

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-

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**DATE:** August 9, 2013  
**TO:** Ann Cole, Commission Clerk, Office of Commission Clerk  
**FROM:** Devlin Higgins, Public Utility Analyst III, Division of Economics  
**RE:** 130151-EI - Petition for approval of 2013 Depreciation Study and Dismantlement Studies by Gulf Power Company.

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Would you be so kind as to add the attached data request responses, titled Gulf Power Company's Responses to Staff's First Data Request, in the above docket file. Thank you very much.

RECEIVED-FPSC  
10 AUG - 9 AM 8:16  
COMMISSION  
CLERK

**Robert L. McGee, Jr.**  
Regulatory & Pricing Manager

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July 12, 2013

Mr. Devlin Higgins  
Division of Economics  
Florida Public Service Commission  
2540 Shumard Oak Boulevard  
Tallahassee FL 32399-0850

RE: Docket No: 130151-EI

Dear Mr. Higgins:

Enclosed is Gulf Power Company's Responses to Staff's first data request in the above referenced docket.

Sincerely,

A handwritten signature in cursive script that reads "Robert L. McGee, Jr.".

Robert L. McGee, Jr.  
Regulatory and Pricing Manager

md

Enclosures

Cc: Beggs & Lane  
Jeffrey A. Stone

General

1. Please provide the theoretical reserve calculation by site and by account for production, and by account for the transmission, distribution, and general accounts.

**ANSWER:**

On May 30, 2013, the Company provided an electronic MS Excel spreadsheet entitled "Staff's 1<sup>st</sup> Request Tab 7 and 9.xlsx." Tab 7 of that spreadsheet contains the theoretical reserve calculation by site and by account for production, and by account for the transmission, distribution, and general accounts. The theoretical reserve for production is the column titled "Reserve Requirement w/ Net Removal". For transmission, distribution, and general the column is titled "Theo. Reserve". The formula to calculate the theoretical reserve is below.

$\text{Theoretical reserve} = (\text{Investment} * (1 - \text{ARL} / \text{ASL})) * (1 + \% \text{ of IRR NR})$

ARL – Average Remaining Life

ASL – Average Service Life

IRR – Interim Retirement Rate

NR – Net Removal

Abbreviations will be used throughout responses.

2. Please provide the whole life rate by site and by account for production, and by account for the transmission, distribution, and general accounts.

ANSWER:

Whole life rates by site for production and by transmission, distribution, and general accounts are shown in Tab 6 of the Study. Whole life rates by account for production are below.

<b>Crist</b>			<b>Smith CT</b>		
311	Structures and Improvements	2.8%	341	Structures and Improvements	6.0%
312	Boiler Plant Equipment	4.0%	342	Fuel Holders	4.7%
314	Turbogenerator Units	3.9%	343	Prime Movers	6.2%
315	Accessory Electric Equipment	3.7%	344	Generators	2.3%
316	Misc. Power Plant Equipment	4.2%	345	Accessory Electric Equipment	2.9%
		<u>3.9%</u>	346	Misc. Power Plant Equipment	6.0%
					<u>4.3%</u>
<b>Scholz</b>			<b>Smith CC</b>		
311	Structures and Improvements	3.2%	341	Structures and Improvements	3.0%
312	Boiler Plant Equipment	3.9%	342	Fuel Holders	2.9%
314	Turbogenerator Units	3.5%	343	Prime Movers	3.8%
315	Accessory Electric Equipment	3.5%	344	Generators	2.7%
316	Misc. Power Plant Equipment	11.4%	345	Accessory Electric Equipment	2.8%
		<u>3.8%</u>	346	Misc. Power Plant Equipment	3.4%
					<u>3.3%</u>
<b>Smith</b>			<b>Pace</b>		
311	Structures and Improvements	2.8%	343	Prime Movers	5.0%
312	Boiler Plant Equipment	3.6%	344	Generators	5.0%
314	Turbogenerator Units	2.8%	345	Accessory Electric Equipment	5.0%
315	Accessory Electric Equipment	2.7%			<u>5.0%</u>
316	Misc. Power Plant Equipment	4.2%			
		<u>3.2%</u>			
<b>Daniel</b>			<b>Perdido</b>		
311	Structures and Improvements	1.8%	341	Structures and Improvements	5.7%
312	Boiler Plant Equipment	2.4%	342	Fuel Holders	5.4%
314	Turbogenerator Units	2.5%	343	Prime Movers	5.5%
315	Accessory Electric Equipment	2.0%	345	Accessory Electric Equipment	5.4%
316	Misc. Power Plant Equipment	2.8%	346	Misc. Power Plant Equipment	5.9%
		<u>2.3%</u>			<u>5.5%</u>
<b>Scherer</b>					
311	Structures and Improvements	1.6%			
312	Boiler Plant Equipment	2.5%			
314	Turbogenerator Units	1.9%			
315	Accessory Electric Equipment	1.9%			
316	Misc. Power Plant Equipment	2.2%			
		<u>2.4%</u>			

3. Please explain how Gulf calculates expense for the amortizable accounts. Staff is unable to replicate Gulf's 2013 amortization expense; therefore, for each amortizable account please explain the calculations that produce 2013 expense. An example of an account where staff cannot replicate Gulf's calculation is the Crist Plant's five-year amortization. According to Tab 5, the proposed amortization expense, \$32,245, is 23 percent of the \$137,572 2013 plant balance (there is no activity budgeted for 2013).

**ANSWER:**

Amortizable expense for 2012 was used as an approximation of 2013's expense amount.

4. Please explain what is associated with the Asset Retirement Obligation shown in Tab 10 for each of the accounts for the year ending December 31, 2013. Please include in your response how these obligations are determined.

**ANSWER:**

Asset retirement obligations are legal obligations associated with the future retirement of a tangible long-lived asset. The existence of an asset retirement obligation is determined by Gulf Power's Environmental Affairs and Accounting departments with the assistance from legal counsel. Asset retirement obligations are computed as the present value of the expected removal costs for an asset's future retirement. In accordance with accounting standards related to asset retirement obligations, Gulf Power has capitalized the anticipated retirement costs as part of the related long-lived asset. These capitalized costs are shown as Asset Retirement Obligations in Tab 10.

5. Does Gulf intend to propose any reserve transfers? If no, please explain why not. If yes, please provide Gulf's proposed reserve transfers.

**ANSWER:**

No. Gulf does not propose any reserve transfers at this time.

Gulf believes it is appropriate to rely on the Group Accounting Concept to take care of any minor Theoretical Reserve variances (as defined in Rule 25-6.0436) over the remaining life of the asset.

**Production Plant**

For the following questions, please refer to the Depreciation Study (Volumes 1 and 2) for Production

6. Please list the entities owning an interest in each generating unit, the percentage of ownership by each entity, and whether (and by what percentage) each unit is dedicated to retail use.

ANSWER:

Unit	Owning Entities	Percentage Ownership (%)	Dedicated <sup>1</sup> Retail (%)
Crist 4	Gulf	100	100
Crist 5	Gulf	100	100
Crist 6	Gulf	100	100
Crist 7	Gulf	100	100
Smith 1	Gulf	100	100
Smith 2	Gulf	100	100
Smith 3	Gulf	100	100
Smith A	Gulf	100	100
Scholz 1	Gulf	100	100
Scholz 2	Gulf	100	100
Pea Ridge	Gulf	100	100
Perdido	Gulf	100	100
Daniel 1	Gulf	50	100
	Mississippi	50	unknown
Daniel 2	Gulf	50	100
	Mississippi	50	unknown
Scherer 3	Gulf	25	0
	Georgia	75	unknown

<sup>1</sup> While all the assets reflected above as being dedicated 100 percent to retail service are used to provide retail service, they are also used to provide wholesale service; consequently, they are separated for jurisdictional purposes in a cost of service study when Gulf's retail and wholesale rates are established.



7. Please provide a description of any major overhauls or upgrades (including environmental) planned for production plant for 2014 – 2017. Please describe the planned work to be performed, any retirement units expected to be replaced as a direct result, and in what year(s) each overhaul or upgrade is scheduled to take place.

**ANSWER:**

Gulf does not categorize production plant projects as major, but for purposes of responding to this data request, we are providing the following list of capital projects planned and committed for the period 2014-2017 at units owned or co-owned by Gulf with estimated costs over \$5M. Other capital projects are being evaluated for the same period, but have not been approved by management for actual execution at this time.

**Plant Crist**

**PE 1016 - CRIST U7 Finishing Superheater**

- Routine maintenance, repair and replacement of worn equipment.

<u>Year</u>	<u>Expenditures</u>	<u>Retirements</u>	<u>Cost of Removal</u>
2014	\$1,500,000	\$0	\$0
2015	\$3,500,000	\$330,000	\$220,000

**PE 1144 - CRIST U7 Control System Upgrades**

- The current version of controllers and I/O for the Unit 7 Ovation need to be replaced with the current version in order to be able to retain access to spare parts and serviceability for these components.

<u>Year</u>	<u>Expenditures</u>	<u>Retirements</u>	<u>Cost of Removal</u>
2014	\$1,300,000	\$0	\$0
2015	\$4,500,000	\$500,000	\$420,500

**Plant Smith**

**PE 1438 - Smith 3 LTSA**

- Routine maintenance, repair and replacement under the terms of the Long Term Service Agreement with GE.

<u>Year</u>	<u>Expenditures</u>	<u>Retirements</u>	<u>Cost of Removal</u>
2016	\$27,802,328	\$23,708,962	\$500,000

**PE 1601 - ECRC Water-Smith Reclaimed Water Project**

The Smith Reclaimed Water Project includes expenses to evaluate utilizing reclaimed water in the existing Plant Smith Unit 3 cooling tower and other permitted water sources for water re-use.

<u>Year</u>	<u>Expenditures</u>	<u>Retirements</u>	<u>Cost of Removal</u>
2014	\$7,600,000	\$0	\$0

**Plant Daniel** (Amounts shown reflect Gulf's 50% ownership share in Daniel Units 1 and 2)

**PE 1517 - ECRC Air-Daniel Bromine Injection**

This project results in the design and installation of a bromine injection system for the coal supply for Daniel Units 1&2.

<u>Year</u>	<u>Expenditures</u>	<u>Retirements</u>	<u>Cost of Removal</u>
2014	\$682,655	\$0	\$0
2015	\$2,047,964	\$0	\$0

**PE 1551 - ECRC-Air-Daniel 1 & 2 Scrubber**

- This project involves the design and construction of two flue gas desulfurization devices (scrubbers) on Daniel Units 1&2.

<u>Year</u>	<u>Expenditures</u>	<u>Retirements</u>	<u>Cost of Removal</u>
2014	\$106,446,492	\$0	\$0
2015	\$67,907,461	\$0	\$0
2016	\$10,163,498	\$0	\$0

**PE 1591 - Daniel Relay Modernization**

- Replacing the electromechanical relays with microprocessor-based electronic relays.

<u>Year</u>	<u>Expenditures</u>	<u>Retirements</u>	<u>Cost of Removal</u>
2014	\$1,217,167	\$0	\$0
2015	\$664,363	\$0	\$0
2016	\$1,236,762	\$0	\$97,138
2017	\$1,775,994	\$0	\$0

**PE 1809 - ECRC-Air-Daniel 1 & 2 Activated Carbon Injection**

- This project results in the design and installation of an activated carbon injection system in the duct work upstream of the electrostatic precipitators of Daniel Units 1&2.

<u>Year</u>	<u>Expenditures</u>	<u>Retirements</u>	<u>Cost of Removal</u>
2014	\$1,092,250	\$0	\$0
2015	\$3,276,749	\$0	\$0

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Docket No. 130151-EI  
GULF POWER COMPANY  
July 12, 2013  
Item No. 7  
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**Plant Scherer** *(Amounts shown reflect Gulf's 25% ownership share in Scherer Unit 3)*

**PE 1735 - Scherer – Replace Horizontal Superheater**

- Routine maintenance, repair and replacement of worn equipment.

<u>Year</u>	<u>Expenditures</u>	<u>Retirements</u>	<u>Cost of Removal</u>
2014	\$2,128,250	\$301,088	\$125,000

8. Referring to Tab 1, page 2, please explain in detail why there is an increase in depreciation rates for steam production.

**ANSWER:**

The depreciation rate increase for Steam Production is primarily related to Plant Crist. The investment of Plant Crist has increased by \$360,000,000 since the last study. These additions will have a shorter service life over which to recover their investment than the existing investment as of the last study. Because of the shorter lives for the additions since the last study, the depreciation rate will increase. In this study, there were more interm retirements forecasted for Plant Crist, which had the effect of increasing the depreciation rate of Plant Crist.

9. In what month of 2015 is Plant Scholz expected to close?

**ANSWER:**

**April.**

10. When Plant Scholz closes, does Gulf plan to retire the property in the five-year and seven-year amortization accounts? If not, will the property be transferred to other sites? Please explain.

**ANSWER:**

Gulf expects no substantial Scholz plant amortizable property balances at its closing in 2015. Gulf will make any residual investment in plant amortizable property available for use at other facilities.

11. Does Gulf expect that Plant Scholz's depreciable and amortizable investment will be fully recovered at the time of its closure? If no, what is the amount of each account that Gulf expects to be unrecovered and what is Gulf's proposal to recover it?

**ANSWER:**

Gulf's estimates there will be less than \$700,000 left to be recovered in Scholz depreciable plant at its closing. This is based on current budget estimates targeting the April 2015 closing. Outside factors may still impact the final net book balances as the plant is still expected to run until the target date. The following table shows the expected balances by FERC Account:

<u>FERC Description</u>	<u>Net Book Value</u>
310 Land	\$ 44,579
311 Structures and Improvements	(381,610)
312 Boiler Plant Equipment	(245,866)
314 Turbogenerator Units	(579,653)
315 Accessory Electric Equipment	(377,714)
316 Amortizable Property	219,345
317 ARO	(33,138)
352 Structures and Improvements	20,705
353 Station Equipment	1,999,182
	<u>\$ 665,830</u>

If Plant Scholz retires as scheduled, Gulf will propose a capital recovery schedule for any unrecovered balances in its next Depreciation Study.

12. Please explain each difference between how Gulf calculated production plant's average service life and remaining life in its 2009 study (Docket No. 090319-EI) and its current study. Please also explain why Gulf believes any changes from the 2009 study are appropriate.

**ANSWER:**

The Life Span Method was used to calculate ASL and ARL in the current study, the same method used in the prior study. In the life span method, the ASL and ARL are determined by the estimated final retirement date of each unit, adjusted for interim retirements. In the Life Span Method, the ARL must be reduced for future interim retirements, as the Company cannot presume the entire existing investment will last until the final retirement date. In the last study, interim retirements were determined by the stratification of the investment into three separate life groups. The stratification of investment required an engineering estimate of what property units were to be included in each life group. In the current study, interim retirements were estimated by interim retirement rates (IRR), largely based on Gulf historical data.

The use of IRR, developed from Company historical data, is a generally accepted practice used throughout the industry, and is used by some utilities in Florida.



13. To the extent not already answered, please explain why Gulf did not use stratified investment in its analysis of production plant provided in Volume 2, Production Tab.

**ANSWER:**

See Gulf's response to Item No. 12.

14. Referring to Tab 2, page 1, please explain how the "average remaining life of a generating unit reflects the adjustment for the effects of interim retirements," and provide an example complete with formulas.

**ANSWER:**

Interim retirement rates (IRR) based largely on Company historical data were used to adjust the remaining life of a generating unit. The technique is based on an assumption of a constant rate of interim retirements occurring over the remaining life of the unit. Because of interim retirements, not all of the investment survives until the unit retirement date. Remaining Life (RL), adjusted by the IRR, is calculated by the following formula:

$$RL, \text{ adjusted} = (1 - (IRR \times RL)/2) \times RL$$

Using Plant Crist Common, Account 311, as an example,

$$\begin{aligned} RL, \text{ adjusted} &= (1 - (0.25\% / \text{yr} \times 24.5 \text{ yrs}) / 2) \times 24.5 \text{ yrs} \\ &= (1 - (0.061250) / 2) \times 24.5 \\ &= (1 - (0.030625)) \times 24.5 \\ &= 0.969375 \times 24.5 \\ &= 23.75 \text{ years} \end{aligned}$$

15. Page 2 of Tab 2 states that Gulf's interim retirement rates "were based on an analysis of Gulf Power's historical interim retirement data." Please explain how Gulf calculated the interim retirement rate for each account and provide the backup documentation for each account.

**ANSWER:**

Interim Retirement Rates are developed from an analysis of historical interim retirements as a ratio of plant balances. See pages 2 through 6 for data, calculations, and analysis notes.

