



Public Service Commission

CAPITAL CIRCLE OFFICE CENTER • 2540 SHUMARD OAK BOULEVARD
TALLAHASSEE, FLORIDA 32399-0850

-M-E-M-O-R-A-N-D-U-RECEIVED

MAY - 7 1998
11:20
FPSC - Records/Reporting

DATE: MAY 7, 1998

TO: DIRECTOR, DIVISION OF RECORDS AND REPORTING (BAYO)

FROM: DIVISION OF AUDITING AND FINANCIAL ANALYSIS (SICKEL, LEE)
DIVISION OF ELECTRIC AND GAS (BALLINGER, BOHRMANN, COLSON)
DIVISION OF LEGAL SERVICES (C. KEATING) *RVE TB*
WCK

RE: DOCKET NO. 980366-EQ - REQUEST BY GULF POWER COMPANY FOR APPROVAL TO INITIATE AMORTIZATION OF A COGENERATION FACILITY PROJECTED TO BE PLACED IN SERVICE IN APRIL 1998. *JPS*

AGENDA: 05/19/98 - REGULAR AGENDA - PROPOSED AGENCY ACTION - INTERESTED PERSONS MAY PARTICIPATE

CRITICAL DATES: NONE

SPECIAL INSTRUCTIONS: NONE

FILE NAME AND LOCATION: S:\PSC\AFA\WP\980366.RCM
ATTACHMENT IS NOT AVAILABLE

CASE BACKGROUND

On March 13, 1998, Gulf Power Company ("Gulf" or "the Company") filed the attached request for permission to initiate amortization relating to a Cogeneration Facility located near Pace, Florida. The Company described the Cogeneration Facility as consisting of three combustion turbines and related equipment which will provide 15 MW total generation capability. The total projected cost for the facility is approximately \$10 million, which Gulf intends to book into specific accounts in the "Other Production" section of the Company's books and records. Also, Gulf reports that a service period of 20 years is the current expectation.

At staff's request, the company provided additional information relating to expected routine retirements, fuel expense(s), formats for dispatch, and various other matters. After careful review of all information provided in this docket, staff presents its recommendation regarding capital recovery.

DOCUMENT NUMBER-DATE

05143 MAY-78

FPSC-RECORDS/REPORTING

DISCUSSION OF ISSUES

ISSUE 1: Should an amortization be approved for the investment relating to the Pace Cogeneration Facility, as requested by Gulf Power Company?

RECOMMENDATION: No, an amortization should not be approved for the investment named; however, capital recovery by means of a 5% depreciation rate should be provided for Gulf. (SICKEL)

STAFF ANALYSIS: The information provided by Gulf, relating to the operation of the Pace Cogeneration Facility, has been sufficient to determine the current expectation for service life and net salvage. Staff recommends a whole life rate of 5%, calculated by use of a 20-year service life and zero net salvage.

In the early portion of the service life of an installation, the whole life rate is typically used. In the course of operation, various additions, retirements and other activity may impact the capital recovery position relating to the installation. The determination of an appropriate depreciation rate moves to the remaining life methodology, in order to respond to changes in life pattern and reserve level.

In the case of this facility, staff recognizes that analysis of recovery position in future depreciation studies may likely indicate a need for revision in the recovery rate. Our recommendation allows for smooth transition, in case any such revision is needed.

Gulf's proposal is for capital recovery by amortization, based on a view that the investment, service period, and salvage factors will remain unchanged for the entire period of service. Staff is not as confident that the parameters underlying appropriate recovery will remain unaltered. We believe that allowing for the possibility of future change is the wise course, and have incorporated that allowance in our recommendation.

This recommendation only addresses the capital recovery of the new cogeneration facility. It should not be regarded as a review of prudence. Fuel expenses and revenues will be reviewed in the Fuel Adjustment proceeding.

One Energy Place
Pensacola, Florida 32520

Tel: 850 444 6000

ATTACHMENT A
ORIGINAL

98 MAR 16 11 06



March 13, 1998

Ms. Blanca S. Bayo, Director
Division of Records and Reporting
Florida Public Service Commission
2540 Shumard Oak Boulevard
Tallahassee FL 32399-0870

980366-ET

Dear Ms. Bayo:

Pursuant to Rule 25-6.0436(2)(a), Gulf Power Company respectfully requests approval to initiate amortization of a Cogeneration Facility projected to be placed in service in April 1998. This Cogeneration Facility is located in the Pace, Florida area and consists of three 5 MW natural gas fired Solar Taurus Model 60 combustion turbines. Gulf Power is purchasing these combustion turbines and the related equipment as a turnkey project when the facility achieves commercial in-service status.

