Susan D. Ritenour
Secretary and Treasurer
and Regulatory Manager

One Energy Place
Pensacola, Florida 32520-0781

Tel 850.444.6231
Fax 850.444.6026
SDRITENO@southernco.com

GULF POWER
A SOUTHERN COMPANY

November 10, 2006

Ms. Blanca S. Bayo, Director
Division of the Commission Clerk
and Administrative Services
Florida Public Service Commission
2540 Shumard Oak Boulevard
Tallahassee FL 32399-0870

Dear Ms. Bayo:

Re: Docket No. 050381-EI

Attached is Gulf's response to Staff's initial review request regarding Gulf's request for partial modification of the depreciation rates and dismantlement accruals approved in FPSC Order No. PSC-06-0348-PAA-EI. Advance copies of these responses were provided electronically to John Slemkewicz under separate cover on two separate dates, November 9, 2006, and November 10, 2006. This response is being served electronically.

Sincerely,

Susan D Ritenour

bh

Enclosures

cc w/o encl.: Martha Carter Brown, Esq.
Florida Public Service Commission
2540 Shumard Oak Boulevard
Tallahassee FL 32399-0863

Mr. John Slemkewicz
Division of Economic Regulation
Florida Public Service Commission
2540 Shumard Oak Boulevard
Tallahassee FL 32399-0850

cc w/o encl: Beggs & Lane

1. What approved Commission Order or other federal or state regulation established the storm hardening activities?

   a. What are the new storm hardening activities that are being implemented, which plant accounts are impacted, and the plant cost?

   b. Please provide a schedule for the implementation of the storm hardening activities. Also, include the required timeframe for the completion of each activity.

   c. Please explain in detail if there will be any impact on the life estimates for transmission and distribution with the implementation of the new storm hardening activities. If not, please explain.

ANSWER:

As noted in Gulf's petition, Gulf is currently operating in an increasing cost environment that is due in part to: (1) the need to absorb increased investment in net utility plant resulting from the repair and replacement of significant components of its distribution and transmission systems following the hurricanes impacting Gulf during 2004 and 2005; (2) higher commodity and labor costs (related in large part to recent storm impacts on supply and demand); and (3) the impacts of new storm hardening activities that are being implemented pursuant to Commission directives as a result of the two back-to-back devastating storm seasons that have affected Florida. With regard to the latter, the following orders have been issued by the Florida Public Service Commission during 2006:

- Order No. PSC-06-0556-NOR-EU – Notice of Rulemaking addressing placement of new electric distribution facilities underground, conversion of existing overhead distribution facilities to underground, and more stringent construction standards for overhead electric facilities.

- Order No. PSC-06-0351-PAA-EI and Order No. PSC-06-0781-PAA-EI – Proposed Agency Action requiring each investor-owned electric utility to file ongoing 10-Part Storm Preparedness Plans and requiring reports.

- Order No. PSC-06-0144-PAA-EI and Order No. PSC-06-0778-PAA-EU – Proposed Agency Action requiring each investor-owned electric utility in Florida to implement an eight-year wood pole inspection cycle and requiring reports.

As a result of orders listed above, Gulf is undertaking new transmission and distribution activities related to storm hardening. The new activities will result in increased plant costs as well as increased operation and maintenance (O&M) expense. The plant cost impacts are identified below by activity. In addition to the identified plant costs, Gulf estimates that annual O&M expenses of $2,000,000 will be incurred to meet these storm hardening obligations. The amended depreciation rates sought by Gulf would help offset the impact of these increased plant and O&M costs.

a. The following new storm hardening activities are currently being implemented:

1) Three-year Vegetation Management Cycle for Distribution Circuits
   - Impacted Plant Accounts: None
   - Plant Cost: No incremental capital costs
2) Five-year Audit Cycle for Joint-Use Pole Attachment Agreements
   - Impacted Plant Accounts: Not yet determined
   - Plant Cost: Not yet determined
3) Six-year Transmission Structure Inspection Program
   - Impacted Plant Accounts: Several FERC plant accounts will be impacted; however, the primary FERC plant accounts are 354 Towers and Fixtures and 355 Poles and Fixtures.
   - Plant Cost: $1,800,000 per year incremental capital for pole changeouts
4) Hardening of Existing Transmission Structures
   - Impacted Plant Accounts: Several FERC plant accounts will be impacted; however, the primary FERC plant accounts are 354 Towers and Fixtures and 355 Poles and Fixtures
   - Plant Cost: $600,000 per year incremental capital costs
5) Transmission and Distribution Geographic Information System (GIS)
   - Impacted Plant Accounts: This cost is for mapping new construction. The cost will go to FERC plant account 308 Engineering and Supervision.
   - Plant Cost: $75,000 per year incremental capital costs
6) Post-Storm Data Collection and Forensic Analysis Program
   - Impacted Plant Accounts: None
   - Plant Cost: No incremental capital costs
7) Collection of Outage Data to Compare Reliability of Overhead Versus Underground Electrical Systems
   - Impacted Plant Accounts: None
   - Plant Cost: No incremental capital costs

