**FLORIDA PUBLIC SERVICE COMMISSION**

**Fletcher Building**

**101 East Gaines Street**

**Tallahassee, Florida 32399-0850**

**M E M O R A N D U M**

**October 28, 1993**

**TO : DIRECTOR, DIVISION OF RECORDS AND REPORTING**

**FROM : DIVISION OF AUDITING AND FINANCIAL ANALYSIS (LEE, MEEKS, BASS, NEIL, REVELL, HICKS)**

**DIVISION OF ELECTRIC AND GAS (TAYLOR)**

**DIVISION OF LEGAL SERVICES (CANZANO)**

**RE : DOCKET NO. 930221-EI, GULF POWER COMPANY, 1993 DEPRECIATION STUDY BY GULF POWER COMPANY**

**AGENDA : 11/09/93 - REGULAR AGENDA - PROPOSED AGENCY ACTION - INTERESTED PERSONS MAY PARTICIPATE**

**CRITICAL DATES: NONE**

**SPECIAL INSTRUCTIONS: I:\PSC\AFA\WP\930221.RCM**

**R:RECSCH2.WK3 AND GULF93.WK3**

**DISCUSSION OF ISSUES**

**ISSUE 1**: Should the current depreciation rates and amortization schedules for Gulf Power Company (Gulf or Company) be changed?

**RECOMMENDATION**:Yes. A review of the Company's plans and activity indicates the need for revising depreciation rates and amortization schedules. (LEE)

**STAFF ANALYSIS**: Gulf's current depreciation rates and amortization schedules were approved effective January 1, 1988. In keeping with Rule 25-6.0436, Florida Administrative Code, the Company filed a quadrennial comprehensive study covering dismantlement and depreciation requirements on December 30, 1991. The proposed effective date was to coincide with its next rate case which, at that time, was presumed to be sometime in 1994. Because this effective date request was primarily predicated on the implementation of a new mechanism for the calculation of dismantlement accruals as prescribed in Order No. 24741, Docket No. 890186-EI ("Investigation of the Ratemaking and Accounting Treatment for the Dismantlement of Fossil-fuel Generating Stations"), the Commission approved deferring implementation of new rates and dismantlement accruals until January 1, 1994 or Gulf's next general rate proceeding, whichever came first. In addition, the Order in that case (PSC-92-0283-FOF-EI) closed the 1991 study docket and Gulf was to submit a revised study in 1994 to match its new implementation date. The Company filed this current depreciation and dismantlement study on March 2, 1993.

In connection with this current depreciation study docket and Docket No. 930139-EI, a stipulation between Gulf, the Office of Public Counsel and the Florida Industrial Power Users Group was approved by Order PSC-93-0771-FOF-EI issued May 20, 1993. This again deferred the implementation of the method prescribed in Order No. 24741 to be used in calculating the accruals for dismantlement in return for Gulf reducing its authorized return on equity (ROE) prospectively to 12.0% and also for the Company not filing a rate case in 1993. This stipulation did not resolve the matter of appropriate depreciation rates or the amount of dismantlement accruals using Gulf's method of calculation.

Since the time of the last represcription in 1988, net plant balances have changed and Company planning has changed, both of which suggest the need to review and revise rates and dismantlement accruals where appropriate.

**ISSUE 2:** What should be the implementation date of the recommended rates and schedules?

**RECOMMENDATION:** Staff recommends approval of the Company's proposed January 1, 1994 date of implementation for the new depreciation rates and schedules. (MEEKS)

**STAFF ANALYSIS:** Company data and related calculations abut the January 1, 1994 date. This is the recommended date of implementation, being the earliest practicable date for utilizing the revised rates and schedules.

**ISSUE 3:** Is Gulf Power in compliance with the Uniform System of Accounts (USOA) as prescribed by the Federal Energy Regulatory Commission (FERC) and adopted by the Florida Public Service Commission (FPSC) in Rule 25-6.014, Florida Administrative Code?

**RECOMMENDATION:** No. Staff recommends that, beginning in 1994, Gulf institute procedures to transfer reserve whenever there is a transfer of investment as required by the USOA. A follow up audit will be performed to assure implementation within one year of the date of the order in this proceeding. If at that time, the Company is found not to be in compliance, a show cause proceeding may be initiated. (LEE)

**STAFF ANALYSIS:** During the course of reviewing Gulf's submitted study data, Staff noted that the Company does not always transfer the accumulated depreciation associated with a transfer of investment. Gulf asserts that it is appropriate to apply a materiality threshold of $50,000 in deciding whether to transfer reserves with investment dollars. This practice is in conflict with standard depreciation principles and practices as well as with the Federal Energy Regulatory Commission's (FERC) Uniform System of Accounts (USOA) as adopted by Rule 25-6.014, Florida Administrative Code. The Code of Federal Regulations (CFR), Title 18, Subchapter C, Part 101, Instruction No. 12, Transfers of Property, specifically states that "any related amounts carried in the accounts for accumulated provision for depreciation or amortization shall be transferred in accordance with the segregation of such accounts." (Emphasis added) There is no mention of a materiality threshold. In addition, Gulf is the only investor-owned electric company in Florida that is not in compliance with this USOA requirement.

In response to Staff's inquiries, the Company cited a FERC audit directive dated October 1, 1981. This audit found that the Company was not in compliance with the CFR, Instruction No. 12, which requires the transfer of the accumulated depreciation relating to transferred property, and recommended that the Company institute procedures which would require the transfer of related accumulated depreciation when the original costs of the electric plant transferred exceeded $50,000. Staff has discussed this audit directive with the Office of Chief Accountant (FERC) since it appears to contradict of the USOA. The Office of the Chief Accountant supports the FPSC Staff's position that related amounts of accumulated depreciation should be transferred along with the plant investment without applying a materiality threshold. Further it is our understanding that this audit directive was not intended to establish a materiality threshold or to set precedent.

Gulf stated in its response to the Staff Report that it "has an obligation to maintain the plant accounting records in the most efficient and cost-effective manner". Staff agrees with this but opines that a practice of a $50,000 materiality threshold distorts the capital recovery position of the Company. As long as the investment dollars are in a given account, those dollars are accruing depreciation and that accumulated amount should be transferred with the associated plant amount. Failure to do so will overstate the reserve for the account from which the transfer originated and will understate the reserve for the receiving account.

Gulf further commented in its response to the Staff Report that transferring the accumulated depreciation is an "unjustifiable" activity and places an undue burden on the Company and can not be cost-justified. The Company stated that a review of the 1990-1992 activity indicated that 90% of all reclassifications and transfers were over the $50,000 threshold and were captured under its current policy leaving only 10% of the investment transferred without its appropriate reserve. From the data submitted, Staff has no way to verify these figures. Staff believes that its recommendation to transfer the reserve associated with the transferred investment will not place a hardship on Gulf since, by the Company's own admission, the majority of the reclassifications and transfers are already being handled consistent with the FERC Uniform System of Accounts and standard depreciation principles.

Staff recommends that the Company, beginning with the 1994 activity year, initiate procedures to transfer the appropriate reserve amount associated with investment transfers and bring its records and procedures into compliance with the CFR, Instruction No. 12. A follow up audit will be performed to assure implementation within one year of the date of the order in this proceeding. If at that time, the Company is found not to be in compliance, a show cause proceeding may be initiated.

**ISSUE 4:** What treatment should be made to the accumulated reserve adjustments attributable to interest synchronization (Job Development Investment Credit - JDIC)?

