

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 31, 2016

TO: Office of Commission Clerk (Stauffer)

FROM: Division of Accounting and Finance (Mouring)
Division of Engineering (Lee)
Office of the General Counsel (Janjic) *BY BF WRB ALM*

RE: Docket No. 160134-EI – Petition for accounting recognition of Gulf Power Company's ownership in Plant Scherer as being in service to retail customers.

AGENDA: 09/13/16 – Regular Agenda – Interested Persons May Participate

COMMISSIONERS ASSIGNED: All Commissioners

PREHEARING OFFICER: Administrative

CRITICAL DATES: None

SPECIAL INSTRUCTIONS: None

Case Background

On May 5, 2016, Gulf Power Company (Gulf or Company) filed a letter notifying the Commission of the change in status of Gulf's ownership interest in the Plant Scherer Unit No. 3 (Scherer Unit 3) and the associated common facilities. In addition to notifying the Commission that Plant Scherer is now dedicated to serving native load customers, Gulf specifically requested that it may: 1) stop making adjustments to its monthly Earning Surveillance Reports (ESRs) to remove Scherer Unit 3's related investment and expenses from the retail jurisdictional rate of return calculation to the extent that it is not currently committed to off-system sales; and 2) reflect the Scherer Unit 3 as a native load serving resource in all other regulatory filings with the Commission. The Company has been making adjustments to remove Scherer Unit 3 from retail jurisdictional filings since 1990 pursuant to Order No. 23573.¹ The Office of Public Counsel

¹ Order No. 23573, issued October 3, 1990, in Docket No. 891345-EI, *In re: Application of Gulf Power Company for a rate increase*, pp. 12-13.

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filed a Notice of Intervention in this docket on July 21, 2016. Also, by letter dated July 27, 2016, the Sierra Club urged the Commission to deny the Company's request or to defer its decision on this item, citing what the Sierra Club believes are substantive omissions in the Company's request.

This recommendation addresses the requested change in status for Scherer Unit 3. The Commission has jurisdiction over this matter pursuant to Section 366.04, Florida Statutes (F.S.).

Discussion of Issues

Issue 1: How should the Commission recognize Gulf's request to acknowledge the change in status of Scherer Unit 3?

Recommendation: The Commission should order Gulf to file two separate monthly Earning Surveillance Reports (ESRs). Pursuant to Rule 25-6.1352, Florida Administrative Code, (F.A.C.), and in accordance with Order No. 23573, the Company should continue to make adjustments to its monthly ESRs to remove Scherer Unit 3's related investment and expenses from the retail jurisdictional rate base. In addition, Gulf should recognize its share of Scherer Unit 3's related investment and expenses that are not currently committed to off-system sales in a separate concurrently filed monthly ESR. Gulf retains the opportunity to seek approval to include its share of Scherer Unit 3 in retail jurisdictional rate base in a future regulatory proceeding. (Mouring, Lee)

Staff Analysis: As stated in the case background, Gulf requested that it may: 1) stop making adjustments to its monthly ESRs to remove Scherer Unit 3's related investment and expenses from the retail jurisdictional rate of return calculation to the extent that it is not currently committed to off-system sales; and 2) reflect Scherer Unit 3 as a native load serving resource in all other regulatory filings with the Commission.

In its request, the Company stated that the first of three existing long-term off-system sales contracts expired at the end of 2015, releasing approximately 52 percent of Gulf's ownership in Scherer Unit 3, and an additional contract expiring in May 2016, releasing an additional 24 percent of Gulf's ownership in Scherer Unit 3 to be used in serving its native load customers. The final long-term contract is set to expire in December 2019, which will then enable Gulf to dedicate 100 percent of the capacity of its ownership in Scherer Unit 3 to serving its native load customers.

Gulf also stated that its ownership interest in Scherer Unit 3 has always been to ultimately serve its native load customers, and the long-term off-system sales contracts served to bridge the gap in time between the commercial operation date of Scherer Unit 3 and the anticipated need of the generation to serve native load customers. In its request, the Company cites two Commission Orders² in support of its assertion that its ownership interest in Scherer Unit 3 was deemed prudent by the Commission in lieu of constructing new generating assets at its Caryville site, and that it was always intended to serve native load customers.

Staff agrees that the Commission has acknowledged in previous Orders that Gulf's decision to not construct a new generating asset at the Caryville site, and in lieu purchase an ownership interest in Scherer Unit 3, was found to be reasonable based upon an economic advantage to Gulf's customers.³ Therefore, staff believes that Gulf retains the opportunity to seek approval to

² Order Nos. 10557, issued February 1, 1982, in Docket No. 810136-EU, *In re: Petition of Gulf Power Company for an increase in its rates and charges*, p. 13, and 11498, issued January 11, 1983, in Docket No. 820150-EU, *In re: Petition of Gulf Power Company for an increase in its rates and charges*, p. 15.

³ Order No. 9628, issued November 10, 1980, in Docket No. 800001-EU, *In re: Petition of Gulf Power Company for an increase in its rates and charges*, pp. 6-7.

include its share of Scherer Unit 3 in retail jurisdictional rate base in a future regulatory proceeding.

Pursuant to Rule 25-6.1352, F.A.C., and in accordance with Order No. 23573, the Company should continue to make adjustments to its monthly ESRs to remove Scherer Unit 3's related investment and expenses from the retail jurisdictional rate base. Additional information is needed to monitor the impact of Gulf's share of Scherer Unit 3 on the Company's jurisdictional earnings. Thus, staff recommends the Commission order Gulf to file a separate monthly ESR with recognition of its share of Scherer Unit 3's related investment and expenses that are not currently committed to off-system sales.

Issue 2: Should this docket be closed?

Recommendation: If the Commission approves staff's recommendation, this docket should be closed. (Janjic)

Staff Analysis: If the Commission approves staff's recommendation, this docket should be closed.