GULF POWER COMPANY  
STEAM PRODUCTION PLANT  
INTERIM RETIREMENT RATE

Acct	Year	Annual Additions \$	Retirements \$	EOY Balance \$	Average Balance \$	IRR %	Mean IRR %
311	1981	3,288,287	2,934	79,909,501	83,193,854	0.00%	
	1982	10,955,358	8,752	94,140,480	88,867,157	0.01%	
	1983	1,888,881	124,818	96,002,522	95,071,491	0.13%	
	1984	8,588,147	357,308	104,231,363	100,116,943	0.38%	
	1985	9,879,817	4,999	114,108,112	109,168,738	0.00%	
	1986	2,104,202	250,121	115,980,193	115,033,153	0.22%	
	1987	25,105,389	14,824	141,050,752	128,808,472	0.01%	
	1988	2,827,834	489,958	143,208,328	142,129,540	0.33%	
	1989	1,884,977	51,040	144,842,284	144,025,286	0.04%	
	1990	3,721,947	383,801	148,170,410	146,506,337	0.27%	
	1991	940,322	268,482	148,854,248	148,512,330	0.17%	
	1992	375,079	0	149,229,328	149,041,789	0.00%	
	1993	1,558,670	252,318	150,535,580	149,882,454	0.17%	
	1994	887,817	528,930	150,806,288	150,615,924	0.35%	
	1995	4,158,235	150,835	154,703,887	152,700,087	0.10%	
	1996	1,283,830	848,889	155,338,828	155,021,347	0.42%	
	1997	3,091,448	310,177	158,120,098	156,729,463	0.20%	
	1998	218,362	85,894	158,250,586	158,186,332	0.05%	
	1999	889,761	499,638	158,410,890	158,330,628	0.32%	
	2000	1,213,281	238,934	159,388,037	158,897,863	0.15%	
2001	(1,588,121)	51,903	157,747,013	158,588,025	0.03%		
2002	2,887,343	563,684	159,870,861	158,808,837	0.35%		
2003	2,827,811	128,341	162,572,931	161,221,796	0.08%		
2004	1,873,496	2,098,837	162,407,590	162,490,280	1.28%		
2005	3,552,002	637,726	165,321,866	163,864,728	0.39%		
2006	8,822,111	77,333	171,066,644	168,194,255	0.05%		
2007	2,518,309	778,582	172,806,380	171,936,802	0.45%		
2008	4,044,143	526,445	176,324,059	174,585,209	0.30%		
2009	48,284,421	430,229	222,186,280	199,241,154	0.22%		
2010	13,894,517	865,259	235,197,508	228,677,879	0.37%		
2011	3,934,798	1,516,986	237,615,320	238,408,414	0.64%		
2012	(266,750)	1,762,564	235,586,005	236,600,863	0.74%		
2013	2,290,453	355,418	237,521,040	236,553,823	0.15%		
Last 5 years			984,091		227,495,828	0.43%	0.43%
Last 10 years			897,739		197,853,059	0.45%	0.45%
Last 20 years			608,960		177,380,393	0.34%	0.33%
All years			435,340		155,933,932	0.28%	0.25%

Increasing rate for 10+ yrs. 0.35% or more well supported by data, though more than expected Ind %. Use less than what is indicated by data.  
Use 0.25%

GULF POWER COMPANY  
STEAM PRODUCTION PLANT  
INTERIM RETIREMENT RATE

Acct	Year	Annual Additions \$	Retirements \$	EOY Balance \$	Average Balance \$	IRR %	Mean IRR %
312	1981	4,441,435	713,874	271,787,089			
	1982	10,494,549	1,087,808	276,514,530	273,650,799	0.26%	
	1983	29,486,296	3,941,195	284,941,473	280,228,001	0.38%	
	1984	8,234,823	2,365,056	310,496,574	297,714,023	1.32%	
	1985	4,166,218	1,133,388	316,356,341	313,421,457	0.75%	
	1986	5,439,978	2,094,660	319,388,171	317,872,256	0.36%	
	1987	95,160,657	3,203,222	322,743,488	321,085,829	0.66%	
	1988	2,353,436	1,182,989	414,691,222	368,717,355	0.87%	
	1989	592,265	3,385,694	415,861,858	415,276,440	0.28%	
	1990	7,677,096	4,341,649	413,069,229	414,464,943	0.82%	
	1991	7,677,096	4,341,649	418,403,875	414,735,952	1.05%	
	1992	27,097,614	6,867,437	436,633,852	426,518,764	1.61%	
	1993	11,577,425	131,887	448,079,397	442,366,822	0.03%	
	1994	7,247,127	4,145,146	451,181,372	449,630,381	0.92%	
	1995	11,850,063	7,617,918	455,413,517	453,297,444	1.66%	
	1996	24,050,020	4,873,915	474,589,622	468,001,569	1.05%	
	1997	11,619,878	6,541,839	479,667,661	477,126,641	1.37%	
	1998	18,958,987	869,650	497,756,807	488,712,134	0.18%	
	1999	4,800,660	1,307,684	501,049,513	498,403,060	0.26%	
	2000	783,839	4,074,913	497,756,439	498,403,976	0.82%	
	2001	13,844,386	3,723,700	507,879,126	502,618,783	0.74%	
	2002	2,608,733	3,486,889	507,000,971	607,440,049	0.69%	
	2003	42,379,983	19,080,136	530,300,829	618,660,900	3.86%	
	2004	17,434,154	7,629,697	540,105,287	536,203,058	1.43%	
	2005	37,079,986	28,630,616	548,664,667	544,329,977	5.26%	
	2006	110,422,806	14,293,704	644,683,868	596,619,268	2.40%	
	2007	29,451,019	3,538,326	670,576,581	667,630,215	0.54%	
	2008	21,846,036	11,764,370	680,658,226	676,617,394	1.74%	
	2009	49,204,790	7,661,069	722,181,937	701,420,081	1.10%	
	2010	471,940,761	18,056,310	1,176,067,388	949,124,662	1.90%	
	2011	114,846,222	4,073,597	1,296,842,014	1,231,454,701	0.33%	
	2012	73,172,865	16,806,461	1,343,406,258	1,315,125,636	1.26%	
	2013	214,473,714	15,643,141	1,542,239,831	1,442,824,545	1.08%	
	2013	9,161,810	1,421,673	1,549,979,668	1,548,109,900	0.09%	
	Last 5 years		11,159,834		1,298,927,889	0.86%	0.93%
	Last 10 years		12,172,726		969,025,838	1.26%	1.67%
	Last 20 years		9,046,580		730,365,800	1.24%	1.38%
	All years		6,530,228		586,150,570	1.11%	1.12%

Data was increasing, as expected. Data indicates 1.25%. Considering Ind is 1.0% or less typically and affects in short time of larger bal, use less.  
Use 1.00%

GULF POWER COMPANY  
STEAM PRODUCTION PLANT  
INTERIM RETIREMENT RATE

Acct	Year	Annual Additions \$	Retirements \$	EOY Balance \$	Average Balance \$	IRR %	Mean IRR %
314	1981	1,747,645	250,545	103,054,769			
	1982	1,348,737	356,031	104,551,969	103,903,319	0.24%	
	1983	1,231,198	206,642	105,544,575	105,048,222	0.34%	
	1984	1,135,533	362,591	106,599,131	106,056,853	0.19%	
	1985	2,363,202	1,202,661	107,312,073	106,840,802	0.37%	
	1986	3,502,100	547,359	108,472,594	107,692,333	1.11%	
	1987	36,229,992	241,576	111,427,335	109,949,965	0.50%	
	1988	50,732	114,202	147,415,751	129,421,543	0.19%	
	1989	5,706,867	1,645,437	147,352,281	147,364,016	0.08%	
	1990	1,711,778	2,827,752	151,415,701	149,383,991	1.10%	
	1991	445,215	307,633	160,299,726	150,857,713	1.87%	
	1992	123,218	0	150,437,308	150,366,517	0.20%	
	1993	2,290,177	2,178,028	150,560,524	150,498,918	0.00%	
	1994	2,290,177	2,178,028	150,872,678	150,616,800	1.46%	
	1995	7,950,069	528,239	158,094,506	154,383,591	0.34%	
	1996	278,231	556,264	157,816,483	157,965,494	0.36%	
	1997	3,885,948	708,184	160,774,247	159,295,365	0.44%	
	1998	0	149,701	160,624,548	160,669,366	0.09%	
	1999	3,882,802	999,165	163,508,182	162,066,354	0.82%	
	2000	2,794,885	661,324	165,641,533	164,574,848	0.40%	
	2001	2,522,802	363,360	167,801,055	166,721,294	0.22%	
	2002	293,771	166,300	167,926,525	167,864,790	0.10%	
	2003	4,471,578	1,990,054	170,410,049	169,169,287	1.18%	
	2004	1,428,293	797,493	171,038,840	170,724,444	0.47%	
	2005	5,760,773	4,790,365	172,009,228	171,524,034	2.79%	
	2006	(1,547,039)	219,391	170,243,796	171,128,513	0.13%	
	2007	10,225,282	2,196,937	178,272,243	174,259,021	1.26%	
	2008	28,241,307	4,410,952	202,102,896	190,187,871	2.32%	
	2009	9,198,384	1,141,101	210,158,181	208,130,540	0.55%	
	2010	3,678,482	838,520	212,996,144	211,578,162	0.40%	
	2011	30,871,968	6,249,585	237,420,827	225,209,335	2.78%	
	2012	8,300,769	2,304,259	243,417,058	240,418,782	0.98%	
	2013	59,172,554	9,040,516	283,548,665	268,483,026	3.97%	
	2013	6,871,358	1,066,255	299,354,068	298,451,547	0.36%	
	Last 5 years		3,899,847		248,429,173	1.57%	1.57%
	Last 10 years		3,225,860		216,636,784	1.50%	1.49%
	Last 20 years		1,958,836		189,441,120	1.03%	0.98%
	All years		1,498,400		165,365,000	0.91%	0.81%

IRR is increasing, as expected. Some large rate in recent yrs. Data indicates 1.0% or more. Considering Ind is less than 1.0% typically, use less.  
Use 0.86%

GULF POWER COMPANY  
STEAM PRODUCTION PLANT  
INTERIM RETIREMENT RATE

Acct	Year	Annual Additions \$	Retirements \$	EOY Balance \$	Average Balance \$	IRR %	Mean IRR %
316	1981	242,533	62,266	41,299,314	41,389,438	0.15%	
	1982	870,527	38,246	42,311,842	41,899,702	0.09%	
	1983	6,064,150	19,463	48,356,526	45,394,188	0.04%	
	1984	3,428,399	395,891	51,389,038	49,872,784	0.79%	
	1985	806,707	105,811	52,080,134	51,739,586	0.20%	
	1986	294,060	25,784	52,358,411	52,224,272	0.05%	
	1987	8,680,302	7,502	61,031,210	56,894,810	0.01%	
	1988	276,600	49,579	61,256,232	61,144,721	0.08%	
	1989	212,198	223,448	61,246,980	61,252,606	0.38%	
	1990	(92,848)	135,433	61,018,701	61,132,841	0.22%	
	1991	601,158	133,479	61,688,381	61,352,541	0.22%	
	1992	1,368,920	34,149	63,021,163	62,363,787	0.06%	
	1993	567,841	0	63,588,983	63,305,073	0.00%	
	1994	393,829	59,951	63,922,672	63,755,832	0.09%	
	1995	528,700	83,408	64,367,864	64,145,318	0.13%	
	1996	6,726,006	564,112	70,529,858	67,448,911	0.84%	
	1997	136,412	132,908	70,533,882	70,531,780	0.19%	
	1998	557,803	158,967	70,932,488	70,733,080	0.22%	
	1999	301,356	58,170	71,175,684	71,054,081	0.08%	
	2000	987,808	171,015	71,992,177	71,583,930	0.24%	
2001	1,478,070	17,822	73,450,425	72,721,301	0.02%		
2002	589,731	138,803	73,903,353	73,676,889	0.19%		
2003	590,668	120,706	74,373,318	74,138,334	0.16%		
2004	18,282,060	875,020	90,280,356	82,326,836	0.46%		
2005	2,324,069	2,417,945	90,188,470	90,233,413	2.68%		
2006	(4,328,682)	1,878,848	83,980,940	87,083,706	2.16%		
2007	4,182,346	1,050,657	87,112,629	85,546,785	1.23%		
2008	5,753,807	3,138,935	88,729,301	88,420,385	3.65%		
2009	73,214,822	418,477	162,525,748	126,127,523	0.33%		
2010	5,464,052	622,478	167,387,319	164,946,533	0.38%		
2011	7,471,415	776,929	174,061,806	170,714,583	0.46%		
2012	35,338,090	1,498,308	207,901,588	190,881,697	0.78%		
2013	2,290,453	355,418	209,836,822	208,866,105	0.17%		
	Last 5 years		734,322		172,327,884	0.43%	0.42%
	Last 10 years		1,252,901		129,525,112	0.97%	1.22%
	Last 20 years		701,629		99,752,029	0.70%	0.72%
	All years		462,529		81,961,603	0.58%	0.50%

IRR has increased, as expected. Some large rats past 10 years. Data indicates 0.70 or more. Considering Ind is less than 0.5% typically, use less.  
Use 0.50%





16. Please refer to Tab 6, page 1. Please explain how Gulf's proposed "net removal cost factor of 25% was applied to the interim retirements," and provide an example complete with formula(s).

**ANSWER:**

As described in Gulf's response Item No. 12, production interim retirements are calculated by the application of the IRR to the investment. The 25 percent net removal (NR) is then applied to the interim retirements. Net removal of interim retirements is calculated by the following formula:

$$\text{Net Removal} = (\text{\$investment balance} \times \text{IRR} \times \text{RL} \times \text{NR}\%)$$

The results of the production net removal calculations are shown in Tab 7. The calculation of production net removal is in Tab 7, column AE of MS Excel spreadsheet "Staff's 1<sup>st</sup> Request Tab 7 and 9.xlsx" provided to staff on May 30<sup>th</sup>, 2013. Using Plant Crist Common, Account 311, as an example, net removal is calculated as follows:

$$\text{Net Removal} = (\text{\$122,456,878} \times 0.25\% / \text{yr} \times 24.5\text{yrs} \times 25\%) = \text{\$1,875,121}$$

17. Please refer to Tab 8, Net Removal, page 2, Gulf's 25 percent net removal for steam production and to Tab 4, page 3, Column B, Net Removal. Please explain how a 25 percent net removal becomes the net removal percentages of 0 to 6.4 for the different steam production sites. Please include a calculation example in your response, showing formula(s).

**ANSWER:**

The 25 percent net removal of tab 8 becomes less than that for the plant sites on Tab 4 because production net removal was determined from and applied to only interim retirements, not the entire investment balance. Accordingly, net removal at a site level will be less than 25 percent. Refer to Gulf's response to Item No. 16 for the calculation.

The production net removal as a percent of investment balance at a unit varies by account because different IRR are used for the accounts. The net removal varies by unit because of differences in the account investment mix among the units.

18. According to Tab 7, the following accounts show negative accumulated depreciation (reserve). For each of the accounts, please explain the reason(s) and provide Gulf's proposal for eliminating the negative reserve, and include a discussion on whether capital recovery schedules would be an appropriate solution.

Plant Smith CT

Account 346 (Misc. Power Equipment): (\$7,302)

Plant Smith CC

Account 342 (Fuel Holders): (\$532,194)

Account 343 (Prime Movers): (\$8,563,463)

Account 346 (Misc. Power Plant Equipment): (\$852,368)

**ANSWER:**

The negative reserve balance in FERC 346 for the Smith CT was created when a project to upgrade the turbine controls in 2010 incurred a large cost of removal of \$14,602. The depreciation rate proposed in the study is expected to recover the 346 investment by the end of its average remaining life.

The negative reserve balance in FERC 342 for the Smith CC was projected for year-end 2013 because of large interim retirements related to a planned outage in 2013. These retirements, totaling \$1.5 million, will cause a negative balance in the reserve. The depreciation rate proposed in the study is expected to recover the 342 investment by the end of its average remaining life.

The negative reserve balance in FERC 343 and FERC 346 for the Smith CC is the result of several large interim retirements associated with forced outage events during the 2005 to 2010 time frame. The issues leading to the forced outages were identified and addressed with GE. In addition, the retirements associated with a large planned outage in 2013 also contributed to the negative reserve. The depreciation rate proposed in the study is expected to recover all 343 and 346 investment by the end of its average remaining life.