**RECOMMENDATION:** The accumulated JDIC amount of $615,677, System ($600,763, Jurisdictional) should be allocated as indicated below. (MEEKS)

|  |  |  |  |
| --- | --- | --- | --- |
| RECOMMENDED JDIC ALLOCATION | | | |
| ACCT. | 1-1-93  BOOK  RESERVE  (SYSTEM) | ALLOCATION | RESTATED  1-1-93  RESERVE  (SYSTEM) |
| Plant Crist Precipitator | $2,538,429 | $615,677 | $3,154,106 |

**STAFF ANALYSIS:** In Order No. 19901, issued August 30, 1988, the Commission ordered Gulf to book the monthly interest synchronization adjustments to a non-account-specific reserve entry and, at the next represcription of depreciation rates, allocate these accumulated amounts to specific accounts as needed. Order No. 23573, issued October 3, 1990, established new rates for Gulf customers and the booking of JDIC ceased. The Company has proposed to allocate the accumulated JDIC in the amount of $615,677, System, to three specific accounts: Account 356, Overhead Conductors and Devices; Account 364, Poles, Towers and Fixtures; and Account 392.2, Transportation Light Trucks. The basis for this allocation is that these accounts all have substantial reserve deficits as calculated using the Company's proposed rates. However, these deficits are not fully corrected by the Company's proposal.

General guidelines used by the Staff for corrective reserve transfers are:

No account should be reduced below its theoretical level.

Accounts with short remaining lives showing inadequate reserves

(as compared to the theoretical level) caused by prudent acceleration of retirement plans, should be corrected to the degree possible.

Because of the uncertainty involved in making service life estimates, correction of apparent reserve deficits becomes less critical as the expected life increases. That is, only large apparent imbalances should be addressed as the expected life reaches twenty or more years; otherwise, we are fine-tuning a figure which is inherently somewhat uncertain.

Relatively minor imbalances are not generally corrected, unless associated with short remaining lives, due to the inherent frailty of life and salvage estimates.

Staff recommends that the JDIC allocation be transferred to partially offset the unrecovered investment for the retiring precipitator at Plant Crist.

As Staff understands it, Gulf allocates investment percentages by depreciable account to the non-regulated Appliance Sales operation and to non-jurisdictional wholesale customers. In light of the possible impact of reserve transfers on cost allocations and jurisdictional separations, the Company should make corresponding entries to the related depreciation expense accounts.

**ISSUE 5**: What are the appropriate recovery schedules?

**RECOMMENDATION**: The Staff recommended recovery schedules are shown on Attachment A, page 29. These recovery schedules are designed to recover the net investment related to the Plant Crist Department of Energy project as well as the precipitator at Plant Crist and the fly ash pond at Plant Daniel. The recovery period will be the remaining period this equipment will be in service. The monthly expenses for these schedules should be obtained by dividing the net plant for the month by the number of months remaining in the recovery period. All activity relating to these schedules should be booked to this schedule and not to another depreciation category or account. (MEEKS)

**STAFF ANALYSIS**: According to the Company, the Plant Crist Department of Energy (DOE) project is currently planned for retirement in 1995. The purpose of this Plant Crist DOE Selective Catalytic Reduction (SCR) project is to evaluate commercial catalysts for their performance in the destruction of nitrogen oxide compounds as applied to utility boilers burning high-sulfur U.S. coal. A two year test period for this pilot plant was selected by Gulf as the minimum amount of operating time required to fully establish catalyst deactivation curves and thus estimate the catalyst lifetime. With this in mind, the Company has proposed a two year recovery schedule to recover the associated investment and estimated costs of removal. However, the Analysis Summary in the study indicated application of a whole life depreciation rate (two year average service life with a (6)% net salvage) of 53%. Since there is no reserve position in a whole life rate calculation, there is no measure of what is remaining to be recovered. It is obvious that application of a whole life rate will over recover the $605,000 investment and $36,300 estimated removal cost by about $200,000. In addition, recognizing that the whole life rate will not self adjust to provide recovery for any interim activity, Staff recommends a recovery schedule as shown on Attachment A which will adjust for any shifts in plans or interim activity such as unexpected salvage.

In addition, certain production plant equipment is expected to retire in connection with the projects planned to comply with environmental regulations. The existing fly ash pond at Plant Daniel will be capped and retired by year-end 1994 with the construction of a dry ash facility. Further, the precipitator at Plant Crist Unit 6 is planned for replacement during 1994 to improve particulate removal capabilities. Recovery schedules as shown on Attachment A are recommended for the net unrecovered investments associated with these retirements. The period of recovery is designed to match the remaining period this equipment will be in service.

The investments and associated reserves should be withdrawn from their parent accounts and placed in separate subaccounts. Monthly expenses for these schedules should be determined by dividing the net plant for each month by the planned remaining months in service. This mechanism will adjust for any shifts in plans or unexpected positive or negative salvage.

The fundamental purpose of depreciation is the matching of expense to consumption. Asset or unit depreciation is ideally perfect. To the extent that the life of each asset can be predicted and the recovery of each asset can be accounted for and monitored, asset or unit depreciation would probably be the standard for all items of plant. However, with the detail record keeping and specific projections for life and salvage required for unit depreciation, this process has not been considered practicable, which led to the industry practice of using group depreciation.

Under group depreciation, it is recognized that some assets within the group will experience a life shorter than the average while others will experience a life longer than the average; on the average, recovery will be accomplished in spite of these anomalies. Group depreciation accomplishes the same end-point as unit depreciation with much less expenditure of effort. However, it is important to keep in mind that by the very nature of the group, there can be a variation of service lives among the contained items in the group, even if all those items are identical. If a group consists of substantial portions expected to have inherently different life patterns, Staff believes that group should be considered for subdividing into more homogeneous groups.

A practical use of unit depreciation is in the case of substantial or significant investments that are ultimately budgeted for final removal. The associated unrecovered investments should be segregated and recovered over their remaining service life. While the remaining life mechanism, if regularly monitored, is designed to recover the net investment over the remaining life of the group, Staff believes that when it is determined that the group contains substantial assets with significantly shorter expected remaining lives than the group average, those assets should be quantified, withdrawn from the group and addressed separately. If these short-lived assets are not recovered separately, recovery will be achieved over the remaining life of the replacing assets. The matching of expenses to consumption will no longer be accomplished.

The debate lies in the determination of the group. Gulf asserts that the group is the account or site for which a depreciation rate is prescribed. Staff believes, however, that the group should be a homogeneous category whether that is at a site level, an account level, a subaccount level, or some other stratified level. Gulf argues that as depreciable property nearing retirement is subcategorized and recovered separately through the use of capital recovery schedules, the efficiencies gained by using group depreciation diminish. However, it should be noted that Gulf itself has proposed a recovery schedule for the Plant Crist DOE project which is designed to provide recovery of the net unrecovered investment over the remaining period the equipment will be in service. Gulf's arguments objecting to the use of capital recovery schedules would support combining this short lived investment with that of the total site, thus achieving recovery over its proposed 18.3 years rather than two years. As with subcategorization, Staff's rationale for capital recovery schedules is to provide more homogeneous categories thereby providing more accurate recovery, not a proliferation of record-keeping. If the goal is not to provide more accurate recovery, then perhaps Gulf's argument has merit and we should no longer be concerned with the matching of expenses to consumption or with intergenerational equity.

Gulf further argues that the practice of capital recovery schedules can result in a distortion of the average service life and the group's depreciation rate. In addition, these investments being retired do not constitute either significant costs, a canceled construction project or premature plant closure; therefore, Gulf asserts that no capital recovery schedule is necessary. To the contrary, Staff opines that without capital recovery schedules and subcategorization, depreciation rates will be distorted since rates in the future will need to increase to recover the significant reserve deficiency associated with these investments no longer in service but nevertheless still in rate base. These deficiencies will not be recovered until the demise of the associated group including all future additions and replacements to that group. In the meanwhile, the Company will continue to earn on plant no longer serving the public.

Finally, Gulf takes issue with Staff's presumption that unrecovered costs - if significant - should be fully recovered by the time the assets are retired since it is unable to find any such requirement in the Florida Administrative Code or the FERC USOA. However, depreciation, as defined by any book or publication, is to provide a systematic recovery of invested capital over the period the assets represented by that capital are serving the public. The intent is that customers benefitting from the plant at any point of time will be bearing their appropriate share of the depreciation expense. The matching of expenses to consumption is the goal. Additionally, regarding the question of significance, it should be noted that Gulf's own proposed recovery schedule for the Plant Crist DOE project's unrecovered investment of approximately $207,000 is substantially less than either of Staff's proposed recovery schedules which total approximately $4.5 million for the Plant Crist precipitator and the Plant Daniel fly ash pond.

