

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

In Re: 1993 Depreciation Study) DOCKET NO. 930221-EI
of Gulf Power Company.)
In Re: Application for a rate) DOCKET NO. 930139-EI
increase by Gulf Power Company.) ORDER NO. PSC-93-0771-FOF-EI
ISSUED: May 20, 1993

The following Commissioners participated in the disposition of this matter:

J. TERRY DEASON, Chairman
THOMAS M. BEARD
SUSAN F. CLARK
JULIA L. JOHNSON
LUIS J. LAUREDO

NOTICE OF PROPOSED AGENCY ACTION

ORDER APPROVING STIPULATION BETWEEN GULF POWER COMPANY,
THE OFFICE OF PUBLIC COUNSEL AND
THE FLORIDA INDUSTRIAL POWER USERS GROUP

BY THE COMMISSION:

NOTICE IS HEREBY GIVEN by the Florida Public Service Commission that the action discussed herein is preliminary in nature and will become final unless a person whose interests are adversely affected files a petition for a formal proceeding, pursuant to Rule 25-22.029, Florida Administrative Code.

Gulf Power Company (Gulf or company), the Office of Public Counsel (OPC) and the Florida Industrial Power Users Group (FIPUG) filed a stipulation for Commission approval on April 21, 1993. The attached stipulation has been filed for the purpose of deferring the amount of the accrual for the dismantlement of Gulf's fossil-fueled plants associated with the method of calculation as prescribed in Order No. 24741 in Docket 890186-EI. In return, the company has agreed to reduce its authorized return on equity (ROE) from 12.55% (range of 11.55% to 13.55%) to 12.0% (range of 11.0% to 13.0%) to be used prospectively for any and all regulatory purposes. Also, Gulf has agreed not to request a rate increase pursuant to the notice provided to the Commission by the test year notification letter dated February 5, 1993. This stipulation does not resolve the matter of appropriate depreciation rates or the amount of dismantlement accruals using Gulf's method of calculation. These issues will continue to be reviewed by staff in Docket No. 930221-EI with a recommendation scheduled for the September 21, 1993 agenda conference.

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We believe the benefits of adopting the stipulation outweigh the possible consequences of not adopting the stipulation. The reduction in ROE will have the effect of reducing future rates to Gulf's ratepayers in upcoming proceedings involving the calculation of AFUDC and the newly enacted Environmental Compliance Cost Recovery Clause statute, which is currently being implemented by the Commission in Docket No. 930169-EI. The new authorized return on equity will also establish a new floor and ceiling for surveillance purposes which is more reasonable given current market conditions. Also pursuant to the stipulation, Gulf has agreed to withdraw its request for rate relief under Docket No. 930139-EI. Cancellation of the proposed rate case will avoid any additional rate case expense from being incurred and, assuming all or some of the rate relief sought by Gulf was justified, will avoid an increase in the base rates charged to Gulf's customers. Although adoption of the stipulation will defer implementation of the dismantlement accrual methodology found to be appropriate in Order No. 24741, we believe that the enumerated benefits outweigh this detriment.

We find that the stipulated ROE of 12.00% is within the range of reasonableness for Gulf. It is the same rate of return we approved in both the Florida Power Corporation (FPC) and Tampa Electric Company cases (Order Nos. PSC-92-1197-FOF-EI and PSC-93-0165-FOF-EI, respectively). Although it could be argued that capital costs have come down further since the time the records for the FPC and the Tampa Electric cases were developed, we do not believe that 12.00% is outside the range of reasonableness for Gulf. Therefore, in the interest of regulatory efficiency and cost savings, we approve 12.00% as midpoint of a range of 11.0% - 13.0% for Gulf's authorized ROE to be used prospectively for any and all regulatory purposes.