Gulf does not consider capital recovery schedules as an appropriate solution to negative reserves. In order to be consistent with the practice utilized in past depreciation studies, the original cost of an asset retired, using the Group Accounting Concept, would be charged against the accumulated provision for depreciation without regard to whether the item is retired early, at the estimated average service life, or beyond the average. Any variances (surplus or deficiency) which may be created as a result of the retirement will be allocated

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over the remaining life of the assets still in-service. Group accounting enables utilities to efficiently maintain depreciation accounting records in a cost-effective manner. If capital recovery schedules are used for property nearing retirement and amortized, the efficiencies gained by using group depreciation diminish. Further, this practice can result in distortion of not only the average service life, but also the group's depreciation rate. As a result, Gulf recommends continued use of the remaining life of each depreciable category as the appropriate recovery period for items retired earlier than the average service life of the group.

19. The December 31, 2013 plant balances for the five-year amortization for Plants Scholz and Smith in Tab 5 are different from the plant balances in Tabs 7 and 10. Which Tab(s) contain the correct plant balances?

**ANSWER:**

All tabs are correct. Tab 5 combines Base Coal and 5 year amortizable property together. See below.

<u>Plant in Service</u> <u>Budget YE 2013</u>	<u>Tab 5</u>	<u>Tab 7</u>	<u>Tab 10</u>
<u>Scholz</u>			
5 year Amort	\$ 80,030	\$ 8,730	\$ 8,730
Base Coal		71,300	71,300
Total	<u>\$ 80,030</u>	<u>\$ 80,030</u>	<u>\$ 80,030</u>
<u>Smith</u>			
5 year Amort	\$ 137,826	\$ 29,526	\$ 29,526
Base Coal		108,300	108,300
Total	<u>\$ 137,826</u>	<u>\$ 137,826</u>	<u>\$ 137,826</u>

20. Referring to Tab 7, Crist Plant Easements show \$0 of plant and an accumulated provision for depreciation of \$420. On a more detailed basis, Tab 10 shows that during 2012 a negative addition of \$5,103 brought the plant balance to \$0 by the end of 2012. Tab 11 shows that \$72 in depreciation expense added to \$348 in accumulated depreciation brought the balance to \$420 at the end of 2012. Please explain the negative addition, address why it resulted in a positive balance for accumulated depreciation, and explain Gulf's proposal for addressing the positive balance in accumulated depreciation.

**ANSWER:**

The negative addition was a result of a journal entry crediting the dollars from investment in easements to FERC 307 indirect charges. It was determined that the investment in easements should have been indirect charges to FERC 307. Subsequently, these charges in 307 were booked to the correct retirement units when the work order was unitized and posted to the continuing property record (CPR). When the investment in easements was cleared to zero in May 2012, the depreciation stopped.

The reserve balance of \$420 was cleared in March 2013, and the balance is now zero.

21. For the following sites and accounts (as shown in Tab 7), please explain why there is \$0 investment. If the investment was omitted in error, please provide any applicable replacement pages.

Plant Daniel #1-4 Common – Account 314 (Turbogenerator Units)  
Plant Pace CT – Accounts 341 (Structures and Improvements) and 342 (Fuel Holders)  
Perdido Landfill Plant – Account 344 (Generators)

**ANSWER:**

Plant Daniel #1-4 Common – Account 314 (Turbogenerator Units) - Gulf Power only has ownership in Daniel Units 1 & 2. Daniel Units 3 & 4 are physically separate from Daniel Units 1 & 2 and are owned solely by Mississippi Power. There is no common Turbogenerator equipment shared between Daniel Units 1-4.

Plant Pace CT – Accounts 341 (Structures and Improvements) and 342 (Fuel Holders). There is \$0 investment in 342 because the customer has fuel responsibility. Account 341 has \$0 investment because this facility is located on the customer's site, and the value of the building is spread across the value of the combustion turbines.

Perdido Landfill Plant – Account 344 (Generators) - the investment associated with the generators is included in FERC 343 Prime Movers.

22. Please refer to the Production Tab in Volume 2 of the depreciation study. Please explain what the column heading "An Alternate Theo Res" means and how it is calculated.

**ANSWER:**

The theoretical reserve for the study was calculated using the average remaining life and the average service life, as in the last study.

The theoretical reserve calculated in Volume 2 was for internal information only. It was not used as part of the study. It is an alternative calculation of theoretical reserve that is the same as the above described typical standard calculation except for the calculations are made on a vintage basis, rather than using the average lives. The results of either method are approximately the same.



Transmission and Distribution

23. Please refer to page 7 of Tab 7 Parameter Schedules of the Depreciation Study for the following questions pertaining to Account 370:
- a. Please provide detailed explanation on the differences and relationships among the following accounts. Please also specify what types of meters are included in each account, when and why that account was established.
    - i. 370 Meters,
    - ii. 370.1 Meters-AMI,
    - iii. 370.1 Meters-FPSC Segregated, and
    - iv. 370.1 Meters-Non FPSC-Segregated.
  - b. Please explain why sub-account Meters-FPSC Segregated is fully depreciated while sub-account Meters-Non FPSC-Segregated is over depreciated. Please specify how Gulf will treat the amount of \$346,201 over depreciation.
  - c. In Order No. PSC-10-0458-PAA-EI, second paragraph on page 5, in Docket No. 090319-EI, the Commission ordered that the amount of net investments of \$9,650,700 associated with a near-term retirement of \$4,352,459 be placed in a separate category and amortized over 4 years. (The amortization period was changed from 4 to 8 years in Order No. PSC-12-0179-FOF-EI) Please identify which of the three sub-accounts discussed in 1a is the "separate category" established per the order. For the sub-account identified, please also reconcile its plant balance and reserve with the amounts of investment and reserve stated in the Commission order.
  - d. Does Gulf have Automatic Meter Reading (AMR) meters? If affirmative, which account discussed in 1a contains the AMR meters.
  - e. Does Gulf still have manually read meters? If affirmative, which account discussed in 1a contains these meters?
  - f. According to page 106 of Gulf's response to Staff's Report in Docket No. 090319-EI, Gulf started to deploy the Advanced Metering Infrastructure equipment (AMI) meters in 2012. According to Tabs 10 and 11, Gulf established the sub-account 370.1 AMI in 2012. Order No. PSC-12-0179-FOF-EI approved that the service life of AMI is 15 years, which has been confirmed by Gulf in this study (Tab 6, page 34). Please explain why Gulf needed to retired the amounts of \$1,079,937 of AMI in 2012 and \$500,000 in 2013, respectively, just after the AMI meters were placed in service for less than three years.

**ANSWER:**

- a.
  - i. **370 Meters –**  
This group represents the costs of metering equipment such as enclosures and sockets, excluding AMI metering and the obsolete meters being retired. It also includes approximately 200 commercial meters that are not AMI.
  - ii. **370.1 Meters-AMI –**  
This group represents AMI meters and associated equipment.
  - iii. **370.1 Meters-FPSC Segregated –**  
This group represents meter investment transferred in order to properly segregate non-AMI meters into a separate depreciation group, as required in FPSC Order No. PSC-10-0458-PAA-EI.
  - iv. **370.1 Meters-Non FPSC-Segregated –**  
This group represents the remaining obsolete meters to be retired.
- b. In Order No. PSC-10-0458-PAA-EI, the Commission ordered that the net investment of the near-term retiring meters be fully recovered by corrective reserve transfers from other quantified reserve imbalances. The reserve transfer properly resulted in a fully depreciated group.

The non-segregated amount represents those remaining near-term retiring meters addressed by the FPSC in Order No. PSC-12-0179-FOF-EI. The order directed that the unrecovered amount of \$7M be transferred to a regulatory asset and amortized over an eight year period. Retirements, cost of removal and salvage continue to be posted; however, depreciation expense is no longer booked to this account. This account is not over depreciated, however there is a small debit reserve balance. This debit balance is the result of the removal and salvage activity. Gulf proposes to transfer the residual reserve balance to the 370 Meter account upon completion of the removal and retirement of the obsolete meters.

- c. Per Order No. PSC-10-0458-PSS-EI, Page 5 "Conclusion" – "The annual expense impact over the 4-year period covered by the recovery schedules shall be zero dollars due to the approved reserve allocations discussed herein." Subsequently, on Page 6 "Reserve Allocations" – "Therefore, we find that the corrective reserve allocations shown in Attachment B, appended hereto, are appropriate to correct the quantified reserve imbalances". Therefore, a corrective

reserve transfer for \$9.6M from other quantified reserve imbalances was booked to the 370 Meter group, and no capital recovery schedule was required.

- d. Yes, the AMI (Advanced Metering Infrastructure) meters perform automatic meter reading. These are included in the 370 – Meters-AMI account.
- e. Yes, in account 370 – Meters.
- f. These retirements were incorrectly applied to the AMI meters and should have been applied to the Non-AMI meters that were retired as a part of the AMI implementation.

24. Please refer to Tab 8 Net Removal Cost Study, page 6, Account 353 Station Equipment. Please explain:
- a. What has caused the large removal cost recorded in 2012?
  - b. The significant decrease of salvage annually for the period 2010 through 2012.

**ANSWER:**

- a. The large removal cost recorded in 2012 was primarily a result of two major substation projects. The removal of equipment from the Laguna/Highland City project resulted in removal costs of approximately \$483,000, and the removal of equipment from the Crist Filtered CapBank project resulted in removal costs of approximately \$139,000.
- b. During 2010-2012, Gulf began a program to remove retired equipment from various substation locations throughout its service area. A contractor was hired to remove and sell this equipment on behalf of Gulf. In many cases, the cost to dismantle and remove certain equipment exceeded the realized salvage value of the equipment. The result was a significant net decrease in salvage from 2010-2012.

25. Referring to Tab 8, page 7, Account 354 Towers:
- a. Please explain the major causes for transmission tower retirements for this account.
  - b. Please explain the reasons of the very large removal costs, which were greater than 700%, incurred in 2009 and 2010.

**ANSWER:**

- a. The major causes for transmission tower retirements were primarily replacements of deteriorated in-service towers and retirements of emergency spare stock units. In 2012, Gulf began a program to review certain transmission emergency spare stock locations throughout its service area. As part of this review obsolete towers were removed from spare stock and retired, increasing the retirements in this account.
- b. The reasons for the very large removal costs incurred during 2009 and 2010 were primarily related to 4 specific projects. During 2009, Gulf incurred removal costs of approximately \$96,000 to replace deteriorated log wood foundations on guyed "Y" configurations throughout its service area. During 2010, Brentwood 230kV and 115kV transformer autobank replacement incurred removal costs of approximately \$13,000; Rat Pond Tap incurred removal costs of \$83,000, and Brentwood Pine Forest 115kV Reconductor removal costs totaled approximately \$44,000.

26. Please refer to Tab 8, page 8, Account 355 Poles:
- a. What portion of the poles in this account are steel, concrete and wood at the end of 2011 and 2012, respectively?
  - b. Please explain the major causes for transmission pole retirements.
  - c. Does Gulf have a transmission pole treatment program? If affirmative, please explain.
  - d. Please explain Gulf's transmission pole inspection program including what the program entails.
  - e. Please explain how Gulf disposes of its transmission poles.
  - f. Please explain the reasons of the large increase in removal costs incurred in 2010 and 2012, which were greater than 550% and 440%, respectively
  - g. What are the causes of the very large retirements in 2012? (\$3.2 million in 2012 versus \$0.3 million in 2011, \$0.4 million in 2010, and \$0.6 million in 2009)?
  - h. Please explain how the 50% Cost of Removal Rate was calculated for this account. Please provide work paper to support your response.

ANSWER:

- a.
- |          | <u>2011</u> | <u>2012</u> |
|----------|-------------|-------------|
| Concrete | 30%         | 28%         |
| Wood     | 70%         | 72%         |
- b. The major causes for transmission pole retirement are related to pole deterioration and upgrades due to line rebuilds.
- c. Gulf has a transmission pole treatment program whereby ground line treatment, drilling and associated treatment tablets are placed in poles.
- d. Gulf's transmission structure inspection program is based on 2 alternating 12 year cycles, which results in a structure being inspected every 6 years. See attached exhibit from Gulf Power Storm Hardening Plan 2013-2015, section 2.3, page 9.
- e. Gulf disposes of transmission wood poles by cutting them up and disposing in a construction and demolition dumpster, as there is no value in deteriorated wood poles. The concrete and steel poles are reused or sold for scrap value.
- f. The reasons for the large increase in 2010 were to replace poles, arms, and critical structures at various locations throughout Gulf's service area with removal

costs of approximately \$1,425,000. Additionally, the reconductor projects of Brentwood to Pine Forest line incurred removal costs of approximately \$500,000, Crist to Barry incurred removal costs of approximately \$109,000 and Pine Forest and Pine Forest to Molino incurred removal costs of approximately \$142,460. Furthermore, in 2010, the autobank associated with the Brentwood project incurred removal costs of approximately \$74,000. The reasons for the large increase in 2012 were to replace poles, anchor guys, and insulators at various locations throughout Gulf's service area with removal costs of approximately \$1,514,000. Additionally, the reconductor projects of Smith – Laguna 115kV incurred removal costs of approximately \$930,000 and Marianna to Alford 115kV incurred removal costs of approximately \$1,716,000.

- g. The reasons for the large increase in retirements in 2012 were to retire poles and critical structures at various locations throughout Gulf's service area with retirement costs of approximately \$1,491,000. Additionally, the retirement of conductor associated with the Molino to Pine Forest 115kV line resulted in a retirement of approximately \$1,863,000.
- h. The 50 percent COR for Poles was generally developed based on the analysis of Gulf historical data. Please refer to Tab 8, page 8 for the workpaper. In the prior study, the Poles COR was concluded to be 40 percent. While the specific historical COR indications of 90-100 percent are greater than the concluded 50 percent, those indications are at the high side of the typical industry range.

27. Please refer to Tab 8, page 9, Account 356 Overhead Conductors:
- a. Please explain the reason for the large removal costs recorded in 2011.
  - b. Please explain the cause of the large retirements recorded in 2012.

**ANSWER:**

- a. The reason for the large removal costs recorded in 2011 was primarily conductor removal and replacement of the Sinai Cemetary – Callaway 115kV line, which incurred removal costs of approximately \$488,000. The remaining removal costs are associated with various smaller overhead conductor projects at various locations throughout Gulf's service area.
- b. During 2012, Gulf compared in service overhead conductor to property records. The result of this review necessitated retirements of overhead conductor primarily from 4 locations; Crist Plant to Wright Substation, Brentwood to Silverhill Substation, Crist Plant to Barry Plant, and Smith Plant to Shoal River Substation at a retirement amount of approximately \$945,000. Additionally, the retirement of conductor associated with the reconductor of Molino to Pine Forest 115kV line resulted in a retirement of approximately \$800,000.



28. Referring to Tab 8, page 10, Account 358 Underground Conductors, please explain why there is cost of removal recorded in 2012 while the corresponding retirement is zero.

**ANSWER:**

The reason for the cost of removal recorded in 2012 while the corresponding retirement is zero is because the project, Choctaw Submerged Cable 115kV project, is currently classified as Construction Work in Progress. Florida Public Service Commission Rule 25-6.0142 states "the retirement entry shall be recorded no later than two months following the transfer of expenditures from Construction Work in Progress to Electric Plant in Service." Once this project is transferred to Electric Plant in Service, the corresponding retirement will be recorded in accordance with the Commission Rule 25-6.0142.

29. Please refer to Tab 8, page 13, Account 364 Poles:
- a. What portion of the poles in this account are steel, concrete and wood at the end of 2011 and 2012, respectively?
  - b. Please explain the major causes for distribution pole retirements for this account.
  - c. Please explain how Gulf disposes of its distribution poles.
  - d. Are distribution poles expected to live as long as transmission poles? Please explain why or why not.
  - e. Please explain the nature and cause of the negative salvage recorded in 2012.
  - f. Does Gulf have a distribution pole treatment program? If affirmative, please explain.
  - g. Please explain Gulf's distribution pole inspection program including what the program entails.
  - h. What is the "write off of retirement?" Please elaborate on the statement that "[t]he write off of retirements in 2012 have been spread to all years of the analysis and has the effect of decreasing net removal."
  - i. Please explain how the 80% Cost of Removal Rate was calculated for this account. Please provide work paper to support your response.
  - j. Please explain how the 80% Cost of Removal Rate was calculated for this account. Please provide work paper to support your response.
  - k. Please explain the nature and cause of the negative amount of \$19,824 salvage recorded for 2012.

**ANSWER:**

- a.
- |          | <u>2011</u> | <u>2012</u> |
|----------|-------------|-------------|
| Concrete | 0%          | 6%          |
| Wood     | 100%        | 94%         |
- b. Distribution pole retirements in 2012 were due to a life cycle replacement of rotten and damaged poles.
- c. Gulf disposes of distribution poles by discarding them in a construction & demolition landfill.
- d. Distribution poles do not last as long as transmission poles. Distribution poles are exposed to more corrosive elements, and transmission poles are designed for more extreme wind loading.

