Gulf Power

Rhonda J. Alexander
Manager
Regulatory, Forecasting & Pricing

One Energy Place
Pensacola, FL 32520-0780
850 444 6743 tel
850 444 6026 fax
rjalexad@southernco.com

August 14, 2017

Ms. Carlotta Stauffer, Commission Clerk
Florida Public Service Commission
2540 Shumard Oak Boulevard
Tallahassee, FL 32399-0850

Re: Docket No. 20160186-EI & 20160170-EI

Dear Ms. Stauffer:

On March 14, 2017, the Florida Public Service Commission ("the Commission") issued Order No. PSC-17-0099-PHO-EI ("Prehearing Order") in the Gulf Power Company ("the Company") rate case, Docket Nos. 20160186-EI and 20160170-EI. Issue 106 on page 105 of the Prehearing Order states:

> Should Gulf be required to file, within 90 days after the date of the Final Order in this docket, a description of all entries or adjustments to its annual report, rate of return reports, and books and records which will be required as a result of the Commission's findings in this rate case?

On May 16, 2017, the Commission issued Final Order No. PSC-17-0178-S-EI ("the Order"), approving the Stipulation and Settlement Agreement ("the Settlement Agreement"). The following is a description of the changes to the Company's books and records, adjustments to the Company's cost recovery clauses and adjustments to the Company's Earnings Surveillance Report as a result of the Order.

I. Changes to Books and Records

The following represents changes that are being made to the Company's books and records as a result of the Order. The term 'books and records' is meant to include annual reports, financial statements, general ledger and accounting systems of the Company.

1. Depreciation and Dismantlement – Beginning January 1, 2018, the Company will implement new depreciation rates pursuant to the Order. The Company established a depreciation rate to reflect a 15-year life for electric vehicle charging stations. Depreciation of electric vehicle charging facilities is effective at such time the Company first places such facilities into service pursuant to the terms of the approved pilot program. Effective July 1, 2017, the Company reduced its dismantlement accrual in total by $8.9 million annually for base rates and clauses.

2. Cost of Removal (COR) Regulatory Asset – In July 2017, the Company recorded a one-time transfer of $62.5 million to the dismantlement reserve and eliminated the COR Regulatory Asset.

3. Scherer Unit 3 – In March 2017, the Company recorded a one-time write down of $32.5 million to the plant balance of Scherer Unit 3. The remaining plant balance is now included in rates pursuant to the Order.

4. Property Damage Accrual – In accord with a right established in the Settlement Agreement, the Company suspended the monthly accrual to the property damage reserve in April 2017. The Settlement Agreement provides the Company the right to suspend or reinstate the monthly accrual at its discretion unless and until the balance in the property damage reserve falls below zero at which point the Company is required to reinstate the monthly accrual at the annual rate of $3.5 million.

5. Transmission Deferred Return Regulatory Asset – Amortization of the deferred return on transmission projects provided for in the 2013 Settlement Agreement will begin January 1, 2018. The amortization period is 40 years and will be approximately $0.6 million per year.

6. Plant Smith Units 1 and 2 Regulatory Asset – Amortization of the regulatory asset resulting from the unrecovered plant balance and the remaining inventory related to the early retirement of Plant Smith Units 1 and 2 will begin January 1, 2018. The amortization period is 15 years. The annual amortization is approximately $4.2 million and will be recovered through base rates and the Environmental Cost Recovery Clause (ECRC).

7. Plant Scholz Inventory Regulatory Asset – The Company set up a regulatory asset for the remaining inventory balance for Plant Scholz and began amortization in July 2017 over a period of four years. The annual amortization is approximately $0.2 million.

8. Rate Case Expense – The Company will set up a regulatory asset for all rate case expenses incurred, and amortization shall not be required to begin sooner than January 1, 2018. The minimum amount of amortization each year will be $0.7 million, but the Company is authorized to amortize additional amounts at its discretion. If the balance is not fully amortized by December 31, 2021, it will be deemed fully recovered.

II. Cost Recovery Clauses

The following represents changes that are being made to the Company's cost recovery clauses as a result of the Order.

1. Weighted Cost of Capital – Beginning April 2017, the Company began calculating the return on investment for assets recovered through the Energy Conservation and Environmental cost recovery clauses using the weighted cost of capital approved by the Commission in the Order. The rate of return on common equity used in the calculation of weighed cost of capital is 10.25 percent.

2. Depreciation and Dismantlement – As described in Section I, the Company will implement new depreciation rates effective January 1, 2018. Beginning July 1, 2017, the Company reduced its dismantlement accrual recovered through the ECRC by approximately $3.7 million.

3. Plant Smith Units 1 and 2 Regulatory Asset – As described in Section I, in January 2018, the Company will begin amortization of the regulatory asset associated with the remaining investment in Plant Smith Units 1 and 2, a portion of which will be recovered through the ECRC.