Based on the foregoing, it is

ORDERED that the Florida Public Service Commission hereby approves the stipulation between Gulf Power Company, the Office of Public Counsel, and the Florida Industrial Power Users Group. It is further

ORDERED that Docket No. 930221-EI shall remain open for staff to complete its review of the appropriate depreciation rates and costs for dismantlement. It is further

ORDER NO. PSC-93-0771-FOF-EI
DOCKETS NOS. 930221-EI, 930139-EI
PAGE 3

ORDERED that this Order shall become final and Docket No. 930139-EI shall be closed unless an appropriate petition for formal proceeding is received by the Division of Records and Reporting, 101 East Gaines Street, Tallahassee, Florida 32399-0870, by the close of business on the date indicated in the Notice of Further Proceedings or Judicial Review.

By ORDER of the Florida Public Service Commission this 20th day of May, 1993.

STEVE TRIBBLE, Director
Division of Records and Reporting

(S E A L)
DLC:bmi

by: Kay Helton
Chief, Bureau of Records

NOTICE OF FURTHER PROCEEDINGS OR JUDICIAL REVIEW

The Florida Public Service Commission is required by Section 120.59(4), Florida Statutes, to notify parties of any administrative hearing or judicial review of Commission orders that is available under Sections 120.57 or 120.68, Florida Statutes, as well as the procedures and time limits that apply. This notice should not be construed to mean all requests for an administrative hearing or judicial review will be granted or result in the relief sought.

The action proposed herein is preliminary in nature and will not become effective or final, except as provided by Rule 25-22.029, Florida Administrative Code. Any person whose substantial interests are affected by the action proposed by this order may file a petition for a formal proceeding, as provided by Rule 25-22.029(4), Florida Administrative Code, in the form provided by Rule 25-22.036(7)(a) and (f), Florida Administrative

ORDER NO. PSC-93-0771-FOF-EI
DOCKETS NOS. 930221-EI, 930139-EI
PAGE 4

Code. This petition must be received by the Director, Division of Records and Reporting at his office at 101 East Gaines Street, Tallahassee, Florida 32399-0870, by the close of business on JUNE 10, 1993.

In the absence of such a petition, this order shall become effective on the day subsequent to the above date as provided by Rule 25-22.029(6), Florida Administrative Code.

Any objection or protest filed in this docket before the issuance date of this order is considered abandoned unless it satisfies the foregoing conditions and is renewed within the specified protest period.

If this order becomes final and effective on the date described above, any party adversely affected may request judicial review by the Florida Supreme Court in the case of an electric, gas or telephone utility or by the First District Court of Appeal in the case of a water or wastewater utility by filing a notice of appeal with the Director, Division of Records and Reporting and filing a copy of the notice of appeal and the filing fee with the appropriate court. This filing must be completed within thirty (30) days of the effective date of this order, pursuant to Rule 9.110, Florida Rules of Appellate Procedure. The notice of appeal must be in the form specified in Rule 9.900(a), Florida Rules of Appellate Procedure.

DOCKETS NOS. 930139 & 930221-EI
APRIL 22, 1993

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

IN RE: 1993 Depreciation Study)
of Gulf Power Company) Docket No. 930221-EI
_____)

STIPULATION

Gulf Power Company ("Gulf Power", "Gulf", or "the Company"), by and through its undersigned attorneys; the Office of Public Counsel on behalf of the Citizens of Florida, by and through its undersigned representative; and the Florida Industrial Power Users Group ("FIPUG"), by and through their undersigned representative, collectively constituting the interested parties to the above styled proceeding and, for the purposes of resolving certain matters potentially at issue in this proceeding before the Florida Public Service Commission ("Commission") without any of the parties or the Commission having to incur the expense of otherwise unnecessary hearings, hereby enter into the following stipulation:

WHEREAS, on March 3, 1993, as required by Rule 25-6.0436, F.A.C. and Order No. PSC-92-0283-FOF-EI issued May 4, 1992, the Company filed its quadrennial comprehensive depreciation and dismantlement studies with a proposed effective date of January 1, 1994 for the new depreciation rates and dismantlement accruals resulting from said studies;

WHEREAS, in accordance with the Commission's final order in Docket No. 890186-EI, Order No. 24741 issued July 1, 1991, dismantlement cost estimates included in Gulf's filed study were escalated to future dollars at the time of dismantlement and then these future cost estimates, less amounts recovered to date, were discounted in a manner that accrues the costs over the estimated

filed 4-21-93

DOCKETS NOS. 930139 & 930221-EI
APRIL 22, 1993

remaining life span of the associated generating plant;