- e. The negative salvage recorded in account 364 was a result of salvage entry corrections from accounting treatment of returned reclosers. Prior to the Smart Grid Investment Grant, vintage reclosers were returned to inventory through a credit to salvage on a Distribution work order. Gulf determined the vintage reclosers were obsolete and ceased this practice. The credit salvage was a result of reversing prior vintage recloser salvage entries.
- f. Yes. Gulf has a distribution pole treatment program as stated in Gulf Power's Reliability and Storm Hardening Initiatives, section 3.0 - wood poles. See Attachment A.
- g. For Gulf's distribution pole inspection program see Attachment A.
- h. A physical count conducted in Gulf's pole inspection program showed a variance with Gulf's roll forward ledger, a summarization of mass property. This variance was not identifiable to any specific year, so for study purposes the assumption was that the additional retirements would be spread over the span of the study. The increased retirement levels, retirements being the denominator for the COR rate calculation, lower the overall COR rate.
- i. The 80 percent COR for Poles was generally developed based on the analysis of Gulf historical data. Please refer to Tab 8, page 13 for the workpaper. In the prior study the Poles COR was concluded to be 85 percent. A general effect of 2012 Pole write offs was to reduce COR as a percent of retirements. On that basis, all things equal, it was reasonable to reduce COR from the prior study's conclusion, though it was actually an increase from the write off-adjusted results of the prior study. While the specific historical COR indications of 90-100 percent are greater than the concluded 80 percent, those indications are at the high side of the typical industry range.
- j. See answer to Item No. 29(i).
- k. See answer to Item No. 29(e).

30. Please refer to Tab 8, page 14, Account 365 Overhead Conductors:
- a. What is a "recloser activity?"
  - b. Please provide details of the "recloser activity of 2009-2012." Why it was deemed to be abnormal?
  - c. Please explain the reasons of the large removal costs recorded in 2009 and 2010.

**ANSWER:**

- a. For the period 2009-2012, Gulf received a 50/50 match Smart Grid Investment Grant (Grant) from the Department of Energy (DOE). Part of this grant was to change out older technology to newer smart grid technology. This program allowed the replacement of a substantial number of reclosers.
- b. Gulf Power and Southern Company received a 50:50 matching Grant from the DOE for the integration of crosscutting systems. One of the programs implemented under the Grant was associated with Distribution Automation, which focused on accelerating Gulf Power's installation of Microprocessor based smart Mid-Line Reclosers and replacement of vintage hydraulic reclosers. The recloser program, originally scheduled as a 14 year program, was accelerated as a result of the Grant which reduced this program by 4 years and was deemed abnormal because of this accelerated activity.
- c. The reasons for the large removal costs during the 2009 and 2010 period were related to replacing the reclosers under the Grant mentioned above.

31. The following questions pertain to the transmission and distribution conductors accounts, 356 (page 9), 358 (page 10), 365 (page 14), and 367 (page 16) of Tab 8.
- a. Please explain the cause of retirement of conductors in each account.
  - b. Please explain any environmental impacts on the life expectancy of conductors in each account.
  - c. Please explain how retired overhead conductors are disposed.
  - d. Please explain how retired underground conductors are disposed.
  - e. Is underground cable abandoned in place or cut and sealed?
  - f. Are direct buried underground conductors abandoned in place when retired or are they physically removed?
  - g. Please provide a percentage breakdown of the kinds of conductors in each account.

**ANSWER:**

- a. The cause of retirement conductors in FERCs 356, 358, 365 and 367 were due to reconductor projects, distribution and transmission infrastructure projects and natural causes such as; lighting strikes, windblown debris and corrosion due to proximity to the coast.
- b. Conductors on the coast have a shorter life expectancy than inland conductors due to salt water erosion and more lighting strikes.
- c. Retired overhead conductors are disposed by placing into a scrap metal dumpster. Any salvage received is credited to the appropriate FERC accounts.
- d. Removed and retired underground conductors are disposed by placing into a scrap metal dumpster. Any salvage received is credited to the appropriate FERC accounts.
- e. Direct buried underground cables are retired in place. Conductor placed in conduit is physically removed.
- f. Direct buried underground conductors are retired in place.

g.

<u>2012</u>	<u>356</u>	<u>358</u>	<u>365</u>	<u>367</u>
Copper, Bare			10%	
Copper, Covered			1%	
Aluminum, Bare			70%	
Aluminum, Duplex			2%	
Triplex			15%	
Quadruplex			2%	
1/0 & Below				96%
350 MCM				1%
500MCM				3%
Single Conductor	73%			
SSAC, Single Conductor	27%			

There was no activity in FERC account 358 in 2012.

32. The following questions refer to page 15 of Tab 8, Accounts 366 Distribution conduit:
- a. Please explain the causes for the retirement of distribution underground conduit.
  - b. Is conduit expected to experience a longer life than conductor? Please explain.
  - c. When conduit is retired, is it cut and sealed, abandoned in place, or physically removed?

**ANSWER:**

- a. The cause for retirements of an underground conductor can be a damaged conductor or relocated conductor.
- b. Yes. Conduit is considered a structure, and a conductor is affected by electric currents and loading, which would affect its useful life.
- c. When conduit is retired, it is either abandoned in place or removed.

33. The following questions refer to Tab 8, page 17, Account 368 Line Transformers:
- a. Please explain the major causes for the retirement of line transformers.
  - b. Does Gulf have a replacement program for line transformers? If affirmative, please explain the program.
  - c. Please explain the reason of the large removal cost recorded in 2010.

**ANSWER:**

- a. Deterioration due to corrosive environment, damages by public, and other natural causes such as lightning strikes, wind, and load changes are the major causes for retirements of transformers.
- b. Yes. Gulf conducts routine line transformer inspections. As a result of Gulf's proximity to the Gulf Coast, the salt air environment causes rust to compromise transformer casings and cabinets. Gulf will either clean and repaint the unit in place or replace rusted units on an as needed basis. Depending upon location, Gulf may elect to use stainless steel transformers to prolong service life.
- c. Gulf's large removal reported in 2010 was a result of removing transformers from the field that were not serving load.



34. The following questions refer to Tab 8, page 20, Account 370 Meters:
- a. Please describe the types of meters which Gulf installs on its system for its different customer classes and how such meters may differ functionally from meters installed in 2009.
  - b. Please provide a percentage breakdown of the types of meters in Account 370.
  - c. What are the criteria Gulf uses to retire its customer meters?
  - d. How does Gulf dispose of the retired meters?
  - e. Are meters refurbished as new meters? If affirmative, what is the accounting treatment for the costs of refurbishment?
  - f. Are meters accounted for as cradle-to-grave? If negative, please explain why not.
  - g. In its response to Staff's Report in Docket No. 090319-EI, Gulf indicated that it planned to deploy Advanced Metering Infrastructure (AMI) in 2010. Does Gulf plan to deploy more AMI across its territory in the next five years? If affirmative, please provide details.
  - h. What expected life has Gulf assumed for the AMI? Please explain the basis and support for the assumed life.
  - i. If Gulf assumes different expected lives for AMI and traditional meters, please explain specifically how different lives of different types of meters were blended for a composite life for the meters category.

**ANSWER:**

- a. Gulf currently installs electronic AMI meters for all single phase and three phase customers in all classifications; residential, commercial, and industrial. There are some exceptions to this with very large industrial customers require specialized meters and communication. During 2009 Gulf was early in the deployment of the AMI project and during this time non-AMI meters were still being installed in some areas of the Company. The functionality of the meters has not changed since 2009 in relation to what and how the meters measure and display energy usage; what has changed is that an AMI communication device was added for transmission of the readings.

- b. Meter 370
- |             |      |
|-------------|------|
| One Phase   | 6.6% |
| Three Phase | 5.1% |
- Meter – AMI
- |             |       |
|-------------|-------|
| One Phase   | 62.3% |
| Three Phase | 26.0% |

- c. Gulf retires meters based on several criteria: obsolete equipment that no longer meets the needs of our customers, damaged equipment, and equipment that fails required testing standards.
- d. Gulf disposes of retired meters through a recycle program for scrap material.
- e. Gulf does refurbish (clean and re-certify) meters. These costs are expensed in the Operation and Maintenance budget.
- f. Yes. Gulf does account for meters from cradle-to-grave.
- g. Gulf began the deployment of AMI meters across the system in 2008 and completed the initial deployment in early 2013. Gulf will continue to use AMI meters for new installations over the next 5 years associated with customer growth and normal maintenance of the system.
- h. The ASL of 15 years was approved for AMI in Commission Order No. PSC-12-0179-FOF-EI, Docket 110138-EI. This life is shorter than a life for traditional meters because AMI is relatively new without life experience and subject to more possible obsolescence than the traditional electro-mechanical meters. Also, while repairs could sometimes be made to older electro-mechanical meters, extending life, that will not be the case for the digital or electronic AMI. A shorter life for AMI is consistent with the lives the industry uses for AMI.
- i. Gulf did not blend different meter lives of different meter types for a composite life. Meters, traditional and AMI, were combined on page 20 of Tab 8 to develop a Net Removal percent.

35. The following questions refer to Tab 8, page 21, Account 373, Street Lighting:
- a. Please explain the major causes for the retirement of street lights.
  - b. Please identify the different kinds of street lights recorded in Account 373.
  - c. Are there any technology changes on the horizon that may affect the life of Account 373? If affirmative, please explain the technology and how it may impact the expected life of the account.
  - d. Have there been any changes to Gulf's retirement policy for this account?
  - e. Please explain the reason of the large removal cost recorded in 2012.

**ANSWER:**

- a. Street lights are retired when repair requires more than small component replacement, i.e., ballast fixture. Routine repairs are lamps, photocells, starters and capacitors. Street light poles are retired when replacement is needed. Also, retirements are necessary when a customer no longer desires lighting service or changes to a different type or size of light.
- b. "Street lights" – FERC 373 – includes all of street and area lighting including roadway, directional flood lights, and private and yard lighting. Also, included in 373 are poles, wire, and hardware for lighting use only.
- c. New technology lighting, specifically LED, has improved the lifecycle.
- d. No.
- e. Several factors explain the higher cost of removal in 2012:
  - More customers are converting to LED, fixtures which is requiring removal of existing fixtures;
  - One fairly large project converting to metal halide fixtures requiring removal of existing fixtures; and
  - One municipal customer converting to LED as well as removing overhead facilities and installing underground facilities.

36. Following questions pertain to the potential Capital Recovery Schedules:
- a. Please identify major upgrades, if any, that Gulf has planned for any generating unit at each of Gulf's plant during the next four years.
  - b. Please identify the total, as well as individual, investments and associated reserves that will retire in connection with each of the planned upgrades. Please explain what each identified upgrade will entail.
  - c. Please explain and provide any available work papers showing the development of the reserve associated with the retiring investments at each site.
  - d. Please identify any gross salvage or cost of removal expected from each of the retirements.
  - e. Please identify meter investments that will retire over the 2014-2017 period in connection with the Gulf's AMI program.
  - f. Please identify the reserve associated with the retiring meter investments discussed above. Please also provide the work papers showing the development of the reserve.
  - g. Please provide the estimated net salvage expected from the retirement of these meters discussed above so they can be included with net unrecovered costs to amortize.

**ANSWER:**

- a. See response to item 7.
- b. See response to item 7.
- c. There are no work papers.
- d. Cost of removal is included in response to item 7. Gulf does not estimate salvage in the budget process.
- e. Gulf's AMI program is complete and will drive no additional retirements after 2013.
- f. Retirements, cost of removal, and salvage will continue to be recorded in 2013. Gulf proposes to transfer the residual reserve balance to the 370 Meter Account in early 2014.
- g. Please see Gulf's response to Item Nos. 36(e) and 36(f) above.

37. Please refer to Tab 10, Plant Investment Activity - 2009 to 2013, for the following questions.
- a. Referring to Sheet 2 of December 2013 Budget, please provide explanations for the following: (i) why was the plant addition of Account 355 increased more than 260% in 2013, compared with the addition in the other years during period 2009-2013 (see Sheet 2 of Budget of 2012, 2011 2010, and 2009). (ii) Why was plant addition of Account 356 increased more than 340% in 2013, compared with other years in the same period.
  - b. Referring to Sheet 3 of December 2013 Budget, please provide explanations for the following: (i) why did Gulf transfer \$11,287,000 from sub-account Meters into sub-account Meters-AMI Equipment. (ii) Why was the retirement of Account 373 increased more than 244% in 2013, compared with other years in the same period.
  - c. Referring to Sheet 2 of December 2012 Budget, (i) please explain the reason and cause of the adjustments recorded in accounts: 350.0, 350.2, 353, 354, 355, and 356. Please also identify the source account(s) from which the investment was transferred for each activity. (ii) Please explain why the retirement of Account 354 was increased more than 495% in 2012, compared with the retirement rate in the other years during period 2009-2013. (iii) Please explain why the retirement of Account 355 was increased more than 892% in 2012, compared with the other years in the same period.
  - d. Referring to Sheet 3 of December 2012 Budget, please explain the reason and cause of the adjustments recorded in the following accounts: 360.0, 362, 364, 365, and 368. Please also explain why Gulf adjusted negative amount of \$34,299,000 to sub-account Meters and positive amount of \$34,299,000 to sub-account Meter-AMI Equipment.
  - e. Referring to Sheet 2 of December 2011 Budget, please explain the reason and cause of the transfer recorded in 353. Please also identify the source account(s) from which the investment was transferred for this activity.
  - f. Referring to Sheet 3 of December 2011 Budget, please explain the reason and cause of the transfers recorded in the following accounts: 361, 362, 364, 365, 367, 368, and 373. Please also identify the source account(s) from which the investment was transferred for each activity.
  - g. Referring to Sheet 2 of December 2010 Budget: (i) please explain the reason and cause of the transfer recorded in accounts: 350.0, 350.2, 352, 353, 354, and 355; and identify the source account(s) from which the investment was transferred for each of these activities. (ii) Please explain the reason and cause of the adjustment recorded in account 350.0.

- h. Referring to Sheet 3 of December 2010 Budget: (i) please explain the reason and cause of the transfer recorded in the following accounts: 362, 365, 367, and 368; and identify the source account(s) from which the investment was transferred for each activity. (ii) Please explain the reason and cause of the adjustment recorded in account 360.0. (iii) Please explain why Gulf transferred an amount of \$21,673,392 from sub-account Meters and credited a portion of it, which was \$12,176,660, into sub-account Meters-FPSC-Segregated, and credited the rest, which was \$9,496,732, into sub-account-Meters-Non FPSC Segregated.
- i. Referring to Sheet 2 of December 2009 Budget: (i) please explain the reason and cause of the transfer recorded in the following accounts: 350.0, 352, 353, 354, 355, and 356; and identify the source account(s) from which the investment was transferred for each of these activities. (ii) Please also explain the reason and cause of the adjustment recorded in account 350.02.
- j. Referring to Sheet 3 of December 2009 Budget: (i) please explain the reason and cause of the transfer recorded in the following accounts: 362, 365, 367 and 368; and identify the source account(s) from which the investment was transferred for each of these activities. (ii) Please explain the reason and cause of the adjustment recorded in accounts 360.0 and 368.
- k. Account 353 has experienced growth of about 47% during 2009-2013 period. Please explain what caused the growth.
- l. Account 355 has experienced growth of about 67% during 2009-2013 period. Please explain what caused the growth.
- m. Account 356 has experienced growth of about 73% during 2009-2013 period. Please explain what caused the growth.
- n. Account 362 has experienced growth of about 51% during 2009-2013 period. Please explain what caused the growth.
- o. Account 359 has experienced growth of about 284% during 2009-2013 period. Please explain what caused the growth.

**ANSWER:**

- a. The majority of plant additions in accounts 355 & 356 increased in 2013 due to multiple transmission line reconductor rebuilds. Holmes Creek - Highland 230kV, Holmes Creek - Slocomb 115kV, N Brewton - Alligator Swamp 230kV, Crist-Air Products 115kV Rebuild, Marianna-Alford 115kV Reconductor, Ponce de Leon and Caryville conversion to 115kV and other transmission line infrastructure projects accounted for approximately \$50,000,000 of the increase. It is not

appropriate to compare transmission additions by year as each project is independent and only completed when required.