8) Increased Utility Coordination With Local Governments
   - Impacted Plant Accounts: None
   - Plant Cost: No incremental capital costs

9) Collaborative Research on Effects of Hurricane Winds and Storm Surge
   - Impacted Plant Accounts: Not yet determined
   - Plant Cost: Not Yet Determined

10) Natural Disaster Preparedness and Recovery Program
   - Impacted Plant Accounts: None
   - Plant Cost: No incremental capital costs

11) Eight-year Wood Pole Inspection Program
   - Impacted Plant Accounts: Several FERC plant accounts will be impacted; however, the primary FERC plant account is 364 Poles and Fixtures
   - Plant Cost: $300,000 per year incremental capital costs

b. Implementation schedules and completion times for each storm hardening activity are as follows:

1) Three-year Vegetation Management Cycle for Distribution Circuits
   - Implementation: 2007
   - Completion: Ongoing with annual performance reports

2) Five-year Audit Cycle for Joint-Use Pole Attachment Agreements
   - Implementation: 2007
   - Completion: Ongoing with annual performance reports

3) Six-year Transmission Structure Inspection Program
   - Implementation: Currently ongoing
   - Completion: Ongoing with annual performance reports

4) Hardening of Existing Transmission Structures
   - Implementation: Currently ongoing
   - Completion: Ten years with annual reports during that timeframe

5) Transmission and Distribution Geographic Information System (GIS)
   - Implementation: Currently ongoing
   - Completion: Six years with annual reports during that timeframe

6) Post-Storm Data Collection and Forensic Analysis Program
   - Implementation: Next major storm in Gulf's service area
   - Completion: Ongoing, depending on occurrence of major storms

7) Collection of Outage Data to Compare Reliability of Overhead Versus Underground Electrical Systems
   - Implementation: 2007
   - Completion: Ongoing with annual performance reports

8) Increased Utility Coordination With Local Governments
   - Implementation: Currently ongoing
   - Completion: Ongoing with annual performance reports

9) Collaborative Research on Effects of Hurricane Winds and Storm Surge
   - Implementation: Currently ongoing
   - Completion: Ongoing with annual performance reports

10) Natural Disaster Preparedness and Recovery Program
   - Implementation: Currently ongoing
   - Completion: Ongoing with annual performance reports

11) Eight-year Wood Pole Inspection Program
   - Implementation: 2007
   - Completion: Ongoing with annual performance reports

c. At this time, Gulf Power does not know if there will be any impact on the life estimates of its T&D facilities as a result of the new storm hardening activities. The purpose of the storm hardening activities is to strengthen T&D facilities in an attempt to minimize damage from major storms only.

2. The Petition states for item 2, on page 3, line 3, that "the change in projected life for Smith Unit 3 combined cycle is driven by additional knowledge gained among the Southern electric system companies."

   a. Please explain what additional knowledge was obtained from the Southern electric system companies to cause an additional increase in the projected life of Smith Unit 3.

   b. Explain why this information on combined cycle units was not used in the initial depreciation study when the company requested an additional ten years of life due to a comparison with the Southern system.

ANSWER:

a. The Gulf combined cycle unit went into service in 2002. Gulf now has the benefit of additional experience with eight additional units that have gone into initial service either with or subsequent to Smith 3. The current projections of expected useful life for each of these units is longer than initially adopted for Gulf's Smith Unit 3. Please see the table on page 2 of this response for a listing of the Southern Company combined cycle units, in-service dates, and unit lives.

UNIT NAME	IN-SERVICE YEAR	UNIT LIFE
WASH CTY COGEN	1998	40
GE COGEN	1999	40
BARRY 6	2000	40
THEODORE COGEN	2000	39
BARRY 7	2001	40
DANIEL 3 - 4	2001	39
FRANKLIN 1	2001	35
WANSLEY 1	2002	35
WANSLEY 2	2002	35
FRANKLIN 2	2003	35
HARRIS 1	2003	35
HARRIS 2	2003	35
STANTON	2003	28
MCINTOSH 10	2004	34
MCINTOSH 11	2005	34

b. At the time the 2005 depreciation study was prepared, Gulf had not undertaken an updated analysis of the projections of expected useful lives for the other combined cycle units on the Southern electric system. Now that Gulf has the benefit of this review, Gulf believes that the projected expected life of Smith Unit 3 should be expanded to 36 years and will be reflecting this revised expected life in its planning process. In light of the other changes that Gulf is proposing be reflected in new depreciation rates effective January 1, 2007, Gulf believes that it is appropriate to also recognize the new projected expected useful life of Smith Unit 3 in such rates.