Total projected cost to be incurred by Gulf Power for the facility will be approximately \$10 million that will be recorded within FERC accounts 340-346, Other Production. Gulf Power plans to amortize this investment over the 20-year life of the Cogeneration Facility.

We appreciate your taking this request under consideration and look forward to hearing from you. Please feel free to call me at (850) 444-6231 if you have any questions or need additional information.

ACK _____
AFA _____
APP _____ Sincerely,
CAF _____
CMU _____ *Susan D. Cranmer*
CTR _____ Susan D. Cranmer
EAG _____ Assistant Secretary and Assistant Treasurer

LEG _____ lw
LIT _____

cc: _____ Beggs and Lane
_____ Jeffrey A. Stone, Esquire
_____ Florida Public Service Commission
_____ Patricia S. Lee

DOCUMENT # 98-0366-ET
03275 MAR 16 1998

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

IN RE: Request by Gulf Power Company for approval to initiate amortization of a cogeneration facility projected to be placed in service in April 1998.)
) Docket No.: 980366-E1
) Filed: May 1, 1998
)

REQUEST FOR CONFIDENTIAL CLASSIFICATION

Notices and communications with respect to this docket should be addressed to:

Jeffrey A. Stone	Susan D. Cranmer
Russell A. Badders	Assistant Secretary and Assistant Treasurer
Beggs & Lane	Gulf Power Company
P. O. Box 12950	One Energy Place
Pensacola, FL 32576-2950	Pensacola, FL 32520-0780

GULF POWER COMPANY ("Gulf Power", "Gulf", or "the Company"), by and through its undersigned counsel, and pursuant to Rule 25-22.006, Florida Administrative Code, hereby files a request that the Florida Public Service Commission enter an order protecting from public disclosure the Company's responses to a request for information submitted by the staff of the Florida Public Service Commission dated March 27, 1998, hereafter "information request". As grounds for this request, Gulf Power Company states:

1. The information requested is entitled to confidential classification pursuant to Section 366.093(3)(e). The Company's responses to the information request contain proprietary confidential business information regarding contractual matters which would cause irreparable harm to Gulf Power Company, its general body of customers and the entity with whom Gulf Power has contracted if such information is disclosed to the general public. The responses also contain information relating to competitive interests which would cause irreparable harm to Gulf Power Company, its general body of customers and the entity with whom Gulf Power has contracted if such information is disclosed to the general public.

DOCUMENT NUMBER-DATE

04923 MAY-1 8

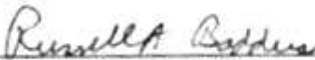
FPSC-RECORDS/REPORTING

2. The information for which confidential classification is sought is intended to be, and is treated as, confidential by Gulf Power Company and the entity with whom it has contracted and has not been otherwise publicly disclosed.

3. Submitted as Exhibit "A" is a copy of the Company's responses to the information request, on which is highlighted the information for which confidential classification is requested. Exhibit "A" should be treated as confidential pending a ruling on this request. Attached as Exhibit "B" are two (2) edited copies of the responses to the information request, which may be made available for public review and inspection. Attached as Exhibit "C" to this request is a line-by-line justification for the request for confidential classification.

WHEREFORE, Gulf Power Company respectfully requests that the Commission enter an order protecting the information highlighted on Exhibit "A" from public disclosure as proprietary confidential business information.

Respectfully submitted this 30 th day of April 1998,



JEFFREY A. STONE
Florida Bar No. 325953
RUSSELL A. BADDERS
Florida Bar No. 007455
Beggs & Lane
P. O. Box 12950
(700 Blount Building)
Pensacola, FL 32576-2950
(850) 432-2451
Attorneys for Gulf Power Company

Commissioners:
JULIA L. JOHNSON, CHAIRMAN
J. TERRY DEASON
SUSAN F. CLARK
JOE GARCIA
E. LEON JACOBS, JR.



TIMOTHY DEVLIN, DIRECTOR
AUDITING & FINANCIAL ANALYSIS
(850) 413-6480

Public Service Commission

March 27, 1998

Ms. Susan D. Cranmer
Gulf Power Company
Post Office Box 13470
Pensacola, Florida 32591-3470

Re: Docket No. 980366-EI

Dear Ms. Cranmer:

Gulf Power Company's request for amortization of its investment in a cogeneration facility located in Pace, Florida, is under review. Staff would like to understand more about this facility and the role it will play in Gulf's provision of electric service for the community served.