- b. (i) This equipment is the meter accessories related to Gulf's "Energy Select" program. The equipment is very similar to AMI meters since both communicate via radio frequency. \$11,287,000 represents the amount of investment related to the meter accessories. Gulf believes the useful life of these meter accessories is 15 years based on Gulf's historical experience.
- (ii) Gulf was expecting higher retirements of street lighting due to the improved technology and efficiency of LED lighting. As of June 30, 2013, Gulf has not experienced this increase and does not expect the increase to occur until at least 2014.
- c. (i) The reason for the adjustment for FERC 350 was the result of the sale of .75 acres of land on the East Crestview Tap 115kV line and a correction of easements which were incorrectly classified as fee simple land in FERC 350.2.

The reason for the adjustment for FERC 350.2 was to correct easements that were incorrectly classified as fee simple land in FERC 350.0.

The amounts listed as adjustments for 2012 for FERC accounts 353, 354, 355, and 356 should have been listed as transfers. The transfers in these accounts were all routine transfers occurring in the normal course of business. The reason and cause for these transfers is described below.

Gulf utilizes two work order processes in its capitalization program: Distribution System Orders (DSO) for Distribution capital work and General Work Orders (GWO) for Transmission capital work. DSOs are capitalized as mass property in a single company-wide location, while GWOs are location property with specific location identifiers in the property system. Because GWOs are location specific, each location has its unique Continuing Property Record (CPR). Within the CPR will be all the property units contained at that particular location.

Plant transfers account for the physical movement of Retirement Unit property between locations. These plant transfers are transfers between:

- transmission substations
- transmission and distribution substations

- transmission substations and transmission emergency spare stock (inactive service)
- transmission substations and general plant
- FERC account corrections for distribution mass property

To a much lesser degree, another cause for plant transfers are work order corrections before the unitization process whereby either an incorrect FERC account was used on a work order, or an interim retirement unit code was used until an allocation to the primary retirement unit code was completed before unitization.

Additionally, a transfer in the amount of \$2,329 resulted from the transfer of a transmission pole in FERC 355 to 397, as this pole is used solely for communication equipment.

- (ii) The major causes for transmission tower retirements in account 354 were primarily replacements of deteriorated in service towers and retirements of emergency spare stock units. In 2012, Gulf began a program to review certain transmission emergency spare stock locations throughout its service area. As part of this review obsolete towers were removed from spare stock and retired increasing the retirements in this account.
  - (iii) The cause of the large increases of retirements in account 355 are due to an increase in 2012 in reconductor projects such as the Molino-Pine Forest 115kV Reconductor, which resulted in \$1,863,000 of retirements in 2012. The remaining retirements were normal transmission line infrastructure retirements.
- d. The reason for the adjustment in FERC 360 is to account for the sale of a substation to a wholesale customer.

The amounts listed as adjustments for 2012 for FERC accounts 362, 364, 365, and 368 should have been listed as transfers. The majority of the transfers in these accounts were all routine transfers occurring in the normal course of business. The reason and cause for these transfers is described in the answer to c(i) above.

In addition, Gulf transferred \$1,693,302 of switches from FERC accounts 368 to 365. This transfer was to reclassify switches that were physically moved from regulator bypass switches in FERC 368 to routing equipment recloser bypass switches in FERC 365. Also, Gulf reclassifies ground rods each year from overhead to underground in an annual transfer. When these commodities are set



up in stores, they are aligned with FERC account 365, overhead conductors and devices. Through this annual transfer, ground rods are segregated by their actual use as overhead conductors, underground conductors, or devices. During 2012, \$1,015,528 of ground rod additions were transferred between FERC 365 & 367.

The \$34,299,000 adjustment from 370-Meters to 370-Meters-AMI Equipment represents the segregation of AMI Equipment into a separate depreciable category per Order No. PSC-12-0179-FOF-EI.

- e. The transfers in FERC account 353 were routine transfers occurring in the normal course of business. The reason and cause for these transfers is described in the answer to c(i) above.
- f. The majority of transfers in FERC accounts 361, 362, 364, 365, 367, 368, and 373 were routine transfers occurring in the normal course of business. The reason and cause for these transfers is described in the answer to c(i) above.

In addition, Gulf transferred \$538,382 of property from these FERC accounts 362, 364, 365, 367, 368 & 373 to account 390 for the creation of a lineman training facility. Lineman training facilities were constructed at Panama City and Pine Forest for the purposes of training utilitymen and apprentices in the safe and efficient operation of distribution electrical equipment. Also, \$688,680 of ground rods were transferred between FERC 365 & 367. Please see ground rod discussion provided in answer 37(d) above.

- g. (i) The reason for the transfer in FERC 350 was to transfer substation land to a non-utility account (FERC 121).

The transfer of \$286,489 from 350.2 Easements to 350.0 Land was system generated due to the correction of the depreciation group on the asset. The depreciation group is what determines what is reported by FERC on Schedules Schedule 71 (Plant in Service) and Schedule 75 (Reserve). When a depreciation group is corrected, the property accounting system generates the appropriate transfer of the asset and the reserve. In addition, the reserve booked to the land depreciation group 350.0 was corrected in the same month the transfer was made as land is non-depreciable.

The transfers in FERC accounts 352, 353, 354, and 355 were routine transfers occurring in the normal course of business. The reason and cause for these transfers is described in the answer to c(i) above.

- (ii) The reason for the adjustment recorded in FERC 350 was a reclassification of substation land to a non-utility account (FERC 121) because property was no longer needed for utility purposes.
- h. The majority of transfers in FERC accounts 362, 365, 367, and 368, were routine transfers occurring in the normal course of business. The reason and cause for these transfers is described in the answer to c(i) above.

In addition, \$810,590 of ground rods were transferred from FERC account 365 to 367. Please see ground rod discussion provided in answer d. above.

- (ii) The reason for the adjustment recorded in FERC 360 is a reclassification of substation land to a non-utility account (FERC 121), because the property was no longer needed for utility purposes.
- (iii) The meter transfers in account 370 were booked in order to properly segregate non-AMI meters into a separate depreciation group, as required in FPSC Order No. PSC-10-0458-PAA-EI.
- i. (i) The reason for the transfer in FERC 350.0 was to account for the reclassification of a substation that had been removed from service to serve as a substation training facility for the Company. This transaction also impacted FERC accounts 352 and 353. A total \$758,859 of property was transferred to FERC 390 for this facility.  

The remaining transfers in FERC accounts 352, 353, 354, 355 and 356 were routine transfers occurring in the normal course of business. The reason and cause for these transfers is described in the answer to c(i) above.
- (ii) The reason for the adjustment for FERC 350.2 was a settlement for condemnation proceedings.
- j. (i) The majority of transfers in FERC accounts 362, 365, 367, and 368, were routine transfers occurring in the normal course of business. The reason and cause for these transfers is described in the answer to c(i) above. In addition, \$747,256 of ground rods were transferred from FERC account 365 to 367. Please see ground rod discussion provided in answer d. above.
- (ii.) The reason for the adjustment recorded in FERC 360 is a reclassification of substation land to a non-utility account (FERC 121) because property was no longer needed for utility purposes. The reason for the adjustment recorded in FERC 368 is to a correct work order unitization error.

- k. The reason for the growth in additions for accounts 353, 355, 356, and 359 is due to the company's response to the 10 year planning studies that identify system constraints and overloads. For the period of 2009 to 2013, the Company has seen an increase in projects required to address these system constraints and overloads. Additionally, the Company has increased spending to replace aged and obsolete equipment that has reached the end of its useful life.
- l. See response to item 37(k). above.
- m. See response to item 37(k). above.
- n. The reason for the growth in additions for account 362 is due to increase spending to replace aged and obsolete facilities that have reached the end of their useful life.
- o. See response to item 37(k). above.

38. Please refer to Tab 11, Depreciation Reserve Activity-2009 to 2013, of the Depreciation Study for the following questions:
- a. On Sheet 2 of December 2013 Budget, Gulf recorded the amount of \$150,000 removal cost for Account 355, but recorded no retirement activity for the same account. Please provide explanation.
  - b. On Sheet 3 of December 2013 Budget, Gulf recorded \$5,595,000 transfers between accounts Meters and Meters-AMI. Please explain the reason and cause.
  - c. Referring to Sheet 2 of December 2012 Budget: (i) Gulf recorded transfers and adjustments in four accounts: 353, 354, 355, and 356. Please explain the nature and cause of these activities, and identify the source account(s) from which the reserve was transferred for each activity. (ii) Please explain why the removal cost of Account 353 was increased more than 200% while the salvage was decreased 40% in 2012, compared with the other years during period 2009-2013.
  - d. Referring to Sheet 3 of December 2012 Budget: (i) please explain the nature and cause of the transfers and adjustments in accounts: 362, 364, 365, 368, and 370, and identify the source account(s) from which the reserve was transferred for each activity. (ii) Gulf recorded \$6,031,603 transfers between accounts Meters and Meters-AMI. Please explain the reason and cause of this activity.
  - e. On Sheet 2 of December 2011 Budget, Gulf recorded transfers and adjustments in account 353. Please explain the nature and cause of this activity, and identify the source account(s) from which the reserve was transferred.
  - f. Referring to Sheet 3 of December 2011 Budget, (i) Gulf recorded transfers and adjustments in seven accounts: 361, 362, 364, 365, 367, 368, and 373. Please explain the nature and cause of these activities, and identify the source account(s) from which the reserve was transferred for each activity. (ii) Please explain the reason why there is negative amount of removal cost recorded in Account 361.
  - g. Referring to Sheet 2 of December 2010 Budget, (i) please explain why Gulf transfers \$26,501 from Accounts 350.2 into Account 350. (ii) Please explain the nature and cause of the transfers and adjustments recorded in accounts: 352, 353, 354 and 355, and identify the source account(s) from which the reserve was transferred for each activity.
  - h. Referring to Sheet 3 of December 2010 Budget, (i) Gulf recorded transfers and adjustments in accounts: 362, 365, 367, 368, 369.3, and 373. Please explain the nature and cause of these activities, and identify the source account(s) from which the reserve was transferred for each activity. (ii) Gulf recorded transfers and adjustments in accounts 370 Meters, and 370

Meters-FPSC Segregated, 370 Meters-Non-FPSC Segregated. Please explain the nature and cause of these activities, and identify the source account(s) from which the reserve was transferred for each activity. (iii) In Account 370 Meters-Non-FPSC Segregated Gulf recorded the amount of \$52,754 removal cost. Please explain why such removal cost was incurred while there was zero retirement for the same account.

- i. On Sheet 2 of December 2009 Budget, Gulf recorded transfers and adjustments in accounts: 352, 354, 355 and 356. Please explain the nature and cause of these activities. Please also identify the source account(s) from which the reserve was transferred for each activity.
- j. On Sheet 3 of December 2009 Budget, Gulf recorded transfers and adjustments in accounts: 362, 365, 367 and 368. Please explain the nature and cause of these activities, and identify the source account(s) from which the reserve was transferred for each activity.

**ANSWER:**

- a. The reason Gulf recorded the removal cost of \$150,000 in 2013 while the corresponding retirement is zero is because the project is currently classified as Construction Work in Progress. Florida Public Service Commission Rule 25-6.0142 states "the retirement entry shall be recorded no later than two months following the transfer of expenditures from Construction Work in Progress to Electric Plant in Service." Once this project is transferred to Electric Plant in Service, the corresponding retirement will be posted in accordance with Commission Rule 25-6.0142.
- b. (i) See answer to 37 b(i). The \$5,595,000 is the amount of depreciation reserve associated with the meter accessories. This transfer is projected for December 2013.  
(ii) We expect an increased retirement of obsolete equipment to happen in 2013 due to improved technology and efficiency of LED lighting.
- c. (i) Plant transfers account for the physical movement of Retirement Unit property between locations in FERC accounts 352 through 358 and 362 through 368. These plant transfers are transfers between a) transmission substations, b) transmission and distribution substations, c) transmission substations and transmission emergency spare stock (inactive service), d) transmission substations and general plant, and e) FERC account corrections for distribution mass property. To a much lesser degree, another cause for plant

transfers are work order corrections before the unitization process whereby either an incorrect FERC account was used on a work order, or an interim retirement unit code was used until an allocation to the primary retirement unit code was completed before unitization. As plant transfers are generated, the system generates the appropriate transfer of the asset and the reserve.

The transfers in these accounts were routine transfers and corresponding reserve balance transfers occurring in the normal course of business. Additionally, the transfers of property in the amount of \$2,329 from FERC 355 to account 397 for the transfer of a pole to be used solely for communication equipment resulted in a \$163 reserve balance change for the affected FERC accounts.

- (ii) The large removal cost recorded in account 353 in 2012 was primarily a result of two major substation projects. The removal of equipment from the Laguna/Highland City project resulted in removal costs of approximately \$483,000, and the removal of equipment from the Crist Filtered CapBank project resulted in removal and clean-up costs of approximately \$139,000. During 2010-2012, Gulf began a program to remove retired equipment from various substation locations throughout its service area. A contractor was hired to remove and sell this equipment on behalf of Gulf. In many cases, the cost to dismantle and remove certain equipment exceeded the realized salvage value of the equipment. The result was a decrease in salvage amounts.
- d. (i) The transfers in FERC accounts 362, 364, 365, and 368 were routine transfers and corresponding reserve balance transfers occurring in the normal course of business. The reason and cause for these transfers is described in the answer to c(i) above. The transfer in FERC account 370 was required by the Commission to write off the unrecovered non-AMI investment associated with Gulf's AMI implementation program. This was approved by the Commission in Order No. PSC-12-0179-FOF-EI, Docket No. 110138-EI. The unrecovered balance, \$7,088,000, was moved to FERC 182, a regulatory asset, by crediting the reserve, FERC 108, and debiting the 182.
- (ii) The \$6,031,603 account 370 reserve adjustment was generated from the \$34,299,000 transfer from 370-Meters to 370-Meters-AMI Equipment for the segregation of AMI Equipment into a separate depreciable category per PSC ruling.

- e. The transfers in FERC account 353 were routine transfers and corresponding reserve balance transfers occurring in the normal course of business. The reason and cause for these transfers is described in the answer to c. (i) above.
- f. (i) The transfers in FERC account 361, 362, 364, 365, 367, 368, and 373 were routine transfers and corresponding reserve balance transfers occurring in the normal course of business. The reason and cause for these transfers is described in the answer to c(i) above.

In addition, Gulf transferred \$538,382 of property from FERC accounts 362, 364, 365, 367, 368 & 373 to account 390 for the creation of lineman training facilities. Lineman training facilities were constructed at Panama City and Pine Forest for the purposes of training utilitymen and apprentices in the safe and efficient operation of distribution electrical equipment. This transfer generated a \$209,952 reserve balance change for the affected FERC accounts. Also, the annual ground rod transfer in the amount of \$688,680 discussed in the answer to item 37(d), resulted in a \$356,114 reserve balance transfer between FERC accounts 365 and 367.

- (ii) The reason for the negative amount of removal in FERC 361 for 2011 is due to an error.
- g. (i) FERC 350.2, The March 2010 transfer of \$286,489 from 350.2 Easements to 350.0 Land was system generated due to the correction of the depreciation group on the asset. The depreciation group is what determines what is reported by FERC on Schedules Schedule 71(Plant in Service) and Schedule 75(Reserve). When a depreciation group is corrected, the system generates the appropriate transfer of the asset and the reserve. This entry generated a reserve entry in the amount of \$26,501. The reserve booked to the land depreciation group 350.0 was reversed in the same month the transfer was made as land is non-depreciable.
- (ii) The transfers in FERC account 352, 353, 354, and 355 were routine transfers and corresponding reserve balance transfers occurring in the normal course of business. The reason and cause for these transfers is described in the answer to c(i) above.
- h. (i) The transfers in FERC accounts 362 were routine transfers and corresponding reserve balance transfers occurring in the normal course of business. The reason and cause for these transfers is described in the answer to c(i) above. Additionally, the annual ground rod transfer in the

amount of \$810,590 discussed in the answer to item 37.d, resulted in a \$618,622 reserve balance transfer between FERCs 365 and 367. The remaining transfers for FERC accounts 368, 369.3 and 373 were a result of the reserve adjustment ordered in the FPSC 2009 Depreciation Study Order No. PSC-10-0458-PAA-EI.