3. How many combined cycle units are in service within the Southern's electric system and what year(s) were they placed in Service?

ANSWER:

The Southern electric system currently has 16 combined cycles with in service dates ranging from 1998 to 2005. Please see the table in response to Item No. 2 a. for a list of the Southern electric system combined cycles and the year(s) they were placed in service.

4. What new environmental controls are being placed in service? Please identify the cost and the plant accounts which are impacted.

ANSWER:

The environmental controls that are being placed in service at Plants Crist and Smith between now and the next depreciation study (which will be filed in 2009) due to the Clean Air Interstate Rule (CAIR), Clean Air Mercury Rule (CAMR), and other air emission requirements are presented on Page 2 of this item.

ECRC Air Emission Controls
Plant Crist and Smith

PE	Project Description	2006*	2007	2008	2009	FERC Account Number(s)
		Plant-In-Service				
1222	CAIR/CAMR Compliance- Crist Scrubber project**		34,412,650		516,332,445	312
1468	CAIR/CAMR Compliance- Smith Unit 1 SNCR				4,970,000	312
1469	CAIR/CAMR Compliance- Smith Unit 2 SNCR				4,970,000	312
1199	Crist DEP Project- Unit 7 SCR/Precipitator	34,281				307, 309, and 312
1287	Crist DEP Project- SNCRs Units 4,5,&6 and Unit 6 Low Nox burners	4,549,585				307, 308, 309, 312, and 316
1031	Crist DEP Project- Unit 7 SCR Catalyst Replacement		2,041,817			312
1250	Crist DEP Project- Unit 7 Ash Piping		200,000			312
1461	Precipitator Upgrades for CAM Compliance- Smith Unit 1		8,757,000			312
1462	Precipitator Upgrades for CAM Compliance- Smith Unit 2	447,400				312
	Total	5,031,266	45,411,467	0	526,272,445	

*- The 2006 expenditures are based on six months of actual data and six months of estimated data

** - The 2007 Plant Crist Scrubber project that will be placed in service includes relocating the Unit 7 cooling tower and several sections of existing transmission lines. These activities will be completed during 2007 to create space for construction of the scrubber vessel and other ancillary equipment that will be placed in service during 2009.

Staff's Initial Review Request
Docket No. 050381-EI
GULF POWER COMPANY
November 9, 2006
Item No. 4
Page 2 of 2

5. The last depreciation study states that each retirement unit had been stratified by the company's engineers into three life categories. With the additional ten years requested to be added to production plant, what is the impact on the life categories of 1-20 years, 21-35 years, and 36 years through life of the plant? Please provide a detailed explanation.

ANSWER:

There is no impact on the three life categories from the additional ten years of useful life. The investment is stratified the same as in the last depreciation study. The remaining lives of the categories change as follows: ten years for the 36 through life of plant category and less than ten years for the other two categories. There is generally an increase in net cost of removal (COR) for the 1-20 year and 21-35 year categories. This COR increase is due to the increase in interim retirements that will be made due to lengthening the lives of the units. The increased cost of removal, as well as the original net investment, which did not change, will be recovered over the average remaining life (ARL). The ARL rate decrease shows that the increase to the ARL has more weight in the ARL rate calculation than the increased COR.

6. For the 2005 depreciation study, the life spans of several generating units were expanded by five to ten years to bring them in line with the life estimates and trends used within Southern Company's electric system. Now, for the partial modification of the 2005 depreciation study, the company states that an additional ten years are needed to bring the requested plant in line with Southern.

   1) Please provide a comparative analysis of the life estimates and trends for the applicable plant from the 2005 depreciation study and the requested partial modification to include applicable timeline of assumptions, regulatory requirements, company plans as it relates to both filings, and any other applicable clarifying information.

ANSWER:

During the preparation of the depreciation study in the spring of 2005, the Company looked at the current retirement dates of its coal-fired generating units and determined that with the level of maintenance being performed, the units with 45 to 50 year lives could serve customers' needs beyond that life span. The Company looked at the useful lives of the Southern electric system and the industry and conservatively determined that a 55 year useful life was reasonable. At that time, the Company was monitoring proposed environmental regulations but had not finalized a strategy for compliance.