**ISSUE 6**: What are the appropriate depreciation rates and amortization schedules?

**RECOMMENDATION:** The Staff recommended lives, net salvages, reserves and resultant depreciation rates are shown on Attachment B, page 30. This results in an decrease in annual depreciation expense of approximately $2.2 million based on January 1, 1994 investments as shown on Attachment C, pages 31-32.

(LEE, MEEKS, BASS, NEIL)

**STAFF ANALYSIS:** Staff's recommendations are the result of a comprehensive review of the Company's depreciation study. Attachment B shows a comparison of the currently approved, Company revised proposed, and Staff recommended rate parameters (lives, salvages, and reserves). Attachment C shows a comparison of resultant expenses based on estimated January 1, 1994 investments.

The major differences between the Company and Staff's position lie in the areas of steam production plant lives and use of capital recovery schedules. Another difference is found in the investment and reserve positions used by Staff. While the Company's study was based on estimated 1992 and 1993 data, Staff used actual 1992 investment and reserve balances brought forward with Gulf's projected 1993 activity. A brief discussion of each account is included below.

General

In responding to the Staff Report, the Company has taken exception with Staff's use of a "retirement rate" in determining the validity of the analysis in several accounts and the position that Staff's calculations of such a rate are erroneous. Staff calculated a retirement rate based on retirements that occurred during a given period (retirements divided by exposures). Exposures are defined as the amount of plant "exposed" to retirement during the year, i.e, the plant in service at the end of the year plus retirements. This retirement rate is used by Staff as a measure of the historical retirement activity. When an account has a limited retirement history, in many cases around a 1% or less annual retirement rate, Staff's opinion is that any statistical analysis is meaningless and reliance on industry projections and averages becomes necessary.

Analysis of the past is of value, obviously, to tell how the assets have lived but not necessarily how they will live. The weight to be given past experience depends upon the extent to which conditions affecting service life in the future are expected to be similar to or different from those in the past. What we are determining is how these assets will live in the future. Several other considerations for life expectancies are company planning, service requirements, and the operating environment. We believe that these considerations are as important if not more important than statistical analysis of history.

Dismantlement

The Commission voted at the May 2, 1993 agenda conference to continue use of Gulf's current method in determining accruals for fossil fuel dismantlement costs. As a result, revised dismantlement accruals were submitted. In the past, the provision for dismantlement costs was included as a component of the net salvage factor in the depreciation rate design for production plant assets. In this study, however, the Company's proposed dismantlement accruals have been calculated separately from the depreciation rates and are to be applied as a fixed amount over the next four years beginning in 1994. Included in these costs is a contingency factor of 10% to cover uncertainty in the estimates. Staff recommends acceptance of the Company's proposed dismantlement cost accruals which amount to $4,679,921 annually.

Amortizations

Certain general support asset account investments are being amortized under Rule 25-6.0142, Florida Administrative Code. The embedded investments for each of these equipment types are shown on page 32, as well as the associated amortization period as set forth in the rule and the resultant expense.

Depreciation Rates

A. Production Plant

Production plant investments represent the major and most controversial area of potential change in depreciation requirements. It should be recognized that a considerable portion of the embedded investment (such as pumps, motors, ductwork, turbine generators and condensers) is subject to retirement on an interim basis and might be expected to have different life and salvage characteristics than the portions which are subject to longer lives and potentially high dismantlement costs.

Gulf stratified its total steam production plant by account (all units and sites combined) and then developed an historical life and curve shape for each strata. This life and curve shape were then applied to the investment strata in the account on an individual plant unit basis to simulate future interim retirements. As Gulf stated in its response to the Staff Report, the estimation of future retirements "recognizes the dispersion of retirements Gulf has experienced in the past." While this may be true, reliance on historical analysis to project the future is valid only to the extent that the past is considered to be indicative of the future. Staff believes judgement and planning are more important key factors that should be considered when estimating the future life characteristics of any given plant. We are of the opinion that probable future conditions must be considered as well as past life indications in determining appropriate depreciation parameters. This is where Gulf's analyses appear to fall short. Staff is concerned that the analyses do not give sufficient recognition to the impacts of the Clean Air Act Amendments, or the increasing competitive impacts of qualified facilities, and the cogeneration and alternative energy facilities that could significantly affect the remaining service life of the production plants. For this reason, Staff asked the Company for an engineering projection of retirements by unit by account for each year along with a description of the types of equipment associated with each projection. Gulf responded that this type of information was not available and the cost of obtaining such would be prohibitive. We find this most curious since engineering projections were supplied in the Company's last represcription and are typically supplied by other companies.

Staff is left in a quandary with respect to recommended steam production lives. Considering our concerns discussed above, and lacking anything better, it appears logical to retain the currently prescribed remaining lives and net salvages (excluding the dismantlement provision). Our recommended depreciation rates for the steam production plants include the 1/1/94 reserve position restated to reflect the withdrawal of the reserves associated with the near-term retiring investments discussed in Issue 5.

Subcategorization

Gulf's current depreciation rates for its production plants were prescribed on a total plant site basis. Rule 25-6.04361, Florida Administrative Code, establishes subaccounts for electric plant under the accounts prescribed by FERC. For Production Plant, the rule states that "the following accounts shall be maintained, at a minimum, on a plant site basis. It is preferable, however, that the accounts be maintained for each individual unit within each plant site." The rationale for subcategorization is to provide more homogeneous categories thereby providing more accurate rates of recovery, not a proliferation of record-keeping. It goes without saying that if homogeneity exists at a site level, then further subcategorization would perhaps be unnecessary. While Gulf has provided the details at a unit level and even an account by unit level, it has nevertheless proposed that rates continue to be maintained at a site level. It argues that rates by unit by site are not justified or necessary since application of a composite rate for each plant results in the same total accrual and corresponding reserve as if the rates were applied on a unit basis.

Currently prescribed depreciation rates for production plant for FPL have been established for each unit of each production site (40 rates); FPC's rates are for each primary account for each production site (29 rates); and TECO's rates are for each unit of each production site (15 rates). None of these companies have asserted that this established level of subcategorization is cost prohibitive and not justified or necessary. In addition, the level of intricate detail presented by Gulf supporting its forecasted interim retirements of its production plants simply does not correspond to its assertion that the detail needed to maintain depreciation rates by unit by site would be burdensome. While Staff recommendation in this case is to retain currently prescribed remaining lives for production plant and those lives and resultant rates just so happen to be at a production site level, this should not be construed that Staff agrees that further subcategorization may not be in order. We will continue to address the need for additional subcategorization in the Company's next prescription.

B. Transmission Plant

1. Account 350.2, Easements and Rights of Way: The Company proposed SQ-75 year life represents the maximum probable life of its transmission lines. The resultant average remaining life of 53 years with a zero net salvage factor is reasonable and acceptable to Staff.

2. Account 352, Structures and Improvements: The Company proposes to maintain the S3 curve shape and the 40 year average service life that underlie the current remaining life. Using the account average age of 7.9 years produces the recommended average remaining life of 32 years. The Company has proposed to maintain the current prescribed (5)% net salvage factor. These life and salvage factors are in line with current industry projections and are acceptable to Staff.

3. Account 353, Station Equipment: This account's investment has increased about 29% over the past five years and has experienced an average annual retirement ratio of around 1%. The Company proposed 38 year average service life and R2 curve shape is reflective of this activity. Using the 14.5 year average age produces a 26 year average remaining life. Gulf has also proposed to maintain the current prescribed (5)% net salvage factor. Staff recommends acceptance of the Company proposed life and salvage parameters as being reasonable and in line with current industry projections for this account.

4. Account 354, Towers and Fixtures: Staff recommends the acceptance of the Company proposed remaining life of 19.2 years. This represents a general concurrence between the current underlying parameters and the Company's analysis for this account.

The Company has asserted that data records for this account do not provide a clear indication for expected net salvage. Therefore, continuation of the currently prescribed net salvage of negative 20% has been proposed. In reviewing the explanations provided by the Company for data since the last study, apparent contradictions and further questions have developed. In absence of a clear and tenable pattern which can be discerned from the information available, Staff agrees with the Company not to change the current prescribed net salvage factor, since it falls within the range of normal industry expectations for Florida.