- (ii) The reserve transfers in account 370 were generated due to the investment transfers booked in order to properly segregate non-AMI meters into a separate depreciation group, as required in FPSC Order No. PSC-10-0458-PAA-EI.
  - (iii) Cost of removal of \$52,754 was incurred and is related to the retirements in the 370-Meter account.
- i. The transfers in FERC accounts 352, 354, 355 and 356 were routine transfers and corresponding reserve balance transfers occurring in the normal course of business. The reason and cause for these transfers is described in the answer to c(i) above. In addition, the transfers of property in the amount of \$758,858 from FERCs 352, 354, 355, and 356 to account 390 for the creation of a substation training facility resulted in a \$426,533 reserve balance change for the affected FERC accounts. This facility is for the purposes of training transmission substation apprentices in the safe and efficient operation of transmission or distribution substation electrical equipment.
  - j. The transfers in FERC accounts 362, 365, 367, and 368 were routine transfers and corresponding reserve balance transfers occurring in the normal course of business. The reason and cause for these transfers is described in the answer to c(i) above. Also, the annual ground rod transfer in the amount of \$747,256 as discussed in the answer to item 37(d), resulted in a \$346,583 reserve balance transfer between FERC accounts 365 and 367.



39. Referring to Vol. 1 of Depreciation Study, it appears that Gulf presented accounts 360.1 and 360.2 interchangeably in different places as shown in Table 1 below. Please identify the correct account number and name combination, and clarify whether the four accounts listed in Table 1 are a same one. If not, please explain the difference between one and the other. Please also provided the relevant schedules associated with each account that Gulf has not yet provided in Tab 6, 7, 10 and 11, respectively.

Location		Account No. Gulf Used	Account Name Gulf Used	For the purpose of reporting:
Tab 6	Page 23	360.2	Easements and Rights of Way	Depreciation property
Tab 7	Page 7	360.2	Easements	Parameter Schedule
Tab 10	Sheet 3	360.1	Land Rights	Investment Activity
Tab 11	Sheet 3	360.1	Easements	Reserve Activity

**ANSWER:**

All four accounts listed in Table are the same. The correct account number is 360.1, and the correct name is "Land Rights".

40. In its Depreciation Study, Gulf has referenced to the "industry range" and "industry experience" many times in data analysis and proposed depreciation parameter explanation. Examples are accounts 353, 355, 361, 368, 373, 390 presented in Tab 8 of Vol. 1, and accounts 352, 353, 354, 366, 390 contained in Vol. 2. Please provide the industry range of the depreciation parameters for each and all of the accounts listed in Tab 7, pages 6 - 8, of the Depreciation Study by completing Table 2 below.

Table 2: Comparison of the Depreciation Parameters

Account No.	Account Name	Parameters	Gulf Company			Other Florida Utilities in Florida			
			2009-2013 current approved	Company Proposed	Industry range Gulf referred to	Florida Power & Light	Duke Energy Florida	Tampa Electric Company	...
350	Easements	Depreciation rate							
		Average service life							
		Average remaining life							
		Net salvage							
		Average age years							
		Curve type							
		Reserve ratio							
...	...	Depreciation rate							
		Average service life							
		Average remaining life							
		Net salvage							
		Average age years							
		Curve type							
		Reserve ratio							
398	Miscellaneous Equipment	Depreciation rate							
		Average service life							
		Average remaining life							
		Net salvage							
		Average age years							
		Curve type							
		Reserve ratio							

**ANSWER:**

See pages 2 through 8.

The terms "industry range" and "industry experience" in the data analysis primarily refer to the typical range of ASL that Gulf's depreciation consultant has recently encountered in his studies, as well as what he has observed in other studies. As such, they are part of the consultant's body of knowledge. They are a general indication of the approximate range of ASL. The referred to ranges and experience are not to be construed as exact or specific, a minimum or maximum, or a conclusion of Gulf ASL.

Gulf is not aware of the parameters approved by the Commission for the other Florida investor owned utilities.

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Account No.	Account Name	Parameters	Gulf Power Company		
			09-13 Current Approved	Company Proposed	Industry Range Gulf Referred to
350	Easements	Depreciation Rate	1.6%	1.6%	
		ASL	60	65	50-70
		ARL	34.0	31.6	
		Net Salvage	0%	0%	
		Average age Years	26	33	
		Curve type	SQ	R5	
		Reserve Ratio	46.63%	50.97%	
352	Structures and Improvements	Depreciation Rate	2.0%	1.8%	
		ASL	50	55	45-65
		ARL	36.0	40.2	
		Net Salvage	5%	5%	
		Average age Years	14	15	
		Curve type	R4	R4	
		Reserve Ratio	32.90%	33.58%	
353	Station Equipment	Depreciation Rate	2.3%	2.4%	
		ASL	45	45	40-55
		ARL	35.0	36.2	
		Net Salvage	5%	7%	
		Average age Years	10	9	
		Curve type	S0	S0	
		Reserve Ratio	24.56%	20.42%	
354	Towers and Fixtures	Depreciation Rate	2.3%	1.8%	
		ASL	50	55	50-60
		ARL	27.0	31.2	
		Net Salvage	20%	20%	
		Average age Years	23	24	
		Curve type	R5	R4	
		Reserve Ratio	58.49%	63.18%	

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Account No.	Account Name	Parameters	Gulf Power Company		
			09-13 Current Approved	Company Proposed	Industry Range Gulf Referred to
355	Poles and Fixtures	Depreciation Rate	3.6%	3.9%	35-45
		ASL	38	40	
		ARL	30.0	33.2	
		Net Salvage	40%	50%	
		Average age Years	8	7	
		Curve type	S0	S0	
		Reserve Ratio	31.70%	20.55%	
356	Overhead Conductor & Devices	Depreciation Rate	2.5%	2.5%	40-50
		ASL	50	50	
		ARL	37.0	41.8	
		Net Salvage	30%	30%	
		Average age Years	13	8	
		Curve type	R2	R1.5	
		Reserve Ratio	35.77%	23.78%	
358	Underground Conductor & Devices	Depreciation Rate	2.1%	1.8%	50-55
		ASL	45	50	
		ARL	26.0	26.3	
		Net Salvage	0%	0%	
		Average age Years	19	24	
		Curve type	R3	R4	
		Reserve Ratio	45.05%	53.43%	
359	Roads and Trails	Depreciation Rate	2.0%	1.9%	50-65
		ASL	50	55	
		ARL	27.0	45.0	
		Net Salvage	0%	0%	
		Average age Years	23	10	
		Curve type	SQ	SQ	
		Reserve Ratio	47.04%	16.02%	

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Account No.	Account Name	Parameters	Gulf Power Company		
			09-13 Current Approved	Company Proposed	Industry Range Gulf Referred to
360.2	Land Rights	Depreciation Rate	1.8%	1.8%	
		ASL	50	55	50-60
		ARL	52.0	52.2	
		Net Salvage	0%	0%	
		Average age Years	(2)	3	
		Curve type	SQ	SQ	
		Reserve Ratio	6.59%	5.25%	
361	Structures and Improvements	Depreciation Rate	2.2%	1.9%	
		ASL	48	52	45-55
		ARL	32.0	36.5	
		Net Salvage	5%	5%	
		Average age Years	16	16	
		Curve type	R3	R3	
		Reserve Ratio	35.61%	37.17%	
362	Station Equipment	Depreciation Rate	2.2%	2.3%	
		ASL	45	46	35-50
		ARL	33.0	36.2	
		Net Salvage	5%	8%	
		Average age Years	12	10	
		Curve type	R1.5	R1.5	
		Reserve Ratio	31.20%	25.17%	
364	Poles, Towers and Fixtures	Depreciation Rate	5.0%	4.7%	
		ASL	34	32	30-40
		ARL	24.0	25.0	
		Net Salvage	75%	70%	
		Average age Years	10	7	
		Curve type	R1	L0	
		Reserve Ratio	54.44%	51.92%	

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Account No.	Account Name	Parameters	Gulf Power Company		
			09-13 Current Approved	Company Proposed	Industry Range Gulf Referred to
365	Overhead Conductors & Devices	Depreciation Rate	3.1%	3.2%	
		ASL	38	40	30-45
		ARL	27.0	28.1	
		Net Salvage	20%	25%	
		Average age Years	11	12	
		Curve type	R1	R1	
		Reserve Ratio	35.73%	36.22%	
366	Underground Conduit	Depreciation Rate	1.3%	1.2%	
		ASL	60	60	50-60
		ARL	27.0	26.3	
		Net Salvage	0%	0%	
		Average age Years	33	34	
		Curve type	R3	R3	
		Reserve Ratio	64.70%	68.37%	
367	Underground Conductors & Devices	Depreciation Rate	3.3%	3.1%	
		ASL	32	34	30-40
		ARL	23.0	24.0	
		Net Salvage	8%	10%	
		Average age Years	9	10	
		Curve type	S3	S2	
		Reserve Ratio	32.57%	35.56%	
368	Line Transformers	Depreciation Rate	4.0%	3.8%	
		ASL	30	32	30-40
		ARL	21.0	23.1	
		Net Salvage	20%	24%	
		Average age Years	9	9	
		Curve type	S0	S0	
		Reserve Ratio	36.00%	36.68%	

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Account No.	Account Name	Parameters	Gulf Power Company		
			09-13 Current Approved	Company Proposed	Industry Range Gulf Referred to
369.1	Overhead Services	Depreciation Rate	3.8%	3.4%	
		ASL	35	40	35-45
		ARL	24.0	27.2	
		Net Salvage	45%	55%	
		Average age Years	11	13	
		Curve type	R1	R1	
		Reserve Ratio	53.72%	62.05%	
369.2	Underground Services	Depreciation Rate	2.6%	2.2%	
		ASL	40	44	35-45
		ARL	31.0	33.0	
		Net Salvage	10%	10%	
		Average age Years	9	11	
		Curve type	R1	R1.5	
		Reserve Ratio	30.13%	36.61%	
370	Meters	Depreciation Rate	2.7%	2.6%	
		ASL	33	33	20-35
		ARL	25.0	23.0	
		Net Salvage	-10%	-10%	
		Average age Years	8	10	
		Curve type	R1	R1	
		Reserve Ratio	25.65%	29.51%	
370	Meters - AMI	Depreciation Rate	6.7%	7.7%	
		ASL	15	15	15-20
		ARL	15.0	12.3	
		Net Salvage	0%	0%	
		Average age Years	0	3	
		Curve type	R1	R1	
		Reserve Ratio	0.00%	5.91%	

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Account No.	Account Name	Parameters	Gulf Power Company		
			09-13 Current Approved	Company Proposed	Industry Range Gulf Referred to
373	Street Lighting & Signal System	Depreciation Rate	5.0%	4.4%	
		ASL	20	22	15-25
		ARL	13.8	14.6	
		Net Salvage	10%	15%	
		Average age Years	6	7	
		Curve type	L1	L1	
		Reserve Ratio	40.80%	50.68%	
390	Structures and Improvements	Depreciation Rate	2.3%	2.4%	
		ASL	45	45	40-50
		ARL	29.5	29.7	
		Net Salvage	5%	5%	
		Average age Years	16	15	
		Curve type	S1.5	S1.5	
		Reserve Ratio	34.70%	34.75%	
392.2	Light Trucks	Depreciation Rate	9.3%	13.8%	
		ASL	10	11	5-10
		ARL	4.5	3.5	
		Net Salvage	-12%	-5%	
		Average age Years	6	8	
		Curve type	S3	L4	
		Reserve Ratio	46.17%	47.24%	
392.3	Heavy Trucks	Depreciation Rate	7.9%	7.4%	
		ASL	11	12	8-12
		ARL	5.1	4.3	
		Net Salvage	-15%	-13%	
		Average age Years	6	8	
		Curve type	L4	L4	
		Reserve Ratio	44.66%	55.32%	



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Account No.	Account Name	Parameters	Gulf Power Company		
			09-13 Current Approved	Company Proposed	Industry Range Gulf Referred to
392.4	Trailers	Depreciation Rate	4.8%	4.6%	
		ASL	18	20	10-20
		ARL	6.8	8.9	
		Net Salvage	-12%	-9%	
		Average age Years	11	11	
		Curve type	S1.5	S1.5	
		Reserve Ratio	55.32%	49.95%	
396	Power Operated Equipment	Depreciation Rate	4.7%	3.0%	
		ASL	15	17	10-20
		ARL	3.7	6.8	
		Net Salvage	-20%	-20%	
		Average age Years	11	10	
		Curve type	R5	R4	
		Reserve Ratio	62.66%	59.35%	
397	Communication Equipment	Depreciation Rate	6.3%	4.7%	
		ASL	16	17	15-20
		ARL	9.0	10.4	
		Net Salvage	0%	0%	
		Average age Years	7	7	
		Curve type	S1	R1	
		Reserve Ratio	43.30%	50.97%	

General Plant

41. Please list the proposed inventory and reserve amount for accounts 391.1 "Furniture Non-Computer", and 391.2 "Computer Equipment". The account amounts on Schedule 5, "Proforma Expense Comparison", page 3, are presented in reverse order on Schedule 7, "Parameter Schedule", page 9.

**ANSWER:**

The inventory and reserve amount for accounts 391.1 Furniture Non-Computer and 391.2 Computer Equipment are listed below.

	<u>Investment</u>	<u>Reserve</u>
391.1 Furniture Non-Computer	\$2,463,098	\$1,433,256
391.2 Computer Equipment	\$2,395,968	\$1,774,426

42. In Order No. PSC-12-0300-PAA-EI in Docket No. 120059-EI, the Commission required Gulf Power Company to include a new depreciation classification, Account 392-4110 – Automobiles, with a whole life depreciation rate of 12.1 percent implemented effective with the in-service date of vehicles. This classification does not appear in Gulf's 2013 Depreciation Study filed in Docket No. 130151-EI. Please describe:
- a. The automobiles currently in Gulf Power's rate base (make, model, in-service date, and associated investment amounts),
  - b. How the depreciation expense for such automobiles are being recovered in Gulf Power's rates, and
  - c. Why does Account 392-4110 not appear in Gulf's 2013 Depreciation Study?

**ANSWER:**

- a. Gulf currently does not have any automobiles in its rate base.
- b. N/A.
- c. See answer to 42(a) above.

43. The 2013 Gulf Power Depreciation Study, Volume 1 of 2, Tab 10 (Plant Investment Activity) shows that Account 303 - Intangible Plant – Software” had additions of \$12,661,466 in 2010 and has had further additions in 2011, 2012, and 2013, with no retirements during these years.
- a. Provide a list of these assets.
  - b. Explain why these plant balances began in 2010 and continue to increase each year.
  - c. How was Account 303 selected for these assets?
  - d. What is the basis for a seven year amortization shown in Tab 5?

**ANSWER:**

- a. In accordance with the retirement unit rule (Rule 25-6.0142, Florida Administrative Code) for electric utilities, certain general plant assets are to be amortized over a set time period in lieu of maintaining detailed property records. While Gulf does not maintain detailed records of these assets, we do know that recent additions to FERC 303 were related to Gulf’s Enterprise Solution that included accounting, supply chain, and work order management systems.
- b. The Enterprise Solution system went into service in 2010 and has had additions related to upgrades and enhancements in subsequent years.
- c. Gulf has previously used FERC 398 to record software amortization due to the inability of the previous plant accounting system to use FERC 303. Gulf notified the Commission of the limitation in 1992 and was allowed the use of FERC 398 for software amortization in all subsequent depreciation studies and rate cases. Gulf’s current property accounting system is now designed to use FERC 303. Gulf began using FERC 303 when the Enterprise Solution project was unitized in 2011. Gulf notified the Commission of its use of FERC 303 for this purpose in its annual RUC letter for year 2011. According to FERC Code of Federal Regulations (CFR) 18 (Electric Plant Accounts), account 303 is the appropriate account for software.
- d. Gulf has determined that a 7-year amortization period is appropriate for software projects, and thus will provide straight-line amortization over that period from the date the software is put in service and fully tested.

In making our determination, we have noted several factors that lead us to conclude that seven years is an appropriate life for Enterprise Solutions related software applications.

- In a search of public company filings with the SEC, we found numerous instances of companies that indicated they amortized capitalized software development costs over periods up to 7, 10, 12, and 15 years. In some instances, companies disclosed that the longer lives related to enterprise-wide IT projects. Additionally, a recent survey of companies that are members of the Financial Executives International Committee on Corporate Reporting indicated nearly half of companies responding use lives ranging from 7 year up to 10 years for enterprise-wide projects.
- From the perspective of the expected period of use of the software, we considered the pervasive nature of this project whereby we are replacing the company's general ledger system and other critical systems within the company. Given the substantial amount of time, effort, and cost required to implement this project, we consider it to be highly unlikely that Gulf will elect to move to another platform within the next 7 years.
- As to technological obsolescence, given the basic nature of the software applications involved, we do not anticipate any changes in technology that would warrant the replacement of these applications during the next 7 years. We expect the software vendors to continue to support the applications for the foreseeable future minimizing the risk that the applications would need to be replaced with significant upgrades during that period.
- Our history with other software applications of this nature supports our use of a longer life. Several of our major software applications have been used by the company for over 7 years without significant upgrades.

