BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

In re: 1997 depreciation study by Gulf Power Company.	DOCKET NO. 970643-EI ORDER NO. PSC-98-0921-FOF-EI ISSUED: July 7, 1998

The following Commissioners participated in the disposition of this matter:

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

NOTICE OF PROPOSED AGENCY ACTION
ORDER REVISING DEPRECIATION RATES AND DISMANTLEMENT ACCRUAL

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 substantially affected files a petition for a formal proceeding, pursuant to Rule 25-22.029, Florida Administrative Code.

By Order No. PSC-93-1808-FOF-EI, issued December 20, 1993, in Docket No. 930221-EI, Gulf Power Company's ("Gulf" or "the Company") current depreciation rates, amortization schedules, and dismantlement provision were approved with an effective date of January 1, 1994. On May 29, 1997, the Company filed a quadrennial comprehensive study ("study") covering dismantlement and depreciation requirements, pursuant to Rule 25-6.0436, Florida Administrative Code. Our review of Gulf's plans and activity indicates the need to revise its depreciation rates, amortization schedules, and provision for dismantlement.

In its study, Gulf has provided production plant investment stratified into homogeneous categories within each account at each steam generation site. As a result of this stratification of investment, recovery provisions can be more closely matched to the life characteristics of specific categories of the investment made

to provide for steam generation of electric power. Taken together with changes in net plant balances and updated planning, a need for revision of recovery provisions is indicated.

The Company has also proposed expanding the amortizations currently in place for certain general plant accounts. Accounts 393 (Stores), 394 (Tools, Shop, & Garage), and 395 (Laboratory) are currently separated into depreciable assets and amortizable assets. These accounts represent minor investments of numerous items that are difficult to track or trace. The total depreciated investments in these accounts comprise less than 0.2% of Gulf's plant in service as of January 1, 1998. Gulf proposes to incorporate the depreciable assets into the amortizations.

Finally, Gulf's study provides an opportunity to review the annual accrual which has been undertaken to provide for the dismantlement of fossil fueled generation plants following the retirement of those installations.

I. REVISED DEPRECIATION RATES AND APPROPRIATE RECOVERY SCHEDULES

Based on a comprehensive review of Gulf's study and on the specific findings below, we find that the rate components (lives, salvages, and reserves) and amortization schedules presented in Attachment A to this Order are reasonable and should be approved. Attachment A is incorporated into this Order by reference. Further, we find that these rate components and amortization schedules should be implemented as of January 1, 1998.

A. Production

The most significant changes are seen in the production plant area. In the current study, Gulf's proposed lives reflect a change in the utilization of its steam generation units. The Company has explained that much of its base load power generation comes from dispatching newer units which incorporate new technologies and produce lower cost power. The steam generation units will be dispatched when additional power is required, and are expected to run fewer hours than under the former planning. We recognize that increased wear and tear is associated with each start-up, but the intermittent operation is expected to result in additional years of service.

In its study, Gulf has utilized its continuing property record system to develop stratified categories expected to have homogenous life characteristics. The life of the account is then determined by compositing the life expectations of the various strata. This approach provides a more accurate determination of the required depreciation components than the historical approach of determining the pattern of interim retirements and life expectancy of the generating plant without identifying the contents or quantifying the varying life characteristics of the assets.

As in its previous two depreciation studies, Gulf has proposed depreciation rates by site even though the development of its life parameters are provided for each account within each unit for each site. Ideally, where large components of investment have a life foreseeably different from the average, there is an argument for separate rates. Such rates might be developed by unit within the plant site, or for some major project that will retire substantial dollars before recovery. According to Gulf, application of a composite depreciation rate by site results in essentially the same amount of depreciation expense as applying individual rates by unit, thus making subcategorization unnecessary. Additionally, Gulf states it would be burdensome to maintain the reserve at a more detailed level.

Based on the foregoing, we find that depreciation rates should be maintained at a site level. This finding should not be construed, however, to preclude this Commission from requiring further subcategorization in the future if it appears to be appropriate. We will continue to address the need for additional subcategorization in future depreciation prescriptions as circumstances change and life patterns for the various strata become more refined. Our goal is to match recovery with consumption.