5. Account 355, Poles and Fixtures: Recognizing that recent activity does not suggest the need for change, Staff agrees with the Company and recommends the continuation of the underlying life parameters: 37 year service life, and S0 curve. Using the current age of 11.4 years results in an average remaining life of 29 years.

The Company has, since 1987, implemented an allocation of overhead expenses which increased the amounts shown for cost of removal for this type of plant; the cost of removal for the band 1987-1991 exceeds 100%, which is far in excess of the range of similar costs indicated by the industry in Florida. At this time, Staff recommends moving to a negative 35% net salvage for this account, which reflects the maximum average cost of removal recognized by Florida electric power providers.

6. Account 356, Overhead Conductors and Devices: Staff recommends acceptance of the remaining life of 18.3 years, based on the Company's proposed S3 curve shape with continuation of the currently approved 35 year service life. Both the service life and curve appear to match recent activity for this Company, and future activity is expected to continue the pattern. Continuation of the currently prescribed net salvage of negative 20% is also recommended, based on industry expectations.

7. Account 358, Underground Conductors and Devices: This account consists primarily of submarine cable installed during 1988 and 1989 at the Bayou Chico-Naval Air Station and Choctaw locations. It is Staff's understanding that these submarine cables are not expected to experience any type of interim retirement pattern and will be retired in place. This supports the Company's selection of an SQ curve. Gulf selected use of the 35 year service life that underlies Florida Power and Light's (FPL) currently prescribed average remaining life because FPL's investment is stated to be significantly larger and, therefore, more likely to incorporate observed life characteristics. Staff does not believe that the size of an account's investment is a basis for estimating life. In selecting an average service life, many other factors should be considered such as the operating environment, company planning and service requirements. Further, Staff believes that when there is a minimum amount of retirement data for life analysis as is the case for this account, reliance upon industry projections and averages is a viable option. With this in mind, Staff recommends use of a 40 year average service life instead of the proposed 35 year life. When used with an SQ curve and average age of 4.9 years, the recommended average remaining life of 35 years results.

Even though these cables are normally retired in place with no expected gross salvage, some cost of removal is likely to be incurred (digging down to, capping off and securing the cables). Staff is of the opinion that the current salvage factor of (5)% is still appropriate for this account instead of the Company proposed zero salvage factor.

8. Account 359, Roads and Trails: The Company proposed 54 year remaining life and zero net salvage are reasonable and acceptable to Staff.

C. Distribution Plant

1. Account 360.2, Easements and Right of Way: An easement, which is defined as a right of use over the property of another, is a depreciable asset under the USOA. However, since all of the investment in this account has been reclassified to "fee simple land", which is ownership of the land, Staff agrees that there is no longer a need for a depreciation rate for this account.

2. Account 361, Structures and Improvements: The Company has proposed a change in curve shape from the current SQ curve to an S3 curve shape with a 40 year average service life. Staff agrees with this proposal as the current SQ curve does not recognize the interim retirements being experienced in this account. A 30 year average remaining life results. The Company proposal to maintain the current prescribed (5)% salvage factor is reasonable and in line with current industry projections.

3. Account 362, Station Equipment: According to the Company, the equipment in this account is similar to that in the Transmission Account 353 (Station Equipment) and is therefore expected to have similar life characteristics. Using a 38 year average service life and R2 curve shape results in an average remaining life of 29 years. This is acceptable to Staff.

Staff agrees with the Company's conclusion that the apparent trend in this account is a rise in removal costs. The last five years of activity have produced an average net salvage of around (6)%. Based on this, Staff finds the proposed (5)% salvage factor to be reasonable.

4. Account 364, Distribution Poles, Towers and Fixtures: The Company's proposal to move to the S0 curve shape and an average service life of 32 years is in line with the experience for this account, and is recommended by Staff. Staff also recommends the proposed remaining life of 24 years.

The net salvage for this account is a composite of at least three major constituents: effects from retirement of fixtures on leased poles, retirement and disposal of creosote poles, and retirement of chromated-copper-arsenate (CCA) poles. About 40% of the current investment in this account is reported to relate to the CCA treated poles, which were installed beginning in 1988. There is no data yet on the life pattern and disposal cost in regard to this type of equipment. Gulf reports that approximately 13% of its fixtures are on leased poles, and also that recent retirements were predominantly creosote poles. From the information provided with each year's activity, about 75% of the removal costs relate to miscellaneous line replacement activity, which may include both older poles and fixtures on leased poles. It becomes clear that the Company has experienced an elevated cost of removal in recent years, but the underlying reasons for those costs will not impact all of the investment in this account. Further, it becomes difficult to determine the level of impact which would logically be expected. In fact, such a determination cannot be made in the absence of some very specific data on the breakdown of account investments and retirements. Without specific information upon which calculations may be based, Staff's recommendation is to use a net salvage factor of negative 50%, as a conservative response to the observed increase in cost of removal as it would apply to the future retirement of the overall account.

5. Account 365, Overhead Conductors and Devices: Staff recommends acceptance of the Company's proposal of a 24 year remaining life, resulting from an S1 curve and 32 year service life. Staff has some concern, however, that the analysis of this account, as performed by the Company, may emphasize the ups and downs of recent activity, and thus detract from perception of the real characteristics of the life pattern for the equipment/investment which is being examined. Nevertheless, the proposed change is in line with the experience of the Company, and within the range of industry expectations, and is therefore recommended.

The Company's proposal for net salvage is a change from negative 10% to positive 10%, but the study states that "no clear pattern is apparent." The Company explains that salvage from 1988 to 1990 is discounted because it related to large retirements of oil circuit reclosers which are not expected to be recurring. The conclusion is drawn by the Company that "salvage can be expected to exceed removal costs," although this was not the case prior to 1987, nor was it the case in 1992. Also, Staff notes that scrapped materials from other accounts are commingled with scrapped materials associated with this account. Staff does not agree with the conclusion or the proposed change formulated by the Company, and is concerned that no reason has been provided for this Company to be different from similar companies in Florida. Therefore, Staff recommends retaining a negative 10% net salvage as being consistent with experience of other companies in the industry.

6. Account 366, Underground Conduit: The Company proposal represents an update of age and accounting activity since the last review. Using the currently prescribed L4 curve and 50 year average service life results in the proposed 32 year average remaining life. This is reasonable and acceptable to Staff. The Company proposal to retain the current net salvage factor of zero reflects both this account's experience and industry expectations and is acceptable to Staff.

7. Account 367, Underground Conductors and Devices: Beginning in 1986, Gulf began installing jacketed cable which, according to Company engineers, is expected to have a 30 year life. Weighting this with the service life of the unjacketed cable and other components that make up this account, the Company has proposed a 28 year average service life and retention of the current R3 curve. The result is an average remaining life of 20 years. Staff finds this to be reasonable and in line with current industry projections.

It would appear that positive net salvage has been realized since about 1983 in this account. However, under normal circumstances, this type of plant is abandoned in place and any salvage realized is more than offset by the cost of cutting and capping the cable. For this reason, Staff accepts the Company's proposal to maintain the current salvage factor of zero.

8. Account 368, Line Transformers: It is our understanding that the computer runs supporting the Company's proposed curve shape and average service life represent a statistical aging (simulation) rather than actual historical survivors. While Staff agrees that the curve shape should be in the R family, we disagree with the Company's statement that the retirement history for this account is adequate to yield valid results with the SPR analyses. This account's annual retirement rate over the last five years has only averaged around 1% with a growth rate of around 28%. Furthermore, the narrative states that "Gulf's engineers noted no change in technology, other than a conversion to stainless steel transformers at beach locations." With this statement and only the SPR runs for support of the proposed change to an 29 year average service life and R1 curve shape, Staff is of the opinion that a change in the current life parameters is not warranted. Using the account's average age of 10.6 years together with a 25 year average service life and R2 curve shape produces an average remaining life of 16.5 years.

