State of Florida

Public Service Commission

CAPITAL CIRCLE OFFICE CENTER • 2540 SHUMARD OAK BOULEVARD
TALLAHASSEE, FLORIDA 32399-0850

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

DATE: October 14, 2010

TO: Office of Commission Clerk (Cole)

FROM: Division of Economic Regulation (Ollila)
Office of the General Counsel (K. Fleming)

RE: Docket No. 100368-EI – Request for approval to initiate depreciation of a Landfill Gas to Energy Facility in Escambia County by Gulf Power Company.

AGENDA: 10/26/10 – Regular Agenda – Proposed Agency Action – Interested Persons May Participate

COMMISSIONERS ASSIGNED: All Commissioners

PREHEARING OFFICER: Edgar

CRITICAL DATES: None

SPECIAL INSTRUCTIONS: None

FILE NAME AND LOCATION: S:\PSC\ECR\WP\100368.RCM.DOC

Case Background

Pursuant to Rule 25-6.0436(3)(a), Florida Administrative Code (F.A.C.), electric utilities are required to maintain depreciation rates and accumulated depreciation reserve in accounts or subaccounts as prescribed in Rule 25-6.014(1), F.A.C. (i.e., the Federal Energy Regulatory Commission Uniform System of Accounts). Rule 25-6.0436(2)(a), F.A.C., provides that "no utility shall change any existing depreciation rate or initiate any new depreciation rate without Commission approval." On July 28, 2010, Gulf Power Company (Gulf or Company) filed its request in accordance with this rule, for a depreciation rate for its Perdido Landfill Gas to Energy Facility (Facility) located in Escambia County, Florida. The Commission has jurisdiction in this matter pursuant to Sections 366.04, 366.05, and 366.06, Florida Statutes (F.S.).

Discussion of Issues

Issue 1: Should a depreciation rate be approved for Gulfs Perdido Landfill Gas to Energy Facility?

Recommendation: Yes. The whole life depreciation rate of five percent, contained in Table 1-1, should be approved for the Perdido Landfill Gas to Energy Facility. (Ollila)

Staff Analysis: The Facility is comprised of two 1.6 MW landfill gas-fired generators, with Gulf's investment estimated at approximately $5.1 million. Gulf has an agreement with Escambia County to lease the land below its Facility (the land is adjacent to Escambia County's Perdido Landfill). Gulf is using a third party, LFG Technologies LLC, to operate the Facility. The Facility's in-service date (or date of commercial operation) was October 7, 2010.

Gulf's proposed five percent whole life depreciation rate is predicated on two assumptions: a 20-year average service life (ASL) and a zero percent net salvage. The 20-year ASL is based on Gulf's 20-year landfill gas sales contract with Escambia County. Gulf has proposed a zero percent net salvage based on its expected "relatively minor" cost of removal and low value scrap metal salvage associated with future retirements of assets at the Facility.

Staff believes that a 20-year ASL and a net salvage of zero percent are reasonable for this Facility at this time. These parameters result in a five percent whole life depreciation rate. Staff notes that Gulf's next depreciation and dismantlement study is due to the Commission in 2013. The 2013 study will include a review of the life and salvage parameters as well as the dismantlement provision of this Facility.

Table 1-1 displays the parameters and resulting depreciation rate. Staff recommends that a whole life depreciation rate of five percent, contained in Table 1-1, should be approved for the Perdido Landfill Gas to Energy Facility.

Table 1-1: Gulf's Proposed Whole Life Depreciation Rate and Underlying Parameters

Investment	Average Service Life (Years)	Net Salvage (%)	Whole Life Depreciation Rate (%)
$5.1 million	20	0	5.0

Issue 2: What should be the implementation date for the depreciation rate for the Perdido Landfill Gas to Energy Facility?

Recommendation: Staff recommends that the depreciation rate should be implemented effective with the in-service date of the Perdido Landfill Gas to Energy Facility. (Ollila)

Staff Analysis: Gulf proposed a depreciation implementation date of October 1, 2010, when Gulf's expected in-service date was in late September 2010. Gulf explained that "projects placed in service during the month of September become part of the depreciable base used to calculate depreciation expense for the month of October." The Facility's actual in-service date (date of commercial operation) was October 7, 2010.

Depreciation is the recovery of invested capital representing equipment that is providing service to the public. This recovery is designed to take place over the related period of service to the public. The period of service begins with the in-service date of the plant (date of commercial operation). In prior cases, the Commission has ordered effective dates for depreciation rates of new installations to coincide with the in-service date of the plant.[1] Staff recommends that the depreciation rate should be implemented effective with the in-service date of the Perdido Landfill Gas to Energy Facility.

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[1] Order No. PSC-09-0662-EI, issued October 5, 2009, in Docket No. 090403-EI, In re: Request for approval to begin depreciating West Count Energy Center Units 1 and 2 combined cycle units using whole life depreciation rates currently approved for Martin Power Plant Unit 4, by Florida Power & Light Company, p. 3; Order No. 08-0341-PAA-EI, issued May 28, 2008, in Docket No. 080145-EI, In re: Petition for approval of depreciation rates for new plant subaccounts by Progress Energy Florida, Inc., p. 3; Order No. PSC-05-0821-PAA-EI, issued August 11, 2005, in Docket No. 050300-EI, In re: Request for approval to begin depreciating Martin Unit No. 8 and Manatee Unit No. 3 using whole life depreciation rates currently approved for Martin Power Plant, Unit No. 4 and Commons, by Florida Power & Light Company, p. 2; Order No. PSC-04-0524-PAA-EI, issued May 24, 2004 in Docket No. 040008-EI, In re: Petition for approval of depreciation rate applicable to new plant subaccounts for Hines Unit 2 by Progress Energy Florida, Inc., p. 2; Order No. PSC-03-0869-PAA-EI, issued July 28, 2003, in Docket No. 030512-EI, In re: Request for approval to begin depreciating Fort Myers Combustion Turbines 3A and 3B using whole life depreciation rates currently approved for Martin Power Plant, Unit No. 4, by Florida Power & Light Company, p. 4; Order No. PSC-03-0634-PAA-EI, issued May 23, 2003, in Docket No. 030139-EI, In re: Request for approval to begin depreciating Sanford Unit No. 4 using whole life depreciation rates currently approved for Martin Power Plant, Unit No. 4, by Florida Power & Light Company, p. 3; Order No. PSC-01-1337-PAA-EI, issued June 19, 2001, in Docket No. 010107-EI, In re: Request for approval to begin depreciating Martin Simple Cycle Expansion Project by use of Whole Life Depreciation Rates currently approved for Martin Power Plant, Unit No. 4 and Common effective with in-service dates of units, by Florida Power & Light Company, p. 3; and Order No. PSC-00-2434-PAA-EI, issued December 19, 2000, in Docket No. 001437-EI, In re: Request by Florida Power & Light Company for approval to begin depreciating Ft. Myers Power Plant using whole life depreciation rates currently approved for Martin Power Plant, Unit No. 4, p. 3.

Issue 3: Should this docket be closed?

Recommendation: If no person whose substantial interests are affected by the proposed agency action files a protest within 21 days of the issuance of the order, this docket should be closed upon the issuance of a consummating order. (K. Fleming)

Staff Analysis: At the conclusion of the protest period, if no protest is filed, this docket should be closed upon the issuance of a consummating order.