In the spring of 2005, the United States Environmental Protection Agency (EPA) passed regulations for the Clean Air Interstate Rule (CAIR) and Clean Air Mercury Rule (CAMR). Then in June 2006, the Florida Department of Environmental Protection (FDEP) adopted a more stringent regulation for compliance with CAIR and CAMR than the EPA. The Company finalized its proposed strategy for compliance with FDEP regulations in August of 2006.

As part of the strategy, it was determined that a significant investment in environmental controls at the Company's coal-fired generating units at Crist and Smith Plants was the most cost efficient way to comply with the new regulations. The investment in environmental controls at Crist and Smith Plants is currently estimated to be more than $575 million through 2009. Therefore, a critical component of the analysis was to determine how long these units would remain in service. Gulf believes that with a reasonable level of maintenance, the coal fired generating units at Crist and Smith Plants will continue to serve our customers' needs an additional ten years beyond their current retirement dates. This conclusion is based on Gulf's own

experience with Plant Scholz where we expect a useful life of 58 years and also the Southern electric system's experience with coal-fired plants with expected useful lives of 60-65 years.

The Company believes that the industry trend for useful lives of coal-fired units built after 1950 will move toward 65 years. This was discussed in the "Michigan Capacity Need Forum: Staff Report to the Michigan Public Service Commission Report" issued in January 2006 of this year.

The change in the projected lives for these units will be reflected in the spring 2007 filing of the Ten-Year Site Plan.

7. Reference - Section 5: Proforma Expense Comparison; Section 10: Plant Investment Activity; and Section 6: Analysis of Results

   a. According to Section 5, the plant investment used to develop the depreciation rates for Plant Crist is $540,774,334, but a review of section 10, the end of the year (2006) plant investment is $530,081,651. Please reconcile.

   b. A review of Section 10 shows the total for Plant Crist to be approximately $540,985,821 which includes land ($6,003,455), base coal, 5 year ($141,840), 5 year amortization (25,141), 7 year amortization ($3,562,109), and asset retirement obligation ($1,171,623.87). Did the company use any of the above account dollars to establish the projected plant investment for Plant Crist for Section 5 and 6?

      1. If yes, why did the company include land (non-depreciable), base coal, 5 year (not included in last study), and asset retirement obligations (used for financial reporting)?

      2. If not, please explain how the company developed the total plant Crist investment in the amount of $540,774,334. For clarification of the company's request, please provide any supporting documentation.

ANSWER:

a. The difference between these amounts relates to the depreciable plant investment for retired Crist Units 1, 2 and 3. The investment of retired Crist Units 1, 2, & 3 was added to the Crist investment as required in Order No. PSC-02-1735-FOF-EI section III B 2. Crist Unit 1 was retired in 2003 and Crist Units 2 and 3 were retired in May 2006 as specified by the Ozone Reduction Agreement between FDEP and Gulf Power that was approved by the Commission in Order PSC-02-1396-PAA-EI. The retirement dates for Crist Units 1, 2, and 3 are reflected as the original retirement date in the amended depreciation study as required in Order No. PSC-02-1735-FOF-EI section III B 2. The requested reconciliation is provided on page 3 of 3 of this response.

b. No. The company excluded non-depreciable land, base coal, 5 and 7 year amortization, and asset retirement obligations from the projected plant investment in Sections 5 and 6. See the reconciliation provided on page 3 of 3 to this response.

Gulf Power Company
Reconciliation of Crist Plant Investment

	Projected 12/31/2006 Investment
Crist Investment per Section 10	$540,985,821
Less: Crist Plant Other Recovery / Non Depreciable	
310 - Land	6,003,455
312 - Boiler Plant - Base Coal 5 Yr	141,840
316.5 - Misc Power Plant - 5 Yr	25,141
316.7 - Misc Power Plant - 7 Yr	3,562,109
317 - Asset Retirement Obligation	1,171,624
	10,904,170
Depreciable Investment per Section 10	530,081,651
Plus Retired Crist Units 1 – 3	
Crist 1	2,203,603
Crist 2	2,757,609
Crist 3	5,731,471
Total Crist Units 1 -3	10,692,683
Total Crist Plant Depreciable Investment per Section 5	**$540,774,334**

8. Reference – Section 9: Fossil Dismantlement

   a. Please provide the Excel spreadsheet files for the amended dismantlement study.

   b. What is the sensitivity of the update in inflation/escalation factors? In other words, how has the update in inflation/escalation factors affected the change in the accrual, both from the accrual in the last study and the authorized accrual stipulated in the rate case?