With only a 1% annual retirement rate over the last five years, there is not a convincing argument that the net salvage being experienced is typical of the universe and warrants a change as proposed by the Company to (25)%. This is a cradle-to-grave account and under this accounting method, very little gross salvage is realized. Under this same procedure, very little removal costs are realized unless there are special considerations for disposal. In the Company's response to the Staff Report, no additional information was provided to support the proposed increase in removal costs. Staff does, however, recognize that, with the inclusion of engineering and supervision costs, removal costs have risen over the last five years. With this in mind, Staff recommends a change from the current (5)% to a (15)% net salvage factor. This is reasonable and in line with current industry projections.

9. Account 369.1, Services-Overhead: Staff recommends acceptance of the Company proposal to maintain the average service life of 27 years and the S1 curve. A remaining life of 19.4 years results. This is in line with current industry experience and is reasonable.

Staff recommends continuation of the net salvage factor of negative 30%, which is quite mid-range for the industry. The Company proposal for zero net salvage relates to a recent decrease in the amount of removal cost booked. However, Gulf has recently adopted several practices which do not lend credibility to the salvage data provided in the current study. For example, scrapped material from overhead services is combined with the scrapped material from overhead distribution lines, and none of the value from salvage is booked to the Overhead Services Account. Although the value of this scrap material is currently low, and the material from distribution line scrapped is likely to make up the greater portion of the combined scrap, we do not conclude from these expectations that future gross salvage for this account is correctly set at zero. Additionally, the Company has pointed out that "little time is needed to 'clip and remove' each end of a service." It appears that the data includes only the small cost associated with that activity and excludes any travel or other costs. The implications of these facts render the salvage data meaningless for determination of future net salvage.

10. Account 369.2, Services-Underground: A 24 year remaining life is recommended, based on the 30 year service life and S3 curve, as proposed by the Company. This is in line with current industry projections and is acceptable.

Staff recommends retaining the currently approved net salvage of negative 10%, based on industry-wide experience. The Company proposal of zero net salvage does not reflect expected minimum costs to cut and cap off when the service is retired.

11. Account 369.3, Services-Housepower Boxes: Staff recommends acceptance of the Company proposed 10.6 year average remaining life, based on a 27 year service life and an R3 curve, and 0% net salvage factor. The recommended values are in line with both Company and industry experience.

12. Account 370, Meters: The Company proposed 17.6 year remaining life is in line with current industry projections and is acceptable. This is based on a 27 year average service life and an S1 curve shape.

While the last ten year band of net salvage activity has averaged around (4)%, the cost of removal has dropped and the gross salvage has increased in the last five year band (1988-1992) with an average net salvage of (2)%. Based on this, Staff finds no reason to warrant changing the currently prescribed (3)% net salvage factor.

13. Account 373, Street Lighting & Signal System: The recommended remaining life for this account is 11.8 years; it results from continued use of the R0.5 curve with a service life of 15 years and the current age of 5.3 years. Staff does not find conclusive evidence that a change to the S1 curve shape, as proposed by the Company, is warranted at this time.

Based on data supplied by the Company regarding increased costs of removal, the proposed net salvage factor of negative 10% is acceptable to Staff.

D. General Support Plant

1. Account 390, Structures and Improvements: The Company has used the life span forecast method on a location basis to study this account. A date of final retirement was developed for each location with interim retirements based on the L3 curve using the 43 year life table. This produced an average remaining life of 28 years for the account which, in Staff's opinion, is on the low side of industry projections. Relatively small interim retirements are expected through the lifetime of a structure and the majority of the investment continues until final retirement. Building alterations or the replacement of such things as carpet, air conditioning or other mechanical components will mean that a small percentage of the investment is expected to retire on an on-going basis. The use of an interim retirement rate acknowledges that certain components of these structures will be changed out and retired before the structure itself is retired. Therefore, Staff recommends a 34 year remaining life which results from using a 1% interim retirement rate calculated from historical activity and using the average year of final retirement of 2035 as calculated from the data supplied by the Company.

When structures of this type are retired, the salvage realized at that time is likely to be offset by the removal costs. The Company proposal to maintain the current zero salvage factor reflects this philosophy. Staff finds this to be reasonable and recommends continuance of the zero salvage factor.

2. Account 392.1-Automobiles: The Company has proposed to maintain the current six year average service life with an L4 curve shape. This produces an average remaining life of 3.0 years. This is in line with current industry projections and is acceptable to Staff.

The most recent five year band of salvage activity shows gross salvage ranging from 12% to 23% with an average of 17%. With this in mind, Staff accepts the Company proposal to retain the current salvage factor of 20% as being reasonable.

3. Account 392.2-Light Trucks: The Company has stated that "light trucks are being subjected to more rigorous duty" and as a result, will have a shorter average service life. The Company has defined "more rigorous duty" to mean more mileage in less time. Staff accepts the Company proposed life parameters as being in line with its recent retirement activity. Using the S3 curve and 6 year average service life produces the remaining life of 2.8 years.

The Company proposes to maintain the current salvage factor of 20%. The last five years of net salvage have ranged from 7% to 21% with an average of around 18%. Based on this, Staff accepts the 20% salvage factor as reasonable.

4. Account 392.3-Heavy Trucks: Over the past five years, the investment in this account has increased by about 34%, while the retirement rate has increased from less than 1% to over 8%. Based on its analysis, the Company has proposed an 11 year average service life with an L2 curve shape. This results in the proposed 7.1 year average remaining life. This is in line with this account's experience and is acceptable to Staff.

The Company proposal is to maintain the current net salvage factor of 20% which is based on the belief that the 9 year band of data (1984-1992) is indicative of the future experience of this account; however, the most current five year band (1988-1992) shows an average of around 15%. Staff therefore recommends a 15% net salvage factor.

5. Account 392.4-Trailers: The Company proposal represents an update of age and accounting activity since the last review. Using the currently prescribed SQ curve and 25 year average service life results in the proposed 17.6 year remaining life. This is reasonable and acceptable to Staff.

Staff is concerned with the 20% net salvage factor proposed by the Company. While we recognize that this category usually contains material handling equipment and trailers, we do not believe that a 20% future net salvage factor is likely to be achieved. The most recent five year band (1988-1992) indicates a 15% net salvage. With this in mind, Staff recommends a 15% future net salvage factor.

6. Account 393-Stores Equipment: The Company proposal represents updating the account for age and accounting activity and maintaining the underlying life and salvage parameters. As there has been relatively no retirement activity in this account (less than one-half of a percent), this is acceptable to Staff.

7. Account 394-Tools, Shop and Garage Equipment: The Company proposal represents updating the account for age and accounting activity and maintaining the underlying life and salvage parameters. Since there has been relatively no retirement activity in this account (around one percent), this proposal appears reasonable to Staff.

8. Account 395-Laboratory Equipment: Based on its submitted computer runs, the Company proposes to maintain the current 20 year average service and change the curve shape from an L1.5 to an L2. Staff is of the opinion that the retirement pattern (less than 1% over the past five years) precludes any meaningful analysis and makes reliance on industry averages necessary. Even though there is not a significant difference in the resultant remaining life, Staff recommends retaining the current curve shape. Using the 20 year average service life together with the average age of 6.2 years produces the average remaining life of 14.9 years.

The continued use of the current zero salvage factor is reasonable and acceptable to Staff.

9. Account 396-Power Operated Equipment: Staff accepts the Company proposal to maintain the current life and salvage parameters. Using the SQ curve shape and 20 year average service life results in a 9.0 year average remaining life. This is reasonable and in line with current industry projections. The continued use of the current 15% salvage factor is also acceptable to Staff.