44. Gulf Power 2013 Depreciation Study, Volume 1 of 2, Tab 7, Page 8 indicates that Account 392.2 – Light Trucks net removal cost is -5 percent, or a net salvage of 5 percent. In Order No. PSC-12-0300-PAA-EI in Docket No. 120059-EI, the Commission established a net salvage for this account at 12 percent. Please explain the reason(s) for the change in net salvage.

**ANSWER:**

In Order No. PSC-12-0300-PAA-EI, Gulf was granted a whole life depreciation rate of 12.1 percent for account 392-4110. This whole life rate was based on a seven-year ASL and a 15 percent net salvage. Account 392.2 – Light Trucks is a different account than the account the Commission established in the above order.

In Order No. PSC-10-0458-PAA-EI the Commission approved a net salvage of - 12 percent for account 392.2 Light Trucks.

As discussed on page 23 of Tab 8, the data indicates a trend of decreasing salvage. Consistent with the data and the trends, a decrease in salvage is appropriate.

45. Gulf Power 2013 Depreciation Study, Volume 1 of 2, Tab 7, Page 8 indicates that the average service life (ASL) for Account 396.0 - Power Operated Equipment is 17 years, which is two years greater than the current ASL of 15 years. For this same account, no change is indicated in net removal cost (-20 percent). Why does Gulf Power expect no change in net removal cost for these assets despite the increased ASL?

**ANSWER:**

The historical salvage data for this account is very limited. A two year increase in the ASL was not significant to the salvage of this account, given the very limited historical salvage data and the generally estimated salvage percentage.

46. Please refer to Gulf Power 2013 Depreciation Study, Volume 1 of 2, Tab 7, Page 9. The following accounts show negative accumulated depreciation (reserve). For each of the accounts, please explain the reason(s) and provide Gulf's proposal for eliminating the negative reserve:
- a. Account 392.5 – Marine Equipment (\$21,324)
  - b. Account 398.0 – Miscellaneous Equip (\$219,160)

**ANSWER:**

The depreciation reserve amounts on Tab 7, page 9 are in error. See page 2 for a revised Page 9.



GULF POWER COMPANY  
 DEPRECIATION STUDY AS OF 12/31/2013  
 SCHEDULE OF DEPRECIATION PARAMETERS

GENERAL PLANT AMORTIZATION

<u>Office Furniture &amp; Equipment</u>									
391.1	Furniture/Non-Computer	2,463,098	AMORT	7.0	0.0	-	1,433,256	1,029,842	364,394
391.2	Computer Equipment	2,395,968	AMORT	5.0	0.0	-	1,774,425	621,543	791,167
<b>Total Office Furniture &amp; Equipment</b>		<b>4,859,066</b>			0.0	-	<b>3,207,681</b>	<b>1,651,385</b>	<b>1,155,561</b>
<u>Auxiliary General Equipment</u>									
392.5	Marine Equipment	213,594	AMORT	5.0	0.0	-	89,853	123,741	42,719
393.0	Stores Equipment	1,231,907	AMORT	7.0	0.0	-	775,566	456,341	168,067
394.0	Tools, Shop & Garage Equipment	4,075,782	AMORT	7.0	0.0	-	1,307,786	2,767,996	358,155
395.0	Laboratory Equipment	3,361,365	AMORT	7.0	0.0	-	1,406,571	1,954,784	346,815
397.0	Communication Equip	3,620,424	AMORT	7.0	0.0	-	1,952,702	1,667,722	597,510
398.0	Miscellaneous Equipment	3,572,092	AMORT	7.0	0.0	-	2,199,354	1,372,738	495,316
<b>Total Auxiliary General Equipment</b>		<b>16,075,154</b>			0.0	-	<b>7,731,832</b>	<b>8,219,561</b>	<b>1,965,663</b>
<b>Total Amortizable General Plant</b>		<b>20,934,220</b>					<b>10,939,513</b>		
<b>Total Depreciable &amp; Amortizable General Plant</b>		<b>153,614,542</b>					<b>66,734,196</b>		
<u>NON-DEPRECIABLE GENERAL PROPERTY</u>									
389.0	Land	7,112,487							
		<u>7,112,487</u>							
<b>TOTAL GENERAL PLANT</b>		<b>160,727,029</b>					<b>66,734,196</b>		
<u>INTANGIBLE PLANT</u>									
303.0	Software	15,892,775	AMORT	7.0	0.0	-	6,143,727		2,097,192

47. Please refer to Gulf Power 2013 Depreciation Study, Volume 1 of 2, Tab 7, Page 9 and the Commission's "List of Retirement Units (Electric Plant) as of January 1, 2000", Page 103. The Depreciation Study indicates an average service life (ASL) of 7.0 years for Account 367 based on amortization, but the List of Retirement Units indicates that the amortization of Account 367 is 5 years. Please explain why Gulf has selected a 7.0 year ASL for this account.

**ANSWER:**

On attachment C of Order No. PSC-10-0458-PAA-EI, Docket 090319-EI, the Commission approved all general amortizable property as 7 year with the exception of 391 Computer Equipment and 392 Marine Equipment as 5 year. The Commission also approved 397 Communication Equipment as 7 year property in Order No. 19901, Docket 880053-EI, which was the first order identifying general property as amortizable. Gulf chose the 7.0 year ASL for this account to be consistent with the Commission's prior determination.

48. Please refer to Gulf Power 2013 Depreciation Study, Volume 1 of 2, Tab 7, Page 9. Please provide a listing of items included in Account 392.5 - Marine Equipment.

**ANSWER:**

The Commission's "List of Retirement Units (Electric Plant) as of January 1, 2010," states for amortizable property that no property records be maintained except as a vintage group. Gulf is unable to provide a listing of items since it only maintains the dollar amount by vintage group.

49. Please refer to Gulf Power 2013 Depreciation Study, Volume 1 of 2, Tab 10, Page 3 of 3 for 2013. Please describe the plant addition for the Account 390 – Structures and Improvements, shown as \$8,805,220 and all relevant in-service dates.

**ANSWER:**

The \$8,605,220 budgeted to be in service by year end 2013 is made up of several projects. The largest project is a new building adjacent to our Pine Forest facility. This \$7.1 million project will be placed in service as of October 2013 and will house the Company's training facilities and also be used for Gulf's emergency management activities. The remainder of the projects is smaller infrastructure projects which will go in service at various times during 2013.

50. Please refer to Gulf Power 2013 Depreciation Study, Volume 1 of 2, Tab 10, Page 3 of 3 for 2011. Please identify the nature and reason for the \$538,382 transfer to Account 390 – Structures and Improvements in 2011.

**ANSWER:**

The \$538,382 transfer represents distribution line material that was transferred from various distribution accounts to account 390 for the installation of new lineman training facilities at Panama City and Pensacola.

Dismantlement Study

51. For the purposes of the following request, please refer to Gulf Powers 2013 Dismantlement Study, Volume 1, Section 7.5, page 26.
- a. Are the overhead cost factors applied only to the common portions of Gulf's generating units?
  - b. Please detail and show how these factors, both direct and indirect, were applied to specific cost categories as presented in section 8.3 of Gulf's Dismantlement Study for Plant Crist.

**ANSWER:**

- a. The overhead factors are applied to all portions of Gulf's generating units. The costs are shown against common.
- b. The percentages for overheads, as shown in Section 7.5, were applied to the total direct costs for Plant Crist including the SCR's. The indirect costs were based on escalated values from Gulf Power's 2009 Dismantlement Study. These costs were then applied to Crist Common in FERC accounts 307, 308 and 309.

**Calculations:**

As shown on page 5 of Plant Crist All Units Summary report in Section 8.1 of Gulf Powers 2013 Dismantlement Study for Plant Crist, the Subtotal before Contingency is added is \$57,642k. This total represents the direct costs, overheads and indirects.

As shown on page 1 of Plant Crist SCR All Units Summary report in Section 8.1 of Gulf Powers 2013 Dismantlement Study for Plant Crist, the Subtotal before Contingency is added is \$15,696k. This total represents the direct costs, overheads and indirects for the SCR's. The total of these two numbers is:

$$\$57,642k + \$15,696k = \$73,338k$$

In order to determine the direct costs, the overheads and indirects must be subtracted from the total shown above. On page 1 of Plant Crist All Units Summary report in Section 8.1, the account total for FERC 307 is \$3,701, the account total for FERC 308 is \$4,159k, and the total for FERC 309 is \$630k. Therefore the total for FERCs 307 through 309 is:

$$\$3,701k + \$4,159k + \$630k = \$8,490k$$

On page 1 of Plant Crist SCR All Units Summary report in Section 8.1, the account total for FERC 307 is \$730k, the account total for FERC 308 is \$3,040k making the total for overheads and indirects equal to:

$$\$730k + \$3,040k = \$3,770k.$$

Adding the overheads and indirects from the Plant Crist All Units Summary and the Plant Crist SCR All Units Summary yields the totals for overheads and indirects that must be subtracted from the Subtotal before Contingency to determine the direct costs referenced Gulf Powers 2013 Dismantlement Study, Volume 1, Section 7.5, page 26. This total is:

$$\$8,402k + \$3,770k = \$12,172k.$$

To determine the direct costs, subtract this value from the Subtotal before Contingency is applied as shown above which results in:

$$\$73,338k - \$12,172k = \$61,166k$$

The direct costs are usually determined by adding up the cost categories, as shown in Section 8.3 of Gulf's Dismantlement Study with the exception of the overheads and indirects. The calculations used above are shown to simplify the method of determining direct costs.

Now that direct costs are understood, overheads can be applied as stated in Gulf Powers 2013 Dismantlement Study, Volume 1, Section 7.5, page 26. For example, the Wrap-up and all-risk insurance is determined by applying 5% to the direct costs or:

$$\$61,166k \times .05 = \$3,083k$$

This total can also be seen on page 1 of Plant Crist All Units Summary report in Section 8.1 under FERC 308. The report total is actually \$3,149k. The difference is due to rounding as the example calculations are based on numbers rounded to the nearest \$1,000. The report itself is based on the unrounded costs.

Other overheads can be calculated similarly.

The indirects, as discussed on page 26 of Section 7.5 in Volume I, were based on escalated values from Gulf Power's 2009 Dismantlement Study.

52. For the purposes of the following request, please refer to Gulf's Dismantling Study, Volume 1, Section 7.0, page 27.
- a. How was the value of \$123.02 per gross ton for preparing ferrous metal for salvage/scrap determined?
  - b. Please detail the cost components that make up the \$123.02 per gross ton value for preparing ferrous metal for salvage/scrap.
  - c. Are any portions of the \$123.02 per gross ton value included for recovery in other cost categories in Gulf's Dismantlement study?

**ANSWER:**

- a. The preparation costs for ferrous scrap are calculated by multiplying the current scrap price by thirty percent (30%).
- b. Preparation costs account for a scrap dealer's work involved in loading, transporting to a yard, and preparing the scrap to designated size and re-handling the material for shipment.
- c. No.



53. Please list the scrap values Gulf Power Company used in its 2009 Dismantlement Study for copper, ferrous scrap, and non-ferrous scrap metal. Please list and compare both adjusted and unadjusted prices.

ANSWER:

<b>2009 Dismantlement Study</b>	<b>Adjusted</b>	<b>Unadjusted</b>
<b>Copper</b>	<b>\$0.97 / Lb.</b>	<b>\$1.56 / Lb.</b>
<b>Ferrous</b>	<b>\$149 / Ton</b>	<b>\$213 / Ton</b>
<b>Non-Ferrous</b>	<b>\$0.198 / Lb.</b>	<b>\$0.240 / Lb.</b>

54. How did the company determine (or verify a third-party estimate) equipment usage/or rental rates used in it's dismantling study.

**ANSWER:**

The Dismantlement Study cost estimate is based on unit pricing for dismantlement and site restoration. The study does not specifically list equipment usage or rental rates. Such costs are included in unit pricing. Unit pricing includes all contractor costs including mobilization, equipment, and overheads.

55. Why is the Asset Recovery Group responsible for removing Combustion Turbines (CTs) from Gulf's plant sites and are these items generally set for salvage?

**ANSWER:**

All equipment, including combustion turbines, is expected to be removed to return the property to brownfield status. The dismantlement costs for Combustion Turbines include salvage credits.

56. Please explain how the cost of removing asbestos and other contaminants are considered in Gulf's 2013 dismantlement cost estimates.

**ANSWER:**

An assessment will be performed to identify regulated hazardous and toxic materials which will be handled and disposed of according to appropriate current federal and state regulations at the time of actual dismantlement. For this Study, unit costs for removal and disposal of asbestos and other contaminants are tied to cubic yards for soil, drums for chemical residues, and pounds for asbestos.

57. For each generating unit which a dismantlement provision is being requested, please state Gulf's justification for its proposed terminal/final in-service year.

**ANSWER:**

The final in-service year is determined by the unit's average service life approved in Docket No. 090319-EI, Order No. PSC-10-0458-PAA-EI, issued July 19, 2010. All of Gulf's units were addressed in this order with the exception of the Perdido Gas Landfill Gas to energy plant, which was approved Docket No. 100368-EI, Order No. PSC-10-0674-PAA-EI.

58. How soon does Gulf envision beginning dismantlement activities after plant shutdown, and for how long are such activities estimated to occur?

**ANSWER:**

Gulf does not look at detailed dismantlement activities until such time units are designated for retirement. Activities, timing, and duration would be unique to each retirement. Gulf announced the retirement of Plant Scholz but has not finalized plans for activities to dismantle or the timing for such activities.

59. Does Gulf propose any accumulated book reserve (dismantlement) transfers between its generating sites? If so, please detail the proposed transfers.

ANSWER:

No.

60. How is Gulf accounting for, and segregating recovery amounts for dismantlement that it recovers through the Environmental Cost Recovery Clause (ECRC) rather than base rate depreciation expense?

**ANSWER:**

Dismantlement for ECRC projects is not accounted for differently than dismantlement for base rates. The Dismantlement Study provides the detailed cost estimate as of 12/31/13 for Crist 6 SCR, Crist 7 SCR, and Crist FGD. The dismantlement accrual associated with these environmental projects is calculated in the same manner as a generating unit listed on Tab 9. The accrual is then incorporated into the ECRC clause calculation.



61. Please detail by account number and name with dollar amounts, all funds for dismantlement that have been recovered through the ECRC.

**ANSWER:**

As of May 2013, the following projects had accumulated dismantlement recovered through ECRC:

<u>Project</u>	<u>Description</u>	<u>Dismantlement Reserve (\$)</u>
1199	Crist 7 SCR/PRC Relocation	\$ 2,809,521
1216	Crist 7 Precipitator Upgrade	1,176,484
1222	Crist FGD	12,910,777
1228	Crist 7 Flue Gas Conditioning	43,229
1243	Crist 6 Precipitator Replacement	1,628,259
1232	Crist Cooling Tower Cell	34,432
1232	Daniel Ash Management Project	<u>1,896,816</u>
<b>Total</b>		<b><u>\$ 20,499,518</u></b>

62. Please detail by account number and name with dollar amounts, all costs and annual dismantlement accrual amounts that have been segregated from Gulf's 2013 Dismantlement Study that are being recovered through the ECRC.

ANSWER:

<u>PE</u>	<u>Description</u>	<u>2009-2013 Annual Accrual</u>	<u>Projected 12/31/13 Reserve Balance</u>
1199	Crist 7 SCR/PRC Relocation	\$ 392,040	\$ 3,038,211
1216	Crist 7 Precipitator Upgrade	51,924	1,206,773
1222	Crist FGD	3,778,764	15,115,056
1228	Crist 7 Flue Gas Conditioning	2,556	44,720
1243	Crist 6 Precipitator Replacement	69,144	1,668,593
1232	Crist Cooling Tower Cell	2,028	35,615
1535	Daniel Ash Management Project	107,952	1,959,788
	Total	<u>\$ 4,404,408</u>	<u>\$ 23,068,756</u>

63. Please provide a description of Plant Daniel similar to those of Gulf's other plants as found in section 4.0 of its 2013 Dismantlement Study.

**ANSWER:**

Plant Daniel is a two-unit, coal-fired generating plant located near Escatawpa, Mississippi on a 2657-acre site. The plant uses lighter oil for ignition only and is not capable of full load firing on oil. The station is jointly owned by Mississippi Power Company and Gulf Power Company with each holding a fifty percent (50%) share.

The first unit has a name plate rating 500 MW and was completed in September 1977. The second unit also has a name plate rating of 500 MW and was completed in June 1981. Both units have Westinghouse turbine generators.