B. Transmission and Distribution

In the current study, Gulf has described specific differences between the circumstances impacting distribution station equipment and those impacting transmission equipment. In particular, distribution equipment is subject to more frequent retirement to accommodate growth and changing customer needs. Our analysis and findings incorporate the differences described by the Company.

Gulf proposed a change in the recovery for Account 350 (Easements) to reflect a decrease from a 75-year service life to a

40-year service life. Up until the current proposal, Gulf estimated the lives for easements as the maximum probable life of the transmission equipment installed on the easement. The Company now states that 75 years is "inordinately long" and has proposed a life of 40 years because it is similar to the life applied to intangible assets. While we do not believe that easements should be considered intangible assets, we believe that lives over 50 years are more subjective. For this reason, we find that a 50 year service life and 26 year remaining life are appropriate.

We also differ with the Company concerning the net salvage components for Account 355 (Poles and Fixtures), Account 368 (Line Transformers), and Account 369.1 (Overhead Services). First, Gulf has proposed a negative 45% net salvage factor for Account 355 as being consistent with the account's recent experience. Gulf's existing net salvage factor for the account is negative 35%. However, the annual retirement rate for the account has averaged historically about 1%. We believe that this retirement experience is insufficient to make statistical analyses meaningful and, therefore, that reliance on industry averages for life and salvage factors is necessary. Currently, other Florida utility companies have prescribed net salvage factors in the range of negative 35% to negative 20% for this account. We find that a negative 40% net salvage factor recognizes the labor intensiveness of Account 355 and is appropriate in this instance.

Second, Gulf has proposed to move from a negative 15% net salvage factor to a negative 25% net salvage factor for Account 368. Removal costs for Account 368 have averaged 35% from 1977 to 1996 and 40% from 1992 to 1996. Gross salvage has averaged 9% over the 1977-1996 period and 8% over the 1992-1996 period. While Gulf's proposal recognizes increased removal costs, we are concerned with the level of removal costs that Account 368 is experiencing. The accounting treatment for this equipment is "cradle-to-grave"; that is, at the time a transformer is purchased, the cost is immediately charged to plant-in-service and not retired until final disposition. The change-out, resetting, or refurbishment costs are expensed. Accordingly, one would expect very little gross salvage and removal cost to be realized upon retirement absent special conditions. However, Gulf states that removal costs associated with retired transformers relate to less than one third of the total removal costs being experienced in this account. Other items such as cutouts and arresters represent a large percentage of the total removal costs incurred.

Gulf also states that the final retirement process is initiated when its accounting department is notified by the Company's repair shop of the number of transformers retired and scrapped. At that time, accounting personnel will debit plant removal cost and credit the appropriate operation expense account with the estimated final removal cost incurred by the line crew to remove the transformer being retired. Gulf submitted a copy of a FERC audit issue that states that the cost of removing plant retired should be recorded in the reserve.

We believe that the cost of removal, as applicable to line transformers, relates to final disposal costs when the transformers can no longer be repaired and are thus retired. Removal costs should not include costs incurred with removing the transformer from the location and sending it to the repair shop. Therefore, we find that a negative net salvage factor of 15% is appropriate for Account 368. Our finding recognizes a higher expected removal cost for a major portion of the account's investment with a zero removal cost for the disposal of the transformers.

Third, Gulf proposes to decrease its net salvage factor for Account 369.1 to negative 5% in order to recognize the activity of the account. Net salvage over the most recent five year period has been essentially zero. The annual retirement rate has averaged just over 1%, indicating that reliance on history will not provide meaningful analyses. Other Florida utility companies have prescribed net salvage factors ranging from negative 15% to negative 60%. Typically, this type of equipment incurs removal costs and realizes little scrap salvage upon retirement. While some decrease in negative net salvage may be in order, we do not believe that a decrease to negative 5% is appropriate. We find that a negative net salvage factor of 15% is more appropriate.

