

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

In re: Petition for approval of regulatory asset
related to the retirement of Plant Smith Units 1
and 2, by Gulf Power Company.

DOCKET NO. 160039-EI
ORDER NO. PSC-16-0361-PAA-EI
ISSUED: August 29, 2016

The following Commissioners participated in the disposition of this matter:

JULIE I. BROWN, Chairman
LISA POLAK EDGAR
ART GRAHAM
RONALD A. BRISÉ
JIMMY PATRONIS

NOTICE OF PROPOSED AGENCY ACTION
ORDER APPROVING REQUEST TO CREATE REGULATORY ASSET
BY GULF POWER COMPANY

BY THE COMMISSION:

NOTICE is hereby given by the Florida Public Service Commission that the action discussed herein is preliminary in nature and will become final unless a person whose interests are substantially affected files a petition for a formal proceeding, pursuant to Rule 25-22.029, Florida Administrative Code (F.A.C.).

Background

On February 24, 2016, Gulf Power Company (Gulf) filed a petition seeking approval to create a regulatory asset and defer recovery of the amounts related to the retirement of Plant Smith Units 1 and 2 (Units). The recovery of the regulatory asset would be deferred to a future proceeding with an effective date after the expiration date of the Stipulation approved in Order No. PSC-13-0670-S-EI,¹ which is the last billing cycle in June 2017. The decision to retire the Units was made after Gulf finalized its Mercury and Air Toxics Standards (MATS) rule compliance strategy for each of its coal-fired units. At December 31, 2015, the Net Book Value of the Units was approximately \$61.9 million and the estimated remaining inventory balance was \$2.9 million. In response to a staff data request, Gulf provided the actual net book value and actual remaining inventory balances of \$60,244,659 and \$2,809,649, respectively, as of the

¹ Order No. PSC-13-0670-S-EI, issued December 19, 2013, in Docket No. 130140-EI, In re: Petition for rate increase by Gulf Power Company.

actual retirement date of March 31, 2016.² The Office of Public Counsel is listed as an interested person in this docket.

This order addresses the creation of the regulatory asset and the deferral of its recovery to a future proceeding. We have jurisdiction over this matter pursuant to Sections 366.04 and 366.06, Florida Statutes (F.S.).

Decision

On February 24, 2016, Gulf filed a petition seeking approval to create a regulatory asset and defer recovery of the amounts related to the retirement of Plant Smith Units 1 and 2. Gulf's decision to retire the units was based on its MATS rule compliance strategy for its coal-fired generating units. Unit 1 began service in 1965 and was previously scheduled to be retired in 2030. Unit 2 began service in 1967 and was previously scheduled to be retired in 2032. Based on the MATS evaluation, the Units were retired on March 31, 2016. At December 31, 2015, the Net Book Value of the Units was \$61,880,482 and the estimated remaining inventory balance was \$2,852,159.

In its petition, Gulf asserts that its best option for compliance with MATS is the retirement of Plant Smith Units 1 and 2. Commission staff requested the MATS compliance alternatives that Gulf explored in an effort to determine the accuracy of this determination. In response to this request, Gulf submitted the Plant Smith Asset Evaluation, dated December 11, 2014.³ After a review of the provided analysis, we are satisfied that the early retirement of Plant Smith Units 1 and 2 is the most cost-effective alternative.

Because the Units are being retired early, certain entries must be made to Gulf's books and records. Rule 25-6.0436(6), F.A.C., requires a utility to compile an annual depreciation status report showing changes to categories of depreciation that will require a revision. In addition, Rule 25-6.0436(7)(a), F.A.C., provides that:

Prior to the date of retirement of major installations, the Commission shall approve capital recovery schedules to correct associated calculated deficiencies where a utility demonstrates that (1) replacement of an installation or group of installations is prudent and (2) the associated investment will not be recovered by the time of retirement through the normal depreciation process.

Gulf's current depreciation rates are based on retirement dates of 2030 and 2032 for the Units. Therefore, the investment in the Units will not be recovered through the normal depreciation process due to the early retirement of the Units.

²Document No. 04002-16, filed June 24, 2016, in Docket No. 160039-EI, In re: Petition for approval of regulatory asset related to the retirement of Plant Smith Units 1 and 2, by Gulf Power Company.