ANSWER:

a. The Excel spreadsheet file included with this filing corresponds to schedules 2 and 3 of Section 9, "Fossil Dismantlement".

b. The initial dismantlement calculation in Section 9 of the amended 2005 study was filed using economic forecast indicators provided by Moody's Economy.com (MEDC). This filing used a release dated September 22, 2006. Subsequent conversations with Staff indicated their desire to examine the impact of changes in the forecast indices. The latest set of indices is provided on page 2 of 2 of this response. The change in indices results in a reduction in the annual dismantlement accrual of $47,723.

   Incorporating the September 2006 MEDC indices into the original 2005 study reduces the annual accrual by $111,909 and into the 2001 depreciation study reduces the accrual by $36,518. These numbers reflect the total change for the plants used in this amended study.

ESCALATION RATES
"REVIEW OF THE U.S. ECONOMY"
Nov, 2006 - 25 Year Forecast

SCHEDULE 3

(A)	(B)	(C)	(D)	(E)	(F)	(G)	(H)
		COMPENSATION PER HOUR (Labor)		GDP DEFLATOR (Disposal)		INTERMEDIATE MATERIALS, SUPPLIES, AND COMPONENTS (Scrap)	
PERIODS	RET YEAR	ANNUAL RATE OF CHANGE	COMPOUNDED MULTIPLIER (D) x (1+(C))	ANNUAL RATE OF CHANGE	COMPOUNDED MULTIPLIER (F) x (1+(E))	ANNUAL RATE OF CHANGE	COMPOUNDED MULTIPLIER (H) x (1+(G))
0	2005		1.000		1.000		1.000
1	2006	3.04	1.030	3.03	1.030	7.03	1.070
2	2007	3.55	1.067	2.78	1.059	3.59	1.108
3	2008	3.36	1.103	2.37	1.084	1.99	1.130
4	2009	3.26	1.139	2.13	1.107	0.98	1.141
5	2010	3.25	1.176	2.00	1.129	0.83	1.150
6	2011	3.27	1.214	2.03	1.152	1.28	1.165
7	2012	3.25	1.253	1.95	1.174	1.81	1.186
8	2013	3.24	1.294	1.95	1.197	2.00	1.210
9	2014	3.24	1.336	1.91	1.220	2.00	1.234
10	2015	3.24	1.379	1.91	1.243	2.02	1.259
11	2016	3.24	1.424	1.88	1.266	2.05	1.285
12	2017	3.23	1.470	1.85	1.289	2.00	1.311
13	2018	3.23	1.517	1.84	1.313	1.96	1.337
14	2019	3.23	1.566	1.83	1.337	1.94	1.363
15	2020	3.23	1.617	1.85	1.362	1.95	1.390
16	2021	3.23	1.669	1.86	1.387	2.03	1.418
17	2022	3.23	1.723	1.84	1.413	2.17	1.449
18	2023	3.23	1.779	1.83	1.439	2.21	1.481
19	2024	3.24	1.837	1.83	1.465	2.21	1.514
20	2025	3.24	1.897	1.80	1.491	2.14	1.546
21	2026	3.23	1.958	1.79	1.518	2.12	1.579
22	2027	3.22	2.021	1.77	1.545	2.14	1.613
23	2028	3.22	2.086	1.77	1.572	2.15	1.648
24	2029	3.22	2.153	1.75	1.600	2.16	1.684
25	2030	3.22	2.222	1.74	1.628	2.17	1.721
26	2031	3.23	2.294	1.73	1.656	2.18	1.759
27	2032	3.24	2.368	1.72	1.684	2.18	1.797
28	2033	3.26	2.445	1.73	1.713	2.18	1.836
29	2034	3.26	2.525	1.74	1.743	2.20	1.876
30	2035	3.26	2.607	1.74	1.773	2.20	1.917
31	2036	3.26	2.692	1.74	1.804	2.20	1.959
32	2037	3.26	2.780	1.74	1.835	2.20	2.002
33	2038	3.26	2.871	1.74	1.867	2.20	2.046
34	2039	3.26	2.965	1.74	1.899	2.20	2.091
35	2040	3.26	3.062	1.74	1.932	2.20	2.137
36	2041	3.26	3.162	1.74	1.966	2.20	2.184
37	2042	3.26	3.265	1.74	2.000	2.20	2.232
38	2043	3.26	3.371	1.74	2.035	2.20	2.281
39	2044	3.26	3.481	1.74	2.070	2.20	2.331
40	2045	3.26	3.594	1.74	2.106	2.20	2.382
41	2046	3.26	3.711	1.74	2.143	2.20	2.434
42	2047	3.26	3.832	1.74	2.180	2.20	2.488
43	2048	3.26	3.957	1.74	2.218	2.20	2.543
44	2049	3.26	4.086	1.74	2.257	2.20	2.599
45	2050	3.26	4.219	1.74	2.296	2.20	2.656
46	2051	3.26	4.357	1.74	2.336	2.20	2.714
47	2052	3.26	4.499	1.74	2.377	2.20	2.774
48	2053	3.26	4.646	1.74	2.418	2.20	2.835
49	2054	3.26	4.797	1.74	2.460	2.20	2.897
50	2055	3.26	4.953	1.74	2.503	2.20	2.961
51	2056	3.26	5.114	1.74	2.547	2.20	3.026
52	2057	3.26	5.281	1.74	2.591	2.20	3.093
53	2058	3.26	5.453	1.74	2.636	2.20	3.161
54	2059	3.26	5.631	1.74	2.682	2.20	3.231
55	2060	3.26	5.815	1.74	2.729	2.20	3.302
56	2061	3.26	6.005	1.74	2.776	2.20	3.375
57	2062	3.26	6.201	1.74	2.824	2.20	3.449
58	2063	3.26	6.403	1.74	2.873	2.20	3.525
59	2064	3.26	6.612	1.74	2.923	2.20	3.603