The boilers are 2400 psi units manufactured by Combustion Engineering and are rated at 3,611,242 pounds of steam per hour each. Air quality control is achieved using electrostatic precipitators and a single 500-foot stack. The boiler houses are open without siding.

Cooling water is provided by a government owned lake and MPC owned intake and discharge canals. West of the powerhouse is the coal yard, tractor garage, coal unloading and handling facilities (conveyors, crusher houses, etc.). A rail loop facilitates train delivery of coal. Upon completion of the ash collection and storage modification, there will be a 25-acre bottom ash pond with clay and synthetic liner and a dry ash storage area with a 36" liner of clay and filter material (90 acres to be capped upon dismantlement). Auxiliary ash facilities include a transfer tank at the powerhouse and two concrete silos north of the tractor garage. The service building is on the north end of Unit 1. East of the turbine rooms are the 230 and 500 kV switchyards.

Other outdoor structures include the demineralizer building, condensate storage tanks, filtered water storage tanks, fire protection tanks and pump house, lighter oil storage tanks and pumps, waste water treatment facilities, engine generator house, air compressor building, and startup boiler. There is a single underground petroleum storage tank that meets current regulations.

64. Please provide the following information for Gulf's recent 2013 Dismantlement Study.
- a. Please specify the employees assumed in the study that will conduct the dismantlement by site, job title, description of work performed, and labor rate.
  - b. If the labor rates used in the study include loadings, please identify the specific components of the loadings and how they are computed. Please provide any associated work papers and supporting documents.
  - c. Please identify what unloaded labor rates were used in the study (e.g., local union pay scales, RS Means, etc.)
  - d. If the response to (a), (b), and/or (c) have changed since the 2009 Dismantlement Study, please identify what changes have been made with any supporting documents, including but not limited to job title, description of work performed, loaded and unloaded labor rates, local union pay scales, etc.

**ANSWER:**

- a. The Dismantlement Study does not assume that any specific employees will conduct the dismantlement. Costs included for engineering, and administrative support are based on a percent of the dismantling costs as discussed in Section 7.5 of the study.
- b. The Dismantlement Study cost estimate is based on unit pricing for dismantlement and site restoration. Unit pricing includes all contractor mobilization, equipment, overhead, and profit.
- c. The study does not include unloaded labor rates.
- d. The approach used to calculate dismantlement costs has not changed with regards to questions a, b or c above.

Staff's First Data Request  
Docket No. 130151-EI  
GULF POWER COMPANY  
July 12, 2013  
POD Item No. 1  
Page 1 of 1

Request for Documents

1. Please provide a copy of the pricing schedules from [metalprices.com](http://metalprices.com) (and/or [recycle.net](http://recycle.net) if applicable) that were used to determine scrap metal values for Gulf's 2013 Dismantlement Study.

**ANSWER:**

See Attachment B for scrap pricing values from [metalprices.com](http://metalprices.com).

Staff's First Data Request  
Docket No. 130151-EI  
GULF POWER COMPANY  
July 12, 2013  
POD Item No. 2  
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2. Please provide all supporting documentation used to derive the response to Request No. 64(c).

**ANSWER:**

None.

Staff's First Data Request  
Docket No. 130151-EI  
GULF POWER COMPANY  
July 12, 2013  
POD Item No. 3  
Page 1 of 2

3. Please provide all supporting documentation in hard copy format used to derive the escalation rates utilized in Gulf's 2013 Dismantlement Study.

**ANSWER:**

See page 2.

DRI Indices January 2013 Forecast

RE: Economy.Com U.S. Macro - 25 Year Forecast

From: Lisa Lane, 8-506-4108

To: Jarvis Van Norman , GULF

Description:	PPI: Intermediate materials supplies and components, (1982=100, SA) Scrap		ECI: Wages & Salaries - Private industry, (Index 12/05=100, SA) Labor		NIPA: GDP Chain-type price index, (Index 2000=100) GDP Disposal	
Source:	BLS		BLS, Productivity & Costs		BEA	
Geography:	United States	% Change	United States	% Change	United States	% Change
Last Updated:	1/8/2013	Year-to-Year	1/8/2013	Year-to-Year	1/8/2013	Year-to-Year
	FPPISP2000.US		FECIWP.US		FDPDGP.US	
2009	172.21		110.33		109.53	
2010	183.18	6.37%	112.10	1.61%	111.00	1.34%
2011	199.72	9.03%	113.98	1.67%	113.37	2.13%
2012	200.52	0.40%	115.99	1.77%	115.47	1.85%
2013	203.26	1.37%	117.30	1.13%	118.01	2.20%
2014	208.87	2.76%	119.03	1.47%	120.62	2.21%
2015	215.50	3.18%	121.34	1.94%	123.38	2.27%
2016	222.85	3.41%	123.96	2.16%	125.77	1.96%
2017	229.13	2.82%	126.43	1.99%	128.14	1.88%
2018	234.44	2.32%	128.47	1.62%	130.70	2.00%
2019	239.44	2.13%	130.52	1.59%	133.20	1.91%
2020	244.13	1.96%	133.02	1.92%	135.71	1.88%
2021	248.59	1.83%	136.10	2.31%	138.30	1.91%
2022	253.18	1.83%	139.46	2.47%	140.97	1.93%
2023	257.74	1.82%	142.93	2.49%	143.73	1.95%
2024	262.41	1.81%	146.45	2.46%	146.55	1.96%
2025	267.05	1.76%	149.98	2.41%	149.39	1.94%
2026	271.70	1.74%	153.51	2.35%	152.25	1.91%
2027	276.62	1.81%	157.02	2.29%	155.11	1.88%
2028	281.77	1.86%	160.48	2.20%	157.97	1.84%
2029	287.14	1.91%	163.90	2.13%	160.81	1.80%
2030	292.68	1.93%	167.33	2.09%	163.67	1.78%
2031	298.32	1.93%	170.84	2.10%	166.55	1.76%
2032	304.14	1.95%	174.38	2.07%	169.44	1.74%
2033	310.29	2.02%	177.88	2.00%	172.34	1.71%
2034	316.89	2.13%	181.30	1.92%	175.27	1.70%
2035	323.71	2.15%	184.63	1.84%	178.28	1.72%
2036	330.59	2.13%	187.87	1.75%	181.29	1.68%
2037	337.58	2.11%	191.02	1.68%	184.35	1.69%
2038	344.63	2.09%	194.08	1.60%	187.55	1.73%
2039	351.73	2.08%	197.07	1.54%	190.96	1.82%
2040	359.31	2.15%	199.98	1.48%	194.55	1.88%
2041	367.60	2.31%	202.81	1.42%	198.40	1.98%
2042	376.45	2.41%	205.61	1.38%	202.58	2.11%

Staff's First Data Request  
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GULF POWER COMPANY  
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# Attachment A

**BEFORE THE  
FLORIDA PUBLIC SERVICE COMMISSION**

**GULF POWER COMPANY  
STORM HARDENING PLAN  
2013-2015**

**May 1, 2013**

### **2.3 Inspection Cycle of Transmission Structures**

Gulf Power's current transmission inspection plans meet or exceed the approved 6-year inspection cycle of the FPSC. In 2004, Gulf adopted the Southern Company Transmission Line Inspection Standards as its program. The details of the program have been filed with the Commission as outlined in FPSC Order No. PSC-06-0144-PAA-EI. In general, Gulf contracts ground line inspections and uses a combination of company employees and contractors to perform comprehensive walking and aerial inspections. Gulf's transmission structure inspection program is based on two alternating twelve-year cycles, which results in a structure being inspected at least every six years. Gulf will continue the use of the same transmission inspection program in the 2013-2015 Storm Hardening Plan that was approved in the 2010-2012 Plan.

Historically, Gulf has not inspected a set number of poles each year. Annual inspection rates have varied as Gulf responded to its various needs. Gulf plans to utilize the same flexible approach in its proposed 2013-2015 Storm Hardening Plan to ensure the completion of its inspection cycle as required.

Gulf Power currently inspects all of its substations at least once annually. These inspections include visual inspection of all structures, buss work, switches and capacitor banks for defects. Gulf proposes to continue the same inspection process for the 2013-2015 Storm Hardening Plan.

### **2.4 Storm Hardening Activities for Transmission Structures**

Gulf Power will continue the design and construction of new facilities based on the standards set forth by the most current version of the National Electric Safety Code (NESC). In addition, when it is practical and feasible, consideration will be given to upgrade existing transmission facilities when capital maintenance is performed. It is Gulf's position that the adherence to current design and construction standards using generally accepted engineering practices, in conjunction with the recommended 6-year structure inspection program, will maintain adequate hardening of the system in all areas.

During the 2010-2012 Storm Hardening Plan, Gulf completed the installation of storm guys on all existing wooden H-frame structures and the replacement of over 750 wood cross-arms.

Gulf plans to continue the replacement of wooden H-frame cross-arms with steel cross-arms on transmission facilities as part of the 2013-2015 Storm Hardening Plan. Because cross-arms are mounted horizontally they tend to hold water in small pockets on the top of the arm, which may lead to small

When the National Weather Service announces that a tropical storm or hurricane has entered the Gulf of Mexico, the System Operator will notify CEMC leadership, appropriate management and the Gulf executives. Private weather services used by Gulf Power also issue notifications to selected Gulf officials. The storm is monitored as it develops, and if there is a possibility that Gulf Power's service area will be affected, the CEMC is set up and readied for activation at Gulf Power's Pine Forest facility located in Cantonment, Florida. The hurricane is closely monitored when it may threaten Gulf Power's service area within 36 hours.

After evaluation of wind profiles and consultation with private weather services, a decision is made as to when it will become unsafe for employees to travel. At that time, and after consultation with senior management, the CEMC Manager, the Power Delivery Services Manager, or the CEMC Specialist will determine when the CEMC will be formally activated. CEMC leaders are notified of the activation plan and are responsible for ensuring their respective areas are in a state of readiness and properly staffed.

Once activated, the CEMC is staffed by a core group for the duration of the storm. The CEMC is operational 24 hours a day, 7 days a week, until such time the power is substantially restored to all customers who are able to receive service. Depending on the severity of the storm, repair work on the system may continue after the CEMC is deactivated.

### **3.0 Wood Pole Inspection Plan**

Gulf Power has been evaluating its distribution poles through ground-line inspection since the early 1990's. Gulf's distribution pole inspection program was based on a ten-year cycle, completing its first cycle in 2002. The inspection methodology utilized sound and bore inspection techniques with excavation to a depth of 18 inches. Decayed wood was removed from the outside of the pole, and measurements were taken to determine the pole's remaining strength. The poles were then treated with preservatives. Rejected poles were scheduled for replacement or reinforcement.

Gulf Power's rate of rejection for distribution wood poles has fallen from approximately 15% on its first inspection cycle to less than 5% on the second inspection cycle. The annual pole rejection rates under this program since 2007 are shown in Table 5.

**Table 5: Annual pole rejection rates for Gulf Power for the period 2007-2012**

Year	2007	2008	2009	2010	2011	2012
Reject Rate (%)	2.20	2.73	1.52	3.31	2.53	2.80

In 2007, Gulf Power moved from a ten-year cycle to an eight-year cycle as required by Order No. PSC-07-0078-PAA-EU. Historically, Gulf has not inspected a set number of poles each year. While annual inspection rates have varied to respond to its various needs, Gulf has inspected 88% of its total pole population as of the end of the sixth year of the eight-year cycle. Gulf is on target to achieve the eight-year cycle presented in the 2007-2009 and 2010 - 2012 Storm Hardening Plans. Gulf plans to continue this flexible approach to ensure completion of the present inspection cycle within eight years, while also insuring other programs meet the needs of our customers each year.

Based on the lessons learned during the first pole inspection cycle, Gulf refined its pole inspection process for distribution wood poles. During its first inspection cycle, Gulf inspected all Creosote and Penta poles, but also excavated and bored a sample of CCA poles to determine if these poles required excavation and boring. Gulf learned that CCA poles provide superior decay resistance when compared to Creosote and Penta poles. Based on the findings of these inspections, Gulf refined its inspection process and developed an inspection matrix based on pole age, treatment type, and condition. This matrix brought all CCA poles into the inspection process, and by using the matrix, all poles (Creosote, Penta, and CCA) receive a visual inspection with sounding, boring and excavation as appropriate.

As part of its on-going storm hardening efforts for the 2013 – 2015 Plan, Gulf will continue its pole inspection program on an eight-year cycle utilizing the same inspection matrix approved by the FPSC in 2007 and again in 2010.

#### **4.0 Compliance with National Electric Safety Code (NESC) in regards to Storm Hardening**

##### **4.1 Distribution**

Gulf Power's distribution system complies with all applicable sections of the National Electric Safety Code and exceeds the NESC with the transition to Grade B construction on all new construction, major projects and maintenance work.

# Attachment B

Market London 14:54:28 GMT

19:45:11 GMT | 17:49:11 New York | 20:46:11 London | 01:18:11 Mumbai | 01:46:11 Singapore

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▼ By Geography | ▼ US Regional Pricing | ▼ By Grade | ▼ Tool Steel | ▼ Export Freight Rates | ▼ Related Pages

Plate & Structural Scrap (5 R) Pittsburgh has been discontinued. Please refer to the Ferrous Scrap Price Index - Pittsburgh P&S, 5R, Max - prices [click here](#)

Iron In 5' Plate Pittsburgh

Start Date 30 Jun 2012 End Date 31 Dec 2012 Unit **GT** Sort Order Most Current First   Display Monthly Average Only Submit

Currency US Dollar

Plate & Structural Scrap (5 R) Pittsburgh				
FOB Delivered Min USD GT				
Date	Low	High	Average	
07 Dec 2012	385.00	390.00	387.50	
08 Nov 2012	385.00	390.00	387.50	
06 Oct 2012	330.00	335.00	332.50	
07 Sep 2012	385.00	395.00	390.00	
07 Aug 2012	400.00	410.00	405.00	
10 Jul 2012	325.00	335.00	330.00	
<b>Averages</b>	<b>388.33</b>	<b>375.83</b>	<b>372.68</b>	



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Copper in #1 Wire/Tube Consumer

Start Date: 30 Nov 2012    End Date: 31 Dec 2012    Unit: LB    Sort Order: Most Current First  
 Currency: US Dollar     Display Monthly Average Only   

Date	Low	High	Average
31 Dec 2012	3.4310	3.4810	3.4560
28 Dec 2012	3.3878	3.4178	3.3825
27 Dec 2012	3.3800	3.4300	3.4080
26 Dec 2012	3.3730	3.4230	3.3980
24 Dec 2012	3.3240	3.3740	3.3480
21 Dec 2012	3.3455	3.3885	3.3708
20 Dec 2012	3.3280	3.3880	3.3460
18 Dec 2012	3.3950	3.4380	3.4150
16 Dec 2012	3.4088	3.4788	3.4588
14 Dec 2012	3.4190	3.4880	3.4680
14 Dec 2012	3.4850	3.5080	3.4850
13 Dec 2012	3.4448	3.4848	3.4648
12 Dec 2012	3.6000	3.6400	3.6200
11 Dec 2012	3.4710	3.5110	3.4910
10 Dec 2012	3.4805	3.5305	3.5108
07 Dec 2012	3.4478	3.4878	3.4678
06 Dec 2012	3.4270	3.4870	3.4470
05 Dec 2012	3.4670	3.5070	3.4870
04 Dec 2012	3.4335	3.4735	3.4635
03 Dec 2012	3.4400	3.4900	3.4600
30 Nov 2012	3.4285	3.4685	3.4485
<b>Averages</b>	<b>3.4210</b>	<b>3.4839</b>	<b>3.4438</b>



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### Fish Scale Cast

Start Date 30 Nov 2012 | End Date 31 Dec 2012 | Unit **LB** | Sort Order Most Current First | Currency **US Dollar** |  Display Monthly Average Only

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Aluminum Scrap Cast Secondary Aluminum Smelters - USA	
Scrap Metal Buying Prices - Fish Scale Report LME/LL	
Date	Price
27 Dec 2012	0.7044
19 Dec 2012	0.7017
03 Dec 2012	0.6911

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### 18-8 Scrap - Processor

Start Date: 30 Nov 2012    End Date: 31 Dec 2012    Unit: GT    Sort Order: Most Current First  
 Currency: US Dollar     Display Monthly Average Only   

304 (18-8) Scrap Slabs - Processor				
FO3 (USA East) / Message / USD / GT				
Date	Low	High	Average	
Dec 31, 2012	1,557.89	1,721.05	1,589.47	
Nov 30, 2012	1,550.00	1,825.00	1,587.50	
<b>Averages</b>	<b>1,553.95</b>	<b>1,873.03</b>	<b>1,638.49</b>	