For all remaining transmission and distribution accounts, we find that the Company's life and salvage proposals are reasonable and should be approved.

C. General Plant

Gulf has proposed a 3.5 year remaining life for Light Trucks and a 20% net salvage factor for Heavy Trucks. We find that the Company's proposals are consistent with each account's activity and are therefore reasonable.

According to Gulf's study, the remainder of the general plant accounts are basically status quo. The remaining lives shown on Attachment A generally reflect an update of each account's activity since our last review. We find that the underlying service lives and mortality dispersions are still appropriate and reasonable.

As discussed below, Gulf no longer has any investment relating to Account 392.1 (Automobiles). The residual reserve for that account, as of January 1, 1998, is approximately $93,000. We find that this reserve should be transferred to Account 392.2 (Light Trucks) to help correct the reserve deficit in that account. Further, we find that Gulf should discontinue use of Account 392.1 at this time.

D. Amortizations

Gulf has proposed that the depreciable portions of Accounts 393 (Stores), 394 (Tools, Shop, & Garage) and 395 (Laboratory) be amortized over 7 years, beginning January 1, 1998. As part of Gulf's proposal, subsequent additions would be maintained by vintage and amortized accordingly. The Company states that these investments represent high volume items of small value which do not warrant individual tracking. Further, these investments represent less than 0.2% of Gulf's January 1, 1998, total plant in service. We find that the use of amortization in this instance is in line with this Commission's efforts to simplify the depreciation study process, where possible, and is acceptable.

II. CORRECTIVE RESERVE TRANSFERS

In its study, Gulf reports that all ownership of equipment booked into Account 392.1 (Automobiles) has been divested during 1997. Gulf states that transportation will be provided for employees by other means, such as paying mileage or transportation allowances. At December 31, 1997, the investment in Account 392.1 had been reduced to zero. A residual reserve of $93,849.26 remained. We find that this residual reserve should be transferred to Account 392.2 (Light Trucks) in order to alleviate the reserve deficit in that account.

III. FOSSIL FUEL DISMANTLEMENT ANNUAL ACCRUAL

By Order No. 24741, issued July 1, 1991, in Docket No. 891086-EI, this Commission established the methodology for accruing the costs of fossil fuel dismantlement. Pursuant to that order, electric companies are required to file dismantlement studies at least once every four years in connection with their depreciation studies.

Gulf's currently approved annual dismantlement accrual is $4,665,254. The accrual was determined using a straight-line amortization of Gulf's 1993 dismantlement cost estimates over the remaining life of each fossil unit. During 1993, Gulf received a waiver from this Commission to continue developing its dismantlement accrual using a straight-line amortization as opposed to using the methodology established in Order No. 24741.

The dismantlement studies submitted in this docket represent the Company's initial move to determining its dismantlement accrual based on the methodology approved in Order No. 24741. The Company's proposed annual accrual of $6.2 million is based on its current dismantlement cost estimates, escalated to future costs through the time of dismantlement. The future costs, less amounts recovered to date, have then been discounted in a manner that accrues the costs over the remaining life span of each plant. After making adjustments to the estimated rates of inflation included in Gulf's study to reflect the most current inflation rate forecasts from DRI Review of the U.S. Economy - Long Range Focus, we calculate a four-year average annual accrual of approximately $5.7 million.

While the estimated costs to dismantle Plant Scherer and the gas turbine at Plant Smith have increased, the estimated gross costs of dismantling Gulf's fossil plants have decreased since Gulf's previous dismantlement studies. The base costs for dismantlement at December 31, 1993, were estimated at $138.2 million, while the current studies estimate total base costs of $107.4 million.

The decrease in Gulf's estimated costs to dismantle its steam plants is primarily attributed to the recognition of using power-operated shears in the dismantling process, changes in the current market price of scrap materials, and changes in overhead percentages. The current studies reflect a scope change relating to the dismantlement of structures. The previous studies assumed

a "Reverse Construction" method of structural dismantlement. This method is based on taking the building or structure down in the reverse order of its construction. The current studies reflect the "Pull Down" method of structural dismantlement in which each structure is simply pulled down. Metal shears are then used to break down the scrap, thus making handling and removal much easier. The "Pull Down" method of structural dismantlement is more efficient, less costly, and requires less time to complete. The labor hours needed for dismantlement are therefore reduced.