9. Reference – Section 10: Plant Investment Activity – Electric Plant In Service, Forecast: December, 2006.

   a. For Plant Crist, please explain the nature of the additions in the amount of the $23,504,743, $1,515,455, and $550,000, respectively. In your response, please state what was added and when it occurred in 2006.
   b. For Plant Crist, please explain in detail what was retired in the amount of $12,105,695 and $254,087. In your response, please state what was retired and when it occurred in 2006.
   c. For Plant Smith, please explain the nature of the additions and retirements occurring in 2006. In your response, please state what was added and retired, and when did it occur in 2006.
   d. For Smith Unit 3 Combined Cycle, please explain the nature of the additions and retirements occurring in 2006. In your response, please state what was added and retired, and when did it occur in 2006.
   e. Are any of the additions and retirements occurring in 2006 related to the 2004 and 2005 hurricane repairs and replacements as stated by the company in the petition for item 4, on page 4, lines 3 through 7?

ANSWER:

See pages 2 through 5.

a. See tables below for the nature of the additions at Plant Crist:

Description – Depreciable Plant Additions	Amount	Date *
Unit 6 Replace Condenser Tubes	$5,470,000	June
Unit 4-5-6 NOX Reduction Equipment	$5,300,018	May, June
Ambient Air Mercury Monitoring Project	$4,541,181	March
Governors Island Headwall	$1,491,215	December
Unit 7 6A High Pressure Heater	$1,248,622	December
Ash Pond Discharge Weir Replacement	$923,688	November
Switchyard SPCC Project	$838,799	December
Switchgear and Busses Due to Crist 2 & 3 Retirement	$500,000	December
Domestic Wastewater Plant Replacement	$395,986	February
Dust Suppression, Fuel Handling, and Ducting Work	$374,484	Various
Projects less than $225,000	$2,420,750	Various
Total	**$23,504,743**	

Description – Land Additions	Amount	Date *
Governors Island Headwall	$1,515,455	June

Description – Amortizable Plant Additions	Amount	Date *
Replace LDMS System	$194,518	August
RATA CEM Test TRL Monitors	$135,214	January
Control Room Data Recorder	$132,920	August
Projects less than $24,000	$87,348	Various
Total	**$550,000**	

*Represents the month the majority of charges are booked.

b. See tables below for the detail of Plant Crist retirements:

Description – Depreciable Plant Retirements	Amount	Date *
Crist Unit #3	$(5,731,465)	May
Crist Unit #2	$(2,757,601)	May
Condenser Tubes	$(2,114,801)	August
Projects less than $270,000	$(1,501,828)	Various
Total	**$(12,105,695)**	

Description – Amortizable Plant Retirements	Amount	Date *
Projected retirements small in scope	$(254,087)	December

*Represents the month the majority of charges are booked.

c. See tables below for the nature of the Plant Smith additions and retirements:

Description – Depreciable and Amortizable Plant Additions	Amount	Date *
CEMS Flow System Replacement	$300,000	December
CEMS Gas Monitors Replacement	$300,000	December
Vibration Monitoring System	$194,551	December
Cap Ash Landfill Cells	$150,000	December
Dust Suppression System for Tripper Floor	$126,222	June
Unit #2 Expansion Joint Replacement	$125,000	October
Unit #2 Replace Condenser Pedestals	$75,000	November
Station Stores, Testing, and Safety Equipment	$55,803	Various
Projects less than $53,000	$328,009	Various
Total	**$1,654,585**	

Description – Depreciable Plant Retirements	Amount	Date *
Vibration Controls and Monitoring Equipment	$(88,333)	Various
Projects less than $25,000	$(128,262)	Various
Total	**$(216,595)**	

*Represents the month the majority of charges are booked.

d. Please see table below for the nature of Smith Unit 3 Combined Cycle additions and retirements:

Description – Depreciable Plant Additions	Amount	Date *
Long Term Service Agreement – Turbines and Nozzles	$6,364,501	May
Projected Unidentified Projects**	$1,879,865	December
Ovation Control System Upgrade	$187,977	June, July
Replace Cooling Tower Makeup Pump	$84,519	March
Turbine Vibration Monitor	$83,974	June
Projects less than $62,000	$170,645	Various
Total	**$8,771,481**	

Description – Depreciable Plant Retirements	Amount	Date *
Long Term Service Agreement – Turbines and Nozzles	$(7,016,207)	May
Cooling Tower Makeup Pump	$(359,824)	March
Ovation Control System	$(144,356)	June
Inline Air Filters	$(112,025)	August
Projects less than $100,000	$(136,383)	Various
Total	**$(7,768,795)**	

*Represents the month the majority of charges are booked.

**This amount is projected to be spent on the following projects:

Replacement of Smith Unit #2 Hydrogen Seals	$1.5 million
Automatic Fire Protection Conveyor Belts Smith Units 1 & 2	$0.4 million

e. No.

10. Reference – Section 11: Accumulated Provisions for Depreciation and Amortizations –December, 2006.

    a. For Plant Crist, please explain in detail what was included in the cost of removal in the amount of $1,154,671. Also, what was sold to create salvage in the amount of $46,497 and when did the sale occur?
    b. For Plant Smith, please explain what was included in the cost of removal in the amount of $111,859 and when did it occur. Also, please explain why there was no corresponding salvage.
    c. For Plant Smith Unit 3 Combined Cycle, please explain the reason for each amount of removal cost.
    d. Please explain the negative transfer in the amount of $1,497,955 from Smith Unit 3 Combined Cycle's prime movers, what account received the transfer, and when did it occur. Also, the same dollar amount is shown as actual transfer-ins as of December 2005 for Smith Plant Unit 3 Combined Cycle.

ANSWER:

a. See table below for a breakdown of the Plant Crist cost of removal amount:

Description	Amount	Date *
Switchgear & Buses	$554,996	July Act. & Dec Proj.
Removal of Mode 2 & 3 Ash System	$200,454	May
Ash pond Discharge Weir Replacement	$100,000	November Proj.
2005 Error Correction	$67,965	August
Unit 7 SCR / PRC Relocation	$54,012	February & March
Units 6 & 7 Elevator Replacement	$50,000	December Proj.
Projects less than $50K	$127,244	Various
Total	**$1,154,671**	

*Represents month the majority of the charges are booked.

**Represents correction of an overhead that was incorrectly charged to cost of removal in 2005. The error was detected and corrected in august of 2006.

Brass from condenser tubes was sold in May 2006 which resulted in salvage of $46,497.

b. See table below for a breakdown of the Plant Smith cost of removal amount:

Description	Amount	Date *
Upgrade Elevator Controls**	$(116,548)	January
Projects less than $5K	$4,689	Various
Total	**$(111,859)**	

*Represents month the majority of the charges are booked.

** Includes correction for invoices set up to cost of removal that should have been set up to plant in service in December 2005 that were reversed in January 2006.

The items removed were primarily "scrap metal," for which salvage is typically not received.

c. See table below for a breakdown of the Plant Smith Unit 3 Combined Cycle cost of removal amount of $1,227,404 for 2006:

Description	Amount	Date *
Correct Prime Mover Cost of Removal **	$(1,497,955)	January
Combustion & Turbine Work	$253,365	May
Projects less than $10K	$17,186	Various
Total	**$(1,227,404)**	

*Represents month the majority of the charges are booked.