Attached are several questions from staff concerning Gulf's request. Please provide the Company's responses, and any other information which would help the Commission evaluate the request, by April 10, 1998. This should allow staff to file a recommendation for the Commission's consideration at its May 19, 1998, Agenda Conference.

Please be advised that the Recommendation or Commission action in this docket should not be regarded as a review or judgment concerning the prudence of the associated capital investment.

We appreciate your cooperation in providing the requested information.

Sincerely,

A handwritten signature in cursive script, appearing to read "Patricia S. Lee".

Patricia S. Lee
US/C Engineer Supervisor

PSL/JS/frp
Attachment

cc: Division of Records and Reporting
Division of Legal Services (C. Keating)
Division of Electric and Gas (Bohrmann, Colson)
Division of Auditing and Financial Analysis (Sickel)

DEPRECIATION QUESTIONS

1. In your letter dated March 13, 1998, Gulf requested an amortization over a 20-year period for its investment in a cogeneration facility at Pace, Florida.
 - a. What is the basis for the "20-year life" mentioned in your letter?
 - b. Please provide any available support for the 20-year period, as compared to a longer or shorter period.
2. Why does Gulf propose an amortization, rather than recovery by a depreciation rate?
3.
 - a. Please clarify the Company's view relating to interim net salvage. Does Gulf propose that interim net salvage be set at zero for purposes of capital recovery at the present time or that it be set at a non-zero value? If Gulf proposes that interim net salvage be set at a non-zero value, what is that non-zero value?
 - b. Please explain the rationale and provide any available information that supports Gulf's salvage proposal provided in response to question 3a, above.
4. What are Gulf's current plans for the plant equipment relating to this investment and operation at the end of the "20-year life of the Cogeneration Facility"?
5. In your March 13, 1998, letter, you stated that "Gulf Power is purchasing these combustion turbines and the related equipment as a turnkey project when the facility achieves commercial in-service status."
 - a. What "related equipment" will be included in the purchase?
 - b. Will the purchased equipment function in conjunction with operations of another Company at the same site? If so, please name the other company and describe the other products (in addition to electric power) which will be produced at this site.
 - c. Please enumerate the criteria that Gulf intends to use in order to determine when the units have achieved "commercial in-service status" and describe any operating parameters which would remain to be proved. If any specifics are technically detailed, a summary would be adequate.
6. Please describe how Gulf intends to utilize the power generated by this facility.

1. In your letter dated March 13, 1998, Gulf requested an amortization over 20-year period for its investment in a cogeneration facility at Pace, Florida.
 - a. What is the basis for the "20-year life"?
 - b. Please provide any available support for the "20-year life", period as compared to a longer or shorter period.

RESPONSE:

1
2
3
4

a.

[REDACTED]

5
6

b.

[REDACTED]

2. Why does Gulf propose an amortization, rather than recovery by a depreciation rate?

RESPONSE:

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4. What are Gulf's current plans for the plant equipment relating to this investment and operations at the end of the 20-year life of the "Cogeneration Facility?"

RESPONSE:

1
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5. In your March 13, 1998 letter you stated that "Gulf Power is purchasing these combustion turbines and the related equipment as a turnkey project when the facility achieves commercial in-service status."
- a. What "related equipment" will be included in the purchase?
 - b. Will the purchased equipment function in conjunction with operations of another Company at the same site? If so, please name the other company and describe the products (in addition to electric power) which will be produced at this site.
 - c. Please enumerate the criteria that Gulf intends to use in order to determine that the units have achieved "commercial in-service status" and describe any operating parameters which would remain to be proved. If any specifics are technically detailed, a summary would be adequate.

RESPONSE:

1 a. [REDACTED]
2 [REDACTED]
3 [REDACTED]
4 [REDACTED]

5 b. [REDACTED]

6 c. [REDACTED]
7 [REDACTED]
8 [REDACTED]
9 [REDACTED]
10 [REDACTED]
11 [REDACTED]
12 [REDACTED]
13 [REDACTED]
14 [REDACTED]

7. Staff would like to understand Gulf's responsibilities for anticipated expenditures relating to this site, including capital, operating, and maintenance. In particular, what are Gulf's anticipated responsibilities relating to:
- a. Purchase of fuel?
 - b. Normal (non-fuel) operating costs?
 - c. Equipment maintenance?
 - d. Equipment replacement?
 - e. Facility dismantlement?