Additionally, the current studies reflect a change in the overhead percentages used in developing the dismantlement costs for Plants Crist, Smith, and Scholz. Administrative and general overheads were reduced from 2% to 1% and engineering and supervision overheads were reduced from 8% to 1%. These reductions reflect the standard percentages used by Gulf's corporate parent, Southern Company, in its dismantlement studies. The previous studies for Plants Daniel and Scherer reflected these standard overhead percentages.

As with its previous studies, Gulf's current study includes a 10% contingency factor to cover uncertainty in the dismantlement cost estimates. This factor is comprised of a 5% pricing contingency and a 5% scope omission contingency. The pricing contingency provides a level of confidence that the estimates will not overrun due to a pricing error. The scope omission contingency gives consideration to the conceptual nature of the base cost estimates and the difficulty in obtaining quantity and weight records. This factor also includes a recognition of hazardous waste environmental assessments that can only be performed at the time of dismantlement.

In conclusion, we find that the four-year average annual accrual for fossil fuel dismantlement, beginning January 1, 1998, should be $5,661,332. A breakdown of this accrual amount by plant is shown on Attachment B to this Order, which is incorporated herein by reference. Although the total base cost estimates have decreased since 1993, the increase from the current annual accrual of $4.7 million reflects the Company's move to determine its dismantlement accrual based on the methodology approved in Order No. 24741.

Based on the foregoing, it is

ORDERED by the Florida Public Service Commission that the depreciation rate components and amortization schedules for Gulf Power Company shall be revised, effective January 1, 1998, as set forth in the body of this Order and in Attachment A to this Order, which is incorporated herein by reference. It is further

ORDERED that Gulf Power Company shall transfer the residual reserve of $93,849.26 in Account 392.1 (Automobiles) to Account 392.2 (Light Trucks). It is further

ORDERED that, effective January 1, 1998, Gulf Power Company shall accrue $5,661,332 annually for fossil fuel dismantlement as calculated in Attachment B to this Order, which is incorporated herein by reference. It is further

ORDERED that the provisions of this Order, issued as proposed agency action, shall become final and effective unless an appropriate petition, in the form provided by Rule 25-22.036, Florida Administrative Code, is received by the Director, Division of Records and Reporting, 2540 Shumard Oak Boulevard, Tallahassee, Florida 32399-0850, by the close of business on the date set forth in the "Notice of Further Proceedings or Judicial Review" attached hereto. It is further

ORDERED that in the event this Order becomes final, this Docket shall be closed.

By ORDER of the Florida Public Service Commission this 7th day of July, 1998.

Blanca S. Bayó

BLANCA S. BAYÓ, Director
Division of Records and Reporting

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NOTICE OF FURTHER PROCEEDINGS OR JUDICIAL REVIEW

The Florida Public Service Commission is required by Section 120.569(1), 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.

Mediation may be available on a case-by-case basis. If mediation is conducted, it does not affect a substantially interested person's right to a hearing.

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 Code. This petition must be received by the Director, Division of Records and Reporting, 2540 Shumard Oak Boulevard, Tallahassee, Florida 32399-0850, by the close of business on July 28, 1998.

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 substantially 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.