**Please see response to part d. of this item for an explanation of the correction to cost of removal in the amount of $1,497,955.

d. In December 2005, cost of removal of $1,497,955 was inadvertently booked to Smith Unit 3 - Combined Cycle's prime movers. This error was discovered after the cutoff to record entries to capital work orders, therefore, the work order could not be corrected. However, the error was discovered prior to final property close and was corrected in the depreciation module in the plant accounting system through a reserve transfer in December 2005. Gulf Power Company notated on its operating report schedules that the transfer of $1,497,955 should be netted with the cost of removal to calculate the true year-to-date cost of removal. In January 2006, the cost of removal was corrected on the work order, which made it necessary to reverse the reserve transfer booked in the plant accounting system in December 2005. Gulf Power Company continues to notate on its operating report schedules for 2006 that the negative transfer of $1,497,955 should be netted with the cost of removal to calculate the true year-to-date cost of removal.

11. Reference – Section 11: Accumulated Provisions for Depreciation and Amortizations –December, 2006.

a. The Company stated the following: "Note: The Reserve has been reduced by FAS 143 entries that were reclassified to a regulatory account." Please provide the FAS 143 entries that were reclassified, regulatory account name and number, and date of change. Also, for both depreciation studies, please identify all plant account(s) and transactions impacted by the reclassification.

b. Please explain in detail why was it was necessary for the company to make the changes to FAS 143. If it was based upon new assumptions, regulations, or corrections, please be specific in your explanation.

ANSWER:

a. Entries reclassified through August 2006 from the Accumulated Reserve (FERC 108) related to Section 11: Accumulated Provisions for Depreciation and Amortizations –December, 2006 are in the tables below.

Change in lives and dismantlement due to Implementation of Depreciation Study approved in May 2006

Asset Obligation	Amount	Destination Account (FERC/Sub Account)
Crist Unloading Dock	$992,491	18200600
Crist Landfill	$91,299	18200600
Smith Landfill	$217,258	18200600
Crist Asbestos	$1,217,174	25400600
Crist Ash pond	$57,182	25400600
Smith Asbestos	$680,591	25400600
Smith Ash pond	$216,663	25400600

Year- To- Date Summary of Monthly Entries to Reclassify Difference between ARO and Approved Dismantlement.

Asset Obligation	Amount	Destination Account (FERC/Sub Account)
Crist Unloading Dock	$36,557	18200600
Crist Asbestos	$121,364	25400600
Crist Ash pond	$15,618	25400600
Smith Asbestos	$48,182	25400600
Smith Ash pond	$14,848	25400600

For depreciation study purposes, any accumulated reserve for dismantlement reclassified to a regulatory account to comply with Financial Accounting Standard (FAS) 143 is added back to the accumulated reserve used in tab 9, "Annual Fossil Dismantlement Cost" – "Levelized Expense Calculation" column H "allocated reserve" for use in the calculation to set the levelized dismantlement expense.

b. The change in dismantlement expense and useful lives of Crist Units 6 and 7 and Smith Units 1 and 2 approved in the 2005 depreciation study, FPSC Order No. PSC-06-0348-PAA-EI, resulted in a revision to the estimated amount and timing of the settlement of these asset retirement obligations.

On a monthly basis, as dismantlement expense is accrued, the difference between the dismantlement approved by the FPSC and the amount recognized from FAS 143 is reclassified to a regulatory account.

12. Reference – Gulf Power Company: Accumulated Provisions for Depreciation and Amortization, Actual –December, 2005.

a. Please explain in detail the dismantlement – fixed transfers and destination of actual December 2005 dollars for Plant Crist, Plant Scholz, and Plant Smith.

ANSWER:

a. In January 2003 the Company implemented Financial Accounting Standard (FAS) 143 - Accounting for Asset Retirement Obligations (ARO). This required the Company to recognize a liability for legal retirement obligations. Examples of legal retirement obligations include environmental agreements, lease agreements, laws, etc. to remove a long lived asset at some point in the future. Under FAS 143, obligations that were "conditional", such as asbestos, as to the timing or manner of settlement were not recorded until the timing and settlement method could be determined. In December 2005, the Company implemented FAS Interpretation No. (Fin) 47 which is an interpretation of FAS 143 that clarified the term "conditional" and recorded asset retirement obligations related to asbestos. Additionally, the Company determined that a legal obligation for the capping of ash ponds should be recorded as an asset retirement obligation.

Asset Obligation	Amount	Destination Account (FERC/Sub Account)
Crist Asbestos	$4,383,223	25400600
Crist Ash pond	$554,191	25400600
Scholz Asbestos	$650,649	18200600
Scholz Ash pond	$503,094	25400600
Smith Asbestos	$1,765,108	25400600
Smith Ash pond	$3,280,805	25400600