RESPONSE:

- 1 a. [REDACTED]
2 [REDACTED]
3 [REDACTED]
4 [REDACTED]
5 [REDACTED]
6 [REDACTED]
- 7 b. [REDACTED]
8 [REDACTED]
- 9 c. [REDACTED]
10 [REDACTED]
- 11 d. [REDACTED]
12 [REDACTED]
- 13 e. [REDACTED]
14 [REDACTED]
15 [REDACTED]

9. Please provide copies of all contracts for sale of energy from this facility.

RESPONSE:

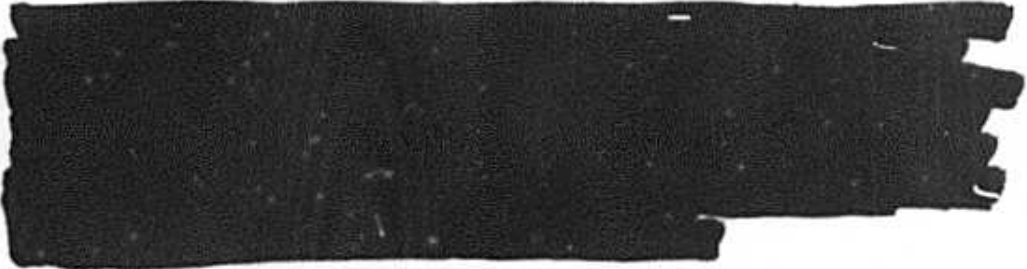
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4



13. How will Gulf book the revenues from the sale of steam from this facility?

RESPONSE:

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14. What tariff rate will Gulf use to sell electricity to the steam user?

RESPONSE:

1 [REDACTED]
2 [REDACTED]
3 [REDACTED]
4 [REDACTED]

15. How will this cogeneration facility be dispatched? Will economics determine how it will run, or will there be "must run" periods in order for Gulf to supply steam?

RESPONSE:

1 [REDACTED]
2 [REDACTED]
3 [REDACTED]
4 [REDACTED]
5 [REDACTED]
6 [REDACTED]
7 [REDACTED]

8 [REDACTED]
9 [REDACTED]
10 [REDACTED]
11 [REDACTED]
12 [REDACTED]

**Field/Document
Identification**

Justification

Item 9
Page 1
Lines 1 - 4

This information is entitled to confidential classification pursuant to Section 366.093(3)(e) and is subject to a previously filed request for confidential classification. [See DN 01785-98 and/or DN 01786-98] This item requests a copy of the contract associated with the facility. Public disclosure of this information would cause irreparable harm to Gulf Power Company, its general body of customers and the entity with whom Gulf Power has contracted. The information provided by Gulf in response to this request is proprietary confidential business information regarding contractual matters. Specific contractual terms and conditions are discussed in this response. Public disclosure of this information would impair the ability of Gulf Power Company to negotiate terms and conditions in future contracts that are the most favorable to Gulf and its general body of customers. This would cause irreparable harm to Gulf's position with regard to other competitors for the same services and products. The information is regarded as sensitive and confidential by the entity with whom Gulf has contracted because its public disclosure would impact that entity's ability to compete in its native markets. In addition, disclosure of the information at lines 1-4 of the response would reveal contractual terms and is entitled to confidential classification.

Item 10, 11, 12
Page 1
Lines 1 - 21

This information is entitled to confidential classification pursuant to Section 366.093(3)(e). Public disclosure of this information would cause irreparable harm to Gulf Power Company, its general body of customers and the entity with whom Gulf Power has contracted. The

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Page 1
Lines 1 - 7

information provided by Gulf in response to this request is proprietary confidential business information regarding contractual matters.

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Lines 1 - 4

Specific contractual terms and conditions are discussed in this response. Public disclosure of this information would impair the ability of Gulf Power Company to negotiate terms and conditions in future contracts that are the most favorable to Gulf and its general body of customers.

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Lines 1 - 12

This would cause irreparable harm to Gulf's position with regard to other competitors for the same services and products. The information is regarded as sensitive and confidential by the entity with whom Gulf has contracted because its public disclosure would impact that entity's ability to compete in its native markets.