ATTACHMENT A

GULF POWER COMPANY
1997 STUDY

ACCOUNT	COMMISSION APPROVED			
	AVERAGE REMAINING LIFE (YRS.)	NET SALVAGE (%)	RESERVE (%)	REMAINING LIFE RATE (%)
STEAM PRODUCTION PLANT				
PLANT DANIEL	26.0	(7.0)	43.52	2.4
PLANT CRIST	17.7	(3.0)	41.19	3.5
PLANT SCHOLZ	13.2	(2.0)	68.87	2.5
PLANT SMITH	16.6	(4.0)	51.23	3.2
PLANT SCHERER	35.0	(4.0)	30.60	2.1
OTHER DEPRECIABLE STEAM PRODUCTION				
310.0 Plant Daniel Easements	34.0	0.0	53.37	1.4
310.0 Plant Crist Easements	21.0	0.0	47.32	2.5
311.0 Plant Daniel Rail Tracks	34.0	0.0	56.42	1.3
316.0 Production Plt Furniture Equip.		5 Year Amortization		
316.0 Production Plt Furniture Equip.		7 Year Amortization		
OTHER PRODUCTION				
Smith Turbine	8.5	0.0	93.42	0.8
TRANSMISSION PLANT				
350.0 Easements	26.0	0.0	36.51	2.4
352.0 Structures & Improvements	38.0	(10.0)	33.24	2.2
353.0 Station Equipment	27.0	(10.0)	36.63	2.7
354.0 Towers and Fixtures	20.0	(20.0)	71.15	2.4
355.0 Poles and Fixtures	27.0	(40.0)	31.95	4.0
356.0 Overhead Conduct. & Devices	21.0	(20.0)	59.43	2.9
358.0 Underground Conductors & Devices	31.0	(5.0)	17.71	2.8
359.0 Roads & Trails	26.0	0.0	30.97	2.7
DISTRIBUTION PLANT				
361.0 Structures & Improvements	27.0	(10.0)	30.63	2.9
362.0 Station Equipment	27.0	(10.0)	27.70	3.0
364.0 Poles, Towers & Fixtures	24.0	(60.0)	35.68	5.2
365.0 Overhead Conductors	23.0	(10.0)	36.40	3.2
366.0 Underground Conduit	26.0	0.0	50.25	1.9
367.0 Underground Conduct. & Devices	21.0	0.0	29.49	3.4
368.0 Line Transformers	21.0	(15.0)	37.05	3.7
369.1 Overhead Services	19.6	(15.0)	53.54	3.1
369.2 Underground Services	21.0	(5.0)	26.91	3.7
369.3 Service-House power Boxes	8.4	0.0	73.25	3.2
370.0 Meters	19.0	(3.0)	45.15	3.0
373.0 Street Lights	10.7	(10.0)	30.46	7.4
GENERAL PLANT				
390.0 Structures & Improvements	30.0	0.0	29.14	2.4
392.1 Transportation Equip.-Automobiles	N/A	N/A	N/A	N/A
392.2 Transportation Equip.-Light Trucks	3.5	20.0	63.28	4.8
392.3 Transportation Equip.-Heavy Trucks	7.2	20.0	29.49	7.0
392.9 Transportation Equip.-Trailers	11.8	15.0	25.24	5.1
393.0 Stores Equipment - Fixed		7 Year Amortization		
394.0 Tools, Shop & Garage Equip.-Fixed		7 Year Amortization		
395.0 Laboratory Equipment - Fixed		7 Year Amortization		
396.0 Power Operated Equipment	6.3	15.0	64.47	3.3
397.0 Communication Equipment	10.0	(2.0)	8.87	9.3
391.1 Office Furniture- Computer		5 Year Amortization		
391.2 Office Furniture -Non Computer		7 Year Amortization		
392.0 Marine and Other Equip.		5 Year Amortization		
393.0 Stores Equipment - Portable		7 Year Amortization		
394.0 Tools,Shop, & Garage Equip. - Portable		7 Year Amortization		
395.0 Laboratory Equipment - Portable		7 Year Amortization		
397.0 Communication Equipment - Official		7 Year Amortization		
398.0 Miscellaneous Equipment		7 Year Amortization		

ATTACHMENT B

GULF POWER COMPANY
1997 STUDY

	COMMISSION APPROVED DISMANTLEMENT ACCRUAL
	($)
Plant Crist	2,825,842
Plant Smith	1,208,663
Plant Scholz	511,321
Plant Daniel	792,938
Plant Scherer	312,723
Total Steam	5,651,487
Plant Smith CT	9,845
Total Gulf Power	5,661,332