4. Scherer/Flint Credit – Effective July 2017, the Company began crediting to retail customers through the Purchased Power Capacity Cost recovery clause (PPCC) certain wholesale revenues related to the Flint wholesale contract. The credit consists of any remaining Flint revenue in excess of the incremental clause-recoverable costs attributed to the portion of Plant Scherer Unit 3 that remains committed to Flint through 2019. The estimated credit amount will vary year by year but is estimated to be nearly $8 million on an annual basis.

III. <u>Earnings Surveillance Report Adjustments related to the Common Equity Ratio</u>

In the event that the December earnings surveillance report results in a common equity ratio above the 52.5 percent that is provided for in paragraph 3(b) of the Settlement Agreement, the Company will make a pro forma adjustment in the surveillance report to reduce common equity in the calculation of the jurisdictional capital structure in an amount necessary to reach a 52.5 percent equity ratio. Pro forma adjustments to increase long-term debt, short-term debt and preference stock will be made on a pro rata basis in a total amount equal to the adjustment to common equity. The pro rata calculation will be based on the relationship between jurisdictional adjusted long-term debt, short-term debt and preference stock prior to the pro forma adjustments.

Sincerely,

Rhonda J. Alexander

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Regulatory, Forecasting and Pricing Manager

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Enclosures

cc: Gulf Power Company
  Jeffrey A. Stone, Esq., General Counsel
  Beggs & Lane
  Russell Badders, Esq.

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

IN RE: Petition for Increase in Rates By Gulf Power Company	)))	Docket No.: 20160186-EI
IN RE: Petition for approval of 2016 depreciation and dismantlement studies, approval of proposed depreciation rates and annual dismantlement accruals and Plant Smith Units 1 and 2 regulatory asset amortization, by Gulf Power Company	)))))	Docket No.: 20160170-EI

CERTIFICATE OF SERVICE

I HEREBY CERTIFY that a true copy of the foregoing has been furnished by electronic mail this 14th day of August, 2017 to the following:

Office of Public Counsel
J. R. Kelly/Stephanie A. Morse
Public Counsel
c/o The Florida Legislature
111 W. Madison Street, Room 812
Tallahassee, FL 32399-1400
kelly.jr@leg.state.fl.us
morse.stephanie@leg.state.fl.us

Office of the General Counsel
Theresa Tan
Kelley Corbari
2540 Shumard Oak Blvd
Tallahassee, FL 32399-0850
ltan@psc.state.fl.us
kcorbari@psc.state.fl.us
blheriss@psc.state.fl.us
scuello@psc.state.fl.us
kyoung@psc.state.fl.us

Federal Executive Agencies
c/o Thomas A. Jernigan
AFCEC/JA-ULFSC
139 Barnes Drive, Suite 1
Tyndall Air Force Base, FL 32403
Thomas.Jernigan.3@us.af.mil
Andrew.Unsicker@us.af.mil
Lanny.Zieman.1@us.af.mil
Natalie.Cepak.2@us.af.mil
Ebony.Payton.ctr@us.af.mil

Southern Alliance for Clean Energy
Bradley Marshall, Esq.
Alisa Coe, Esq.
Earthjustice
111 S. Martin Luther King Jr. Blvd.
Tallahassee, FL 32301
bmarshall@earthjustice.org
acoe@earthjustice.org

Florida Industrial Power Users Group
Jon C. Moyle, Jr.
Karen Putnal
c/o Moyle Law Firm, P.A.
118 North Gadsden Street
Tallahassee, FL 32301
jmoyle@moylelaw.com
kputnal@moylelaw.com

Bradley Marshall, Esq.
Alisa Coe, Esq.
c/o The League of Women Voters
of Florida, Inc.
Earthjustice
111 S. Martin Luther King Jr. Blvd
Tallahassee, FL 32301
bmarshall@earthjustice.org
acoe@earthjustice.org

Robert Scheffel Wright
John T. LaVia, III
c/o Gardner, Bist, Bowden, Bush, Dee,
LaVia & Wright, P.A.
1300 Thomaswood Drive
Tallahassee, FL 32308
schef@gbwlegal.com
jlavia@gbwlegal.com

Diana Csank
Lane Johnson
Sierra Club
50 F St. NW, 8th Floor
Washington, DC 20001
Diana.Csank@sierraclub.org
ljohnsonlawoffice@gmail.com

JEFFREY A. STONE
General Counsel
Florida Bar No. 325953
jastone@southernco.com
Gulf Power Company
One Energy Place
Pensacola, FL 32520-0100
(850) 444-6550

RUSSELL A. BADDERS
Florida Bar No. 007455
rab@beggslane.com
STEVEN R. GRIFFIN
Florida Bar No. 0627569
srg@beggslane.com
Beggs & Lane
P. O. Box 12950
Pensacola FL 32591-2950
(850) 432-2451
Attorneys for Gulf Power