10. Account 397-Communication Equipment: The Company currently maintains the investment and reserve balances and activity for this type of equipment in two different accounts: One for depreciable plant and the other for amortizable plant. Since one of the prime reasons for amortization is to reduce recordkeeping tasks, Staff is surprised to learn that Gulf maintains this account's actuarial data combined between amortizable and depreciable. The type of equipment, as we understand it, that is amortizable is Gulf's telephone system equipment only while the depreciable account contains various microwave, radio (base station and portable) and fiber optic equipment. In response to the Staff Report, Gulf stated that the entire account (both amortizable and depreciable added together) is included in the actuarial data base used in the CADLAS analysis and that the actuarial data necessary to perform life analysis for this account is maintained in total and cannot be segregated between the amortizable and depreciable property. This negates any life analysis performed on this data since it includes the amortizable investment as well as the depreciable investment. Staff recommends that the Company should maintain these two sub-account separated between amortizable and depreciable, and the necessary steps should be instituted to segregate the actuarial data on a prospective basis.

Staff is concerned about the age distribution for this account which shows investment surviving from as far back as 1947. This account has been profoundly affected by technological advances; therefore, investment that represents equipment still in service that is about 45 years old is suspect. Because of the age of the surviving investment, Staff strongly urges the Company perform a physical inventory on this account, making the necessary accounting adjustment to its books based on the inventory results.

The Company proposal represents a change in curve shape from an R3 to an S1 but maintains the current 24 year average service life. While Staff has no real problem with this proposal, the 24 year average service life is longer than current industry projections. Using the S1 curve and 24 year average service life results in the Company proposed 18.6 year average remaining life which is acceptable to Staff. However, as mentioned above, Staff has concerns about the age distribution and its implications; therefore, it is suggested that the Company monitor this account for significant developments.

Staff is of the opinion, that with the limited retirement experience for this account (1% annual retirement rate-1988-1992), a change in the net salvage factor from the current (3)% to the Company proposed (2)% is not justified at this time. Based on this, Staff recommends retaining the current net salvage factor of (3)%.

**ISSUE 7:** Should the current amortization of investment tax credits (ITCs) and the flowback of excess deferred income taxes be revised to reflect the approved depreciation rates and recovery schedules?

**RECOMMENDATION:** Yes. The current amortization of ITCs and the flowback of excess deferred income taxes should be revised to reflect the approved depreciation rates and recovery schedules. Also, the utility should be required to file detailed calculations of the revised ITC amortization and flowback of excess deferred taxes at the same time it files its January 1994 surveillance report. (HICKS)

**STAFF ANALYSIS:** In issues previously addressed, Staff recommends revisions to Gulf Power Company's depreciation rates and capital recovery schedules, to be effective January 1, 1994. Revising a utility's depreciation rates usually results in a change in its rate of ITC amortization and flowback of excess deferred income taxes.

Section 46(f)(6) of the Internal Revenue Code (IRC) states that the amortization of ITCs should be determined by the period of time used in computing depreciation expense for purposes of reflecting regulated operating results of the utility. Since Staff is recommending a change in depreciation rates, it is also appropriate to change the amortization of ITCs.

Section 203(e) of the Tax Reform Act of 1986 (TRA) prohibits rapid write-back of protected (depreciation related) deferred taxes. In addition, Rule 25-14.013, Accounting for Deferred Income Taxes under SFAS 109, Florida Administrative Code, prohibits, without good cause shown, excess deferred income taxes associated with temporary differences from being reversed any faster than allowed under Section 203(e). Therefore, both the TRA and Rule 25-14.013, Florida Administrative Code, prohibit faster write-off of protected excess deferred taxes. Consequently, Staff recommends that the flowback of excess deferred taxes should be altered to comply with the TRA and Rule 25-14.013.

The Company submitted calculations detailing the impact of its proposed depreciation rates on the amortization of investment tax credits and the flowback of excess deferred income taxes if the requested depreciation rates are approved. Staff has reviewed the calculations and believes they are reasonable. However, Staff is recommending adjustments to the company's depreciation study. As a result, the ITC amortization and the flowback of excess deferred income taxes will also change.

Consequently, Staff recommends that the current amortization of ITCs and the flowback of excess deferred income taxes be revised to reflect the approved depreciation rates and recovery schedules. Also, the utility should be required to file detailed calculations of the revised ITC amortization and flowback of excess deferred taxes at the time it files its January 1994 surveillance report.

**ISSUE 8**: Should this docket be closed?

**RECOMMENDATION:** Yes. If no substantially affected person timely files a protest to the Commission's notice of proposed agency action, this docket should be closed. (MEEKS)

**STAFF ANALYSIS:** If no substantially affected person files a timely request for a Section 120.57, Florida Statutes, hearing within twenty-one days, no further action will be required and this docket should be closed.

GULF POWER COMPANY

1993 DEPRECIATION STUDY

RECOMMENDED RECOVERY SCHEDULES

1‑1‑94 1‑1‑94 EST. EXPECTED NET TO BE PERIOD OF 1994 1995

INVESTMENT RESERVE ADDS. SALVAGE RECOVERED RECOVERY EXPENSE EXPENSE

($) ($) ($) ($) ($) (Yrs.) ($) ($)

Plant Crist:

DOE Project 605,000 226,872 0 (36,300) 414,428 2 Yr. 207,214 207,214

Precipitator 4,714,764 3,154,106 \* 0 (375,000) 1,935,658 1 Yr. 1,935,658

Plant Daniel:

Fly Ash Pond 245,851 99,324 0 (2,022,000) 2,168,527 1 Yr. 2,168,527

TOTAL 5,565,615 3,480,302 0 (2,433,300) 4,518,613 4,311,399 207,214

\*Denotes restated reserve

The monthly expense for each recovery schedule shall be calculated by dividing the net amount to be recovered by the months remaining for recovery. This will take

care of additions and interim retirements, as well as actual salvage experienced and any shifts in retirement dates. All activity relating to these schedules shall be

recorded to these schedules and not to another depreciation category or account.

GULF POWER COMPANY

1993 STUDY

COMPARISON OF RATES AND COMPONENTS

ACCOUNT CURRENT COMPANY PROPOSAL STAFF RECOMMENDATION

AVERAGE REMAINING AVERAGE REMAINING AVERAGE REMAINING

REMAINING NET LIFE REMAINING NET ESTIMATED LIFE REMAINING NET ESTIMATED LIFE

LIFE SALVAGE RESERVE RATE LIFE SALVAGE RESERVE RATE LIFE SALVAGE RESERVE RATE

(YRS.) (%) (%) (%) (YRS.) (%) (%) (%) (YRS.) (%) (%) (%)

**STEAM PRODUCTION PLANT**

Plant Crist 23.0 (22.0) 38.61 3.6 18.3 (2.0) 39.82 3.4 23.0 (2.0) 40.89 2.7

Plant Scholz 19.4 (38.0) 66.22 3.7 13.8 (1.0) 62.98 2.8 19.4 0.0 66.62 1.7

Plant Smith 21.0 (31.0) 47.11 4.0 20.0 (2.0) 46.23 2.8 21.0 (3.0) 47.20 2.7

Plant Daniel 25.0 (13.0) 28.00 3.4 25.0 (2.0) 40.01 2.5 25.0 (3.0) 40.40 2.5

Plant Scherer 34.0 (11.0) 2.20 3.2 35.0 (4.0) 21.60 2.4 34.0 0.0 21.88 2.3

**OTHER DEPRECIABLE STEAM PRODUCTION**

310‑Plant Daniel Easements 29.0 0.0 31.37 2.4 33.0 0.0 45.77 1.6 29.0 0.0 45.77 1.9

310‑Plant Crist Easements 31.0 0.0 25.32 2.4 25.0 0.0 39.72 2.4 31.0 0.0 39.72 1.9

311‑Plant Daniel Rail Road 25.0 (13.0) 28.00 3.4 33.0 0.0 50.42 1.5 33.0 0.0 50.42 1.5

316 ‑ Production Plt Furniture Equip. 5 Year Amoritization 5 Year Amoritization 5 Year Amoritization

316 ‑ Production Plt Furniture Equip. 7 Year Amoritization 7 Year Amoritization 7 Year Amoritization

**OTHER PRODUCTION PLANT**

Plant Smith 13.5 0.0 75.43 1.8 7.5 0.0 85.03 2.0 7.5 0.0 85.03 2.0

**TRANSMISSION PLANT**

350‑Easements 51.0 0.0 30.80 1.4 53.0 0.0 34.81 1.2 53.0 0.0 34.71 1.2

352‑Structures & Improvements 30.0 (5.0) 27.54 2.6 32.0 (5.0) 14.51 2.8 32.0 (5.0) 16.22 2.8