³Confidential Document No. 02442-16, filed April 25, 2016, in response to Staff's Second Data Request Item No. 1, in Docket No. 160039-EI, In re: Petition for approval of regulatory asset related to the retirement of Plant Smith Units 1 and 2, by Gulf Power Company

Pursuant to the Stipulation, Gulf's depreciation and amortization accrual rates in effect at that time remain in effect for the term of the Stipulation; therefore, the utility is prohibited from requesting an amortization rate until the Stipulation term expires.⁴ However, the utility is required to reflect the retirement of the plant on its books and records. On July 14, 2016, Gulf filed a depreciation and dismantlement study that was assigned Docket No. 160170-EI.

In response to a staff data request, Gulf provided the actual net book value and actual remaining inventory balance of \$60,244,659 and \$2,809,649, respectively as the actual retirement date of March 31, 2016. Based on a review of Gulf's filing and its responses to Staff's First and Third Data Request, we find that the Units' Net Book Value of \$60,244,659 and the remaining inventory balance of \$2,809,649 represent the appropriate amounts of the proposed regulatory asset as of March 31, 2015.

Because the Stipulation does not allow Gulf to request an amortization rate during the term of the Stipulation, the early retirement of the Units will require that future revisions be made to the depreciation rates, amortization, and capital recovery schedules. Gulf is generally not required to file any depreciation or dismantlement studies before December 31, 2018. The concept of deferral accounting allows companies to defer costs and seek recovery through rates at a later time. In this case, it is appropriate to create a regulatory asset for the amounts associated with the early retirement of the Units and defer recovery until an amortization rate can be established. Because of the specific circumstances of the Stipulation related to continuing depreciation and amortization rates, the creation of a regulatory asset does not involve deferral of costs that would otherwise be recovered, in part, during the term of the Agreement. At our August 9, 2016 Agenda Conference, OPC represented that the early retirement of the Units was discussed as a possibility during settlement negotiations with Gulf in Docket No. 130140-EI, and can be fairly construed as having been considered in the context of the continuation of depreciation and amortization rates.

In light of the foregoing, we hereby approve Gulf's request to create a regulatory asset related to the retirement of Plant Smith Units 1 and 2 and defer the recovery of the regulatory asset to a future proceeding. Further, our approval to record the regulatory asset for accounting purposes does not limit our ability to review the amounts and recovery period for reasonableness in future proceedings in which the regulatory asset is included.

Based on the foregoing, it is

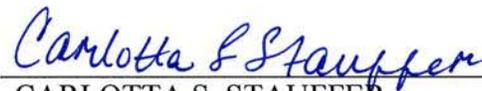
ORDERED by the Florida Public Service Commission that Gulf Power Company's request to create a regulatory asset related to the retirement of Plant Smith Units 1 and 2 and defer the recovery of the regulatory asset to a future proceeding is hereby approved. Our approval herein does not limit this Commission's ability to review the amounts and recovery period for reasonableness in future proceedings in which the regulatory asset is included. It is further

⁴ Document No. 07112-13, filed November 22, 2103, in Docket No. 130140-EI, In re: Petition for rate increase by Gulf Power Company (pp.12-13).

ORDERED that the provisions of this Order, issued as proposed agency action, shall become final and effective upon the issuance of a Consummating Order unless an appropriate petition, in the form provided by Rule 28-106.201, Florida Administrative Code, is received by the Commission Clerk, 2540 Shumard Oak Boulevard, Tallahassee, Florida 32399-0850, by the close of business on the date set forth in the "Notice of Further Proceedings" attached hereto. It is further

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

By ORDER of the Florida Public Service Commission this 29th day of August, 2016.



CARLOTTA S. STAUFFER
Commission Clerk
Florida Public Service Commission
2540 Shumard Oak Boulevard
Tallahassee, Florida 32399
(850) 413-6770
www.floridapsc.com

Copies furnished: A copy of this document is provided to the parties of record at the time of issuance and, if applicable, interested persons.

JSC

NOTICE OF FURTHER PROCEEDINGS OR JUDICIAL REVIEW

The Florida Public Service Commission is required by Section 120.569(1), Florida Statutes, to notify parties of any administrative hearing that is available under Section 120.57, Florida Statutes, as well as the procedures and time limits that apply. This notice should not be construed to mean all requests for an administrative hearing will be granted or result in the relief sought.

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

The action proposed herein is preliminary in nature. Any person whose substantial interests are affected by the action proposed by this order may file a petition for a formal proceeding, in the form provided by Rule 28-106.201, Florida Administrative Code. This petition must be received by the Office of Commission Clerk, 2540 Shumard Oak Boulevard, Tallahassee, Florida 32399-0850, by the close of business on September 19, 2016.

In the absence of such a petition, this order shall become final and effective upon the issuance of a Consummating Order.

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