WHEREAS, prior to the issuance of Order No. 24741, Gulf's annual dismantlement accrual was based on the then-current dismantlement cost estimates which is referred to as the straight-line method;

WHEREAS, the change in methodology from the straight-line method to the method required by Order No. 24741 results in the annual dismantlement costs being increased from \$4.7 million to \$10.7 million, an increase of nearly 130 percent;

WHEREAS, despite having operated fossil-fuel generating plants since the mid-1940s, Gulf has not yet actually retired or dismantled any of its fossil-fuel generating plants;

WHEREAS, the method required by Order No. 24741 places significant upward pressure on the Company's retail rates and charges to its general body of customers, and places the Company in the position of having to seek retail rate relief in order to cover such expenses;

WHEREAS, either method of calculating dismantlement cost estimates is appropriate and will result, over time, in a like amount being accrued for such purposes;

WHEREAS, in order to comply with the notice requirements of the Commission set forth in Rule 25-6.140, F.A.C., Gulf notified the Commission by letter dated February 5, 1993 of the Company's intent to file a petition to change the Company's retail rates;

WHEREAS, Chairman Deason's February 10, 1993 response to Gulf's test year letter acknowledges that a large portion of the

DOCKETS NOS. 930139 & 930221-EI
APRIL 22, 1993

Company's need for rate relief appears to be predicated upon the revision to depreciation rates (and dismantlement accruals) suggested by the Company's updated depreciation and dismantlement studies and the Chairman's letter further states that if Gulf cannot meet a filing date of April 30, 1993, the Company must request an extension of time in writing and fully state the extenuating circumstances for not meeting the filing date;

WHEREAS, in the interest of regulatory efficiency and cost savings, it would not be in the best interest of any of the parties hereto for the Commission to require the application of the method for calculating dismantlement costs that is required by Order No. 24741, when such requirement in this case would compel the Company to seek retail rate relief by filing a rate case for the purpose of securing the immediate recovery of the increased dismantlement costs; and

WHEREAS, the Company's current authorized range for rate of return on common equity of 11.55% - 13.55% with a midpoint of 12.55% was established by the August 1990 vote of the Commission in Docket No. 891345-EI;

IT IS HEREBY stipulated and agreed by the parties hereto, subject to the approval of this stipulation by the Commission, as follows:

1. that the Company shall use the straight-line method to calculate dismantlement costs for use in setting dismantlement accruals effective for the period 1994 through 1997 corresponding to the period that new

DOCKETS NOS. 930139 & 930221-EI
APRIL 22, 1993

depreciation rates and dismantlement accruals based on the 1993 Depreciation and Dismantlement Studies will be in effect, except that upon the conclusion of the Company's next general revenue requirements rate case held for the purposes of adjusting the Company's retail base rates and charges, if the Commission determines in that proceeding that some other method for calculating the Company's future dismantlement costs should be applied prospectively, such approved method shall be incorporated into the final revenue requirements determined in such case and the approved method shall then be applied prospectively by the Company consistent with the Commission's order in that case;

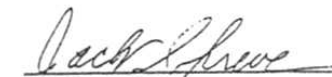
2. that in exchange for the foregoing relief, the Company agrees to accept 12.00% as the midpoint of a range of 11.0% - 13.0% for its authorized rate of return on common equity, said agreement to operate prospectively for any and all regulatory purposes within the jurisdiction of the Commission;
3. that there shall be no adjustment to the Company's present retail base rates and charges as a result of this stipulation and the Company will not file a petition to change its retail base rates and charges pursuant to the notice provided to the Commission by the test year notification letter dated February 5, 1993.

DOCKETS NOS. 930139 & 930221-EI
APRIL 22, 1993

The foregoing stipulation is respectfully submitted to
the Florida Public Service Commission on behalf of the undersigned
parties hereto this 21st day of April, 1993.



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