353‑Station Equipment 23.0 (5.0) 29.82 3.3 26.0 (5.0) 35.15 2.7 26.0 (5.0) 34.12 2.7

354‑Towers and Fixtures 25.0 (20.0) 12.43 4.3 19.2 (20.0) 60.49 3.0 19.2 (20.0) 60.43 3.1

355‑Poles and Fixtures 27.0 (30.0) 37.75 3.4 29.0 (62.0) 30.47 4.5 29.0 (35.0) 31.92 3.6

356‑Overhead Conduct. & Devices 23.0 (20.0) 45.88 3.2 18.3 (20.0) 51.85 3.7 18.3 (20.0) 51.81 3.7

358‑UG Cond & Devices 13.5 (5.0) 88.76 1.2 30.0 0.0 6.52 3.1 35.0 (5.0) 6.52 2.8

359‑Roads & Trails 45.0 0.0 31.91 1.5 54.0 0.0 25.36 1.4 54.0 0.0 25.36 1.4

**DISTRIBUTION PLANT**

361‑Structures & Improvements 30.0 (5.0) 22.73 2.7 30.0 (5.0) 22.76 2.7 30.0 (5.0) 22.71 2.7

362‑Station Equipment 26.0 0.0 26.02 2.8 29.0 (5.0) 23.69 2.8 29.0 (5.0) 23.62 2.8

364‑Poles, Towers & Fixtures 19.9 (30.0) 39.56 4.5 24.0 (90.0) 36.60 6.4 24.0 (50.0) 34.57 4.8

365‑Overhead Conductors 23.0 (10.0) 31.91 3.4 24.0 10.0 33.62 2.3 24.0 (10.0) 33.64 3.2

366‑Underground Conduit 31.0 0.0 39.77 1.9 32.0 0.0 34.90 2.0 32.0 0.0 37.73 1.9

367‑Undergrd Conduct. & Devices 21.0 0.0 21.23 3.8 20.0 0.0 30.54 3.5 20.0 0.0 30.63 3.5

368‑Line Transformers 18.4 (5.0) 28.56 4.2 21.0 (25.0) 35.56 4.3 16.5 (15.0) 34.24 4.9

369.1‑Overhead Services 20.0 (30.0) 37.33 4.6 19.4 0.0 40.60 3.1 19.4 (30.0) 42.13 4.5

369.2‑Underground Services 26.0 (10.0) 8.81 3.9 24.0 0.0 19.12 3.4 24.0 (10.0) 18.95 3.8

369.3‑Service‑Housepower Boxes 15.6 0.0 52.36 3.1 10.6 0.0 65.36 3.3 10.6 0.0 65.41 3.3

370‑Meters 17.8 (3.0) 36.75 3.7 17.6 (4.0) 44.80 3.4 17.6 (3.0) 43.28 3.4

373‑Street Lights 11.6 0.0 27.96 6.2 10.4 (10.0) 24.09 8.3 11.8 (10.0) 23.08 7.4

**GENERAL PLANT**

390‑Structures & Improvements 35.0 0.0 9.74 2.6 28.0 0.0 22.66 2.8 34.0 0.0 22.74 2.3

392.1‑Transportation‑Automobiles 3.1 20.0 29.69 16.2 3.0 20.0 50.46 9.8 3.0 20.0 53.08 9.0

392.2‑Transportation‑Light Trucks 3.8 20.0 35.64 11.7 2.8 20.0 37.50 15.2 2.8 20.0 36.78 15.4

392.3‑Transportation‑Heavy Trucks 8.2 20.0 32.66 5.8 7.1 20.0 29.84 7.1 7.1 15.0 28.99 7.9

392.4‑Transporation‑Trailers 17.8 20.0 41.90 2.1 17.6 20.0 26.23 3.1 17.6 15.0 26.06 3.3

393‑Stores Equipment 10.1 0.0 16.41 8.3 6.8 0.0 58.99 6.0 6.8 0.0 57.27 6.3

394‑Tools, Shop & Garage Equip 24.0 0.0 14.87 3.5 22.0 0.0 18.85 3.7 22.0 0.0 17.28 3.8

395‑Laboratory Equipment 16.0 0.0 7.19 5.8 14.6 0.0 6.97 6.4 14.9 0.0 11.58 5.9

396‑Power Operated Equipment 14.5 15.0 38.62 3.2 9.0 15.0 57.66 3.0 9.0 15.0 57.66 3.0

397‑Communication Equipment 16.2 (3.0) 26.83 4.7 18.6 (2.0) 33.83 3.7 18.6 (3.0) 27.54 4.1

391.1‑Office Furniture 7 Year Amoritization 7 Year Amoritization 7 Year Amoritization

391.2‑Electronic Office Equip 5 Year Amoritization 5 Year Amoritization 5 Year Amoritization

392‑Marine and Other Equip 5 Year Amoritization 5 Year Amoritization 5 Year Amoritization

393‑Stores Equipment 7 Year Amoritization 7 Year Amoritization 7 Year Amoritization

394‑Tools,Shop, & Garage Equip. 7 Year Amoritization 7 Year Amoritization 7 Year Amoritization

395‑Laboratory Equipment 7 Year Amoritization 7 Year Amoritization 7 Year Amoritization

397‑Communication Equipment 7 Year Amoritization 7 Year Amoritization 7 Year Amoritization

398‑Miscellaneous Equipment 7 Year Amoritization 7 Year Amoritization 7 Year Amoritization

GULF POWER COMPANY

1993 STUDY

1993 STUDY COMPARISON OF EXPENSES

CURRENT COMPANY PROPOSAL STAFF RECOMMENDATION

1/1/94 1/1/94 CHANGE CHANGE

ACCOUNT ESTIMATED ESTIMATED IN IN

INVESTMENT RESERVE RATE EXPENSES RATE EXPENSES EXPENSES RATE EXPENSES EXPENSES

(%) ($) (%) ($) ($) (%) ($) ($)

**STEAM PRODUCTION PLANT**

Plant Crist 341,422,341 139,599,150 3.6 12,291,204 3.4 11,608,360 (682,844) 2.7 9,218,403 (3,072,801)

Plant Scholz 28,034,273 18,675,367 3.7 1,037,268 2.8 784,960 (252,308) 1.7 476,583 (560,685)

Plant Smith 94,045,287 44,393,579 4.0 3,761,811 2.8 2,633,268 (1,128,543) 2.7 2,539,223 (1,222,588)

Plant Daniel 191,518,297 77,379,261 3.4 6,511,622 2.5 4,787,957 (1,723,665) 2.5 4,787,957 (1,723,665)

Plant Scherer 174,263,113 38,132,495 3.2 5,576,420 2.4 4,182,315 (1,394,105) 2.3 4,008,052 (1,568,368)

Dismantlement N/A 36,576,766 N/A 3,866,448 N/A 4,665,254 \* 798,806 N/A 4,665,254 798,806

Subtotal 829,283,311 354,756,618 33,044,773 28,662,114 (4,382,659) 25,695,472 (7,349,301)

**OTHER DEPRECIABLE STEAM PRODUCTION**

310‑Plant Daniel Easements 77,160 35,317 2.4 1,852 1.6 1,235 (617) 1.9 1,466 (386)

310‑Plant Crist Easements 20,378 8,094 2.4 489 2.4 489 0 1.9 387 (102)

311‑Plant Daniel Rail Road 2,741,618 1,382,261 3.4 93,215 1.5 41,124 (52,091) 1.5 41,124 (52,091)

316 ‑ Production Plt‑ Furniture & Equip. 825,716 520,142 5 Yr Amort. 80,949 5 Yr Amort. 80,949 0 5 Yr Amort. 80,949 0

316 ‑ Production Plt‑ Furniture & Equip. 10,862,863 8,911,879 7 Yr Amort. 1,243,921 7 Yr Amort. 1,243,921 0 7 Yr Amort. 1,243,921 0

