009 Fossil Dismantlement Study, Volume 1, Section 9, page 12, the total scrap value shown for Plant Daniel Unit 2 is $2,907,500 and the total labor cost is $7,077,500.

    a. Please explain what accounts for the increase in total scrap value.

    b. Please explain what accounts for the increase in total labor cost.

Depreciation

12. Please provide the 2008 Annual Status Report in Excel-compatible format.

13. Please refer to Gulf's 2009 Depreciation Study, Section 7, Parameters Schedule.

    a. Please provide the Schedule of Depreciation Parameters in Excel-compatible format with formulas intact.

    b. Please explain how the CALC RESERVE column is calculated.

    c. Please explain how the THEO. RESERVE column is calculated.

    d. Please explain how the 12/31/09 ALLOCATED RESERVE for each stratified category is calculated.

    e. Please explain how the ARL WEIGHT column is calculated.

14. In determining the net removal cost of interim retirements for Steam Production, please explain why data for all steam plants were used rather than retirements by each site.

15. Reviewing the net removal cost data for steam production shown on page 3 of Section 8 of the depreciation study, removal costs nearly doubled in 2008 and realized salvage increased nearly ten fold. Please explain the cause of this activity.

16. In determining the net removal cost of interim retirements for each strata of investment, it appears that in some cases the 20% proposed net removal was applied to some investments, but not to others. Please explain how the 20% proposed net removal was applied to arrive at the net removal percent for each strata for each account for each site.

17. Please explain the logic of a negative cost of removal (see Other Production Plant in 2006).

18. Is the 2008 data shown in the Depreciation Study actual data or estimated data? If the data is estimated, please compare the estimated 2008 data with the 2008 actual data.

19. Please refer to Volume 2 of the Depreciation Study, specifically the stratification information for the Gulf Power plants.

    a. Please provide this section in Excel-compatible format with formulas intact.

    b. For Crist Steam Plant Common, Account 316, almost 30% of the investment in the 20-year life category is over 20 years of age. Wouldn't it make sense to move these investments to a longer living strata? A similar situation occurs in other stratified categories and other plants.

20. Please refer to Volume 2 of the Depreciation Study, specifically the stratification information for Plant Daniel. Please explain the logic of the negative investment for the 21 to 35 year life category for Account 316, Plant Daniel Unit 1.

21. Please refer to Volume 1 of the Depreciation Study, Section 2, page 2. For the 2009 study, the life spans for Plant Daniel Units 1 and 2 and Plant Scherer Unit 3 have been extended ten years; the life span for Plant Smith Combined Cycle Unit has been extended five years. The Company states that the generating plant life spans are consistent with that used within the Southern Company's system. Other than being consistent with Southern Company, please explain in detail what has caused the life spans for these plants to be extended.

22. Please explain how smart grid and smart metering may affect Account 370, Meters.

23. What are Gulf's near-term plans with respect to implementing Automatic Meter Reading and Advanced Meter Infrastructure? If Gulf plans to replace existing meters with AMR and AMI meters, please identify the January 1, 2010 meter investments and associated reserves planned for retirement in each of the years 2010-2013.

24. For production plant, please provide a description of any major overhauls or upgrades that are planned during the next four years (2010-2013). Please include the work planned to be performed, any retirement units expected to be replaced as a direct result, and in what year(s) each overhaul or upgrade is planned to take place. Please provide the January 1, 2010 estimated investment and reserve associated with the equipment currently planned for replacement during each overhaul, by account by plant site.

25. Are any substantial retirements for any of Gulf's production plants expected in connection with air quality standards inclusive of carbon regulations? If so, please provide the January 1, 2010 estimated investments and reserves associated with these anticipated retirements, and indicate the year(s) in which these retirements are expected to occur.

26. What new environmental controls are being placed in service at Gulf's production plants? Please identify the cost, plant accounts, units, and sites which are impacted.

27. When distribution poles are removed, what portion of the removal cost is typically associated with labor, overheads, etc.?

28. Is distribution underground conduit typically abandoned in place? If affirmative, please describe the tasks involved with abandoning the conduit. Please explain what the recorded removal costs are associated with.

29. Please refer to Gulf's 2009 Fossil Depreciation Study, Volume 1, Section 6, page 3. Given that Plant Crist Unit 1 was retired in 2003, and Units 2 and 3 were retired in 2006, please explain the residual investments remaining at these units. Also, if these units are no longer in service, why is the retirement of these remaining investments given as 2011?

30. Please refer to Volume 1 of the Depreciation Study, Section 8, page 7, Account 354, Towers. At the bottom of page 7 the company states that the nature of towers "is not inconsistent with net removal costs of less that 25%." Please explain what is meant by this statement.

31. Please refer to Volume 1 of the Depreciation Study, Section 8, page 8, Account 355, Poles. What portion of the transmission poles is concrete versus wood?

32. The life analysis for Account 355 shown in Volume 2 of the Depreciation Study states that the S0-38 "is a good fit to the observed data." How did Gulf determine that the S0-38 is a "good fit?" Visually? Mathematical statistics such as least squares?

33. Please refer to Volume 1 of the Depreciation Study, Section 8, page 11, Account 361, Structures and Improvements. Please explain the cause of the large removal cost recorded in 2009.

34. Please refer to Volume 1 of the Depreciation Study, Section 8, page 18, Account 369.1, Overhead Services. Cost of removal has significantly increased since 2003. In the 2003-2008 period, removal costs have more than doubled from the previous six years (1997-2002). Please explain what has caused this dramatic increase in removal costs.

35. Please refer to Volume 1 of the Depreciation Study, Section 8, page 19, Account 369.2, Underground Services.

    a. Please describe the tasks involved in removing underground services.

    b. Please describe a situation in which gross salvage might be realized with the removal of underground services.

36. Please refer to Volume 1 of the Depreciation Study, Section 8, page 20.

    a. Please discuss the company's plans for AMI technology.

    b. Please provide the estimated meter investments for each of the years 2010 – 2013 subject to retirement due to AMI technology.

    c. Does the retirement activity since 2004 relate to replacing older meters with AMI meters?

37. Please refer to Volume 1 of the Depreciation Study, Section 8, page 26, Account 396, Power Operated Equipment. The company states there is no reason to change the existing net salvage factor "given the data and the typical nature of the property." Please explain what is meant by this statement.