Subtotal 14,527,735 10,857,693 1,420,426 1,367,718 (52,708) 1,367,847 (52,579)

**OTHER PRODUCTION PLANT**

Smith Turbine 4,208,774 3,591,495 1.8 75,758 2.0 84,175 8,417 2.0 84,175 8,417

Dismantlement N/A N/A N/A N/A N/A 14,667 14,667 N/A 14,667 14,667

Subtotal 4,208,774 3,591,495 75,758 98,842 23,084 98,842 23,084

TOTAL PRODUCTION PLANT 848,019,820 369,205,806 34,540,957 30,128,674 (4,412,283) 27,162,161 (7,378,796)

**TRANSMISSION PLANT**

350‑Easements 8,780,937 3,048,279 1.4 122,933 1.2 105,371 (17,562) 1.2 105,371 (17,562)

352‑Structures & Improvements 4,682,161 759,400 2.6 121,736 2.8 131,101 9,365 2.8 131,101 9,365

353‑Station Equipment 49,439,636 16,869,538 3.3 1,631,508 2.7 1,334,870 (296,638) 2.7 1,334,870 (296,638)

354‑Towers and Fixtures 22,006,929 13,298,102 4.3 946,298 3.0 660,208 (286,090) 3.1 682,215 (264,083)

355‑Poles and Fixtures 27,215,177 8,685,989 3.4 925,316 4.5 1,224,683 299,367 3.6 979,746 54,430

356‑Overhead Conduct. & Devices 25,110,086 13,008,528 3.2 803,523 3.7 929,073 125,550 3.7 929,073 125,550

358‑UG Cond & Devices 13,612,933 886,917 1.2 163,355 3.1 422,001 258,646 2.8 381,162 217,807

359‑Roads & Trails 52,176 13,234 1.5 783 1.4 730 (53) 1.4 730 (53)

TOTAL TRANSMISSION PLANT 150,900,035 56,569,987 4,715,452 4,808,037 92,585 4,544,268 (171,184)

**DISTRIBUTION PLANT**

361‑Structures & Improvements 9,662,844 2,194,702 2.7 260,897 2.7 260,897 0 2.7 260,897 0

362‑Station Equipment 91,490,980 21,607,323 2.8 2,561,747 2.8 2,561,747 0 2.8 2,561,747 0

364‑Poles, Towers & Fixtures 62,965,623 21,767,928 4.5 2,833,453 6.4 4,029,800 1,196,347 4.8 3,022,350 188,897

365‑Overhead Conductors 80,226,548 26,991,165 3.4 2,727,703 2.3 1,845,211 (882,492) 3.2 2,567,250 (160,453)

366‑Underground Conduit 1,246,374 470,298 1.9 23,681 2.0 24,927 1,246 1.9 23,681 0

367‑Undergrd Conduct. & Devices 25,870,526 7,924,494 3.8 983,080 3.5 905,468 (77,612) 3.5 905,468 (77,612)

368‑Line Transformers 102,729,001 35,177,475 4.2 4,314,618 4.3 4,417,347 102,729 4.9 5,033,721 719,103

369.1‑Overhead Services 31,429,629 13,240,882 4.6 1,445,763 3.1 974,318 (471,445) 4.5 1,414,333 (31,430)

369.2‑Underground Services 12,265,552 2,324,344 3.9 478,357 3.4 417,029 (61,328) 3.8 466,091 (12,266)

369.3‑Service‑Housepower Boxes 7,633,133 4,992,695 3.1 236,627 3.3 251,893 15,266 3.3 251,893 15,266

370‑Meters 21,378,816 9,252,132 3.7 791,016 3.4 726,880 (64,136) 3.4 726,880 (64,136)

373‑Street Lights 19,941,044 4,601,456 6.2 1,236,345 8.3 1,655,107 418,762 7.4 1,475,637 239,292

TOTAL DISTRIBUTION PLANT 466,840,070 150,544,894 17,893,287 18,070,624 177,337 18,709,948 816,661

GULF POWER COMPANY

1993 STUDY

1993 STUDY COMPARISON OF EXPENSES

CURRENT COMPANY PROPOSAL STAFF RECOMMENDATION

1/1/94 1/1/94 CHANGE CHANGE

ACCOUNT ESTIMATED ESTIMATED IN IN

INVESTMENT RESERVE RATE EXPENSES RATE EXPENSES EXPENSES RATE EXPENSES EXPENSES

(%) ($) (%) ($) ($) (%) ($) ($)

**GENERAL PLANT**

390‑Structures & Improvements 51,405,551 11,687,973 2.6 1,336,544 2.8 1,439,355 102,811 2.3 1,182,328 (154,216)

392.1‑Transportation‑Automobiles 2,116,367 1,123,426 16.2 342,851 9.8 207,404 (135,447) 9.0 190,473 (152,378)

392.2‑Transportation‑Light Trucks 3,505,736 1,289,356 11.7 410,171 15.2 532,872 122,701 15.4 539,883 129,712

392.3‑Transportation‑Heavy Trucks 12,837,191 3,721,134 5.8 744,557 7.1 911,441 166,884 7.9 1,014,138 269,581

392.9‑Transporation‑Trailers 1,093,019 284,854 2.1 22,953 3.1 33,884 10,931 3.3 36,070 13,117

393‑Stores Equipment 1,323,810 758,102 8.3 109,876 6.0 79,429 (30,447) 6.3 83,400 (26,476)

394‑Tools, Shop & Garage Equip 826,131 142,741 3.5 28,915 3.7 30,567 1,652 3.8 31,393 2,478

395‑Laboratory Equipment 792,958 91,841 5.8 45,992 6.4 50,749 4,757 5.9 46,785 793

396‑Power Operated Equipment 384,883 221,921 3.2 12,316 3.0 11,546 (770) 3.0 11,546 (770)

397‑Communication Equipment 9,568,481 2,635,286 4.7 449,719 3.7 354,034 (95,685) 4.1 392,308 (57,411)

Subtotal 83,854,127 21,956,634 3,503,894 3,651,281 147,387 3,528,324 24,430

391.1‑Office Furniture 11,283,397 8,739,236 7 Yr Amort. 1,439,790 7 Yr Amort. 1,439,790 0 7 Yr Amort. 1,439,790 0

391.2‑Electronic Office Equip 9,018,515 6,380,714 5 Yr Amort. 837,844 5 Yr Amort. 837,844 0 5 Yr Amort. 837,844 0

392‑Marine and Other Equip 67,994 60,908 5 Yr Amort. 5,341 5 Yr Amort. 5,341 0 5 Yr Amort. 5,341 0

393‑Stores Equipment 1,109,086 881,551 7 Yr Amort. 132,305 7 Yr Amort. 132,305 0 7 Yr Amort. 132,305 0

394‑Tools,Shop, & Garage Equip. 2,164,248 1,607,850 7 Yr Amort. 289,983 7 Yr Amort. 289,983 0 7 Yr Amort. 289,983 0

395‑Laboratory Equipment 2,881,499 1,850,463 7 Yr Amort. 432,533 7 Yr Amort. 432,533 0 7 Yr Amort. 432,533 0

397‑Communication Equipment 2,762,639 1,902,165 7 Yr Amort. 382,167 7 Yr Amort. 382,167 0 7 Yr Amort. 382,167 0

398‑Miscellaneous Equipment 2,260,907 1,974,782 7 Yr Amort. 279,566 7 Yr Amort. 279,566 0 7 Yr Amort. 279,566 0

Subtotal 31,548,285 23,397,669 3,799,529 3,799,529 0 3,799,529 0

Total General Property 115,402,412 45,354,303 7,303,423 7,450,810 147,387 7,327,853 24,430

TOTAL DEPRECIABLE PLANT 1,581,162,337 621,674,990 64,453,119 60,458,145 (3,994,974) 57,744,230 (6,708,889)

TOTAL RECOVERY SCHEDULES 5,565,615 3,480,302 72,069 487,098 415,029 4,518,613 4,446,544

GRAND TOTAL 1,586,727,952 625,155,292 64,525,188 60,945,243 (3,579,945) 62,262,843 (2,262,345)