

AUG 21 2017

MISS. PUBLIC SERVICE
COMMISSIONProposed Term Sheet

This Term Sheet is being submitted by Public Utilities Staff ("Staff"), to Mississippi Power Company ("MPC" or the "Company") pursuant to Rule 13.103 of the Mississippi Public Service Commission's Rules of Practice and Procedure and Mississippi Rule of Evidence 408. While this term sheet does not represent a formal, binding offer of settlement, the below provisions represent an illustration of a possible settlement of all outstanding issues related to the Kemper Project. Parties reserve the right to revoke or modify, in whole or in part, this Term Sheet at any time until such term sheet is signed by the parties.

1. Kemper Gasifier Facility

The parties agree that MPCo will abandon the Kemper gasifier chemical plant and all related assets (the "gasifier"). The parties agree that none of the costs of the gasifier and related assets will be paid by MPCo's ratepayers. For purposes of this agreement, gasifier related assets shall include the lignite mine, the CO₂ pipeline and all other assets not specifically required to operate the combined-cycle, gas turbine generation plant (CCGT). Furthermore, the parties agree that all current and future costs and risks associated with continued construction or operations, the cessation of operations, dismantlement, removal and environmental clean-up of the gasifier plant site as well as the mine and all other related assets and costs will not be borne by MPCo or its ratepayers. In accordance with this settlement, SoCo and MPCo will not seek cost recovery now or in the future for capital, fuel, operating, removal, dismantlement, environmental, financing, or any other costs related to the Kemper gasifier and related assets.

2. Kemper Revenue Requirement

The Parties agree that the Kemper Revenue Requirement will be recovered for the first three years of the settlement as a stand-alone revenue requirement subject to an annual filing in a dedicated KRF Rider. MPC may adjust the revenue requirement to the extent necessary to accommodate changes (up or down) to reasonable and customary operating expenses. Parties support the recovery of the following costs:

a. Kemper CC and Related Facilities:

- a. Kemper CC - total allowed cost of \$814.5M including land cost of \$18.35M and AFUDC of \$122.34M plus 2018 plant additions of \$14.9M for a total allowed CCGT plant cost at 12/31/2018 of \$829.4 million.
- b. Transmission - \$114M
- c. Accumulated depreciation of \$87.0 million average for the 2018 rate year.
- d. ADIT related to plant of \$150.0 million at 12/31/2018 and average 2018 rate year plant ADIT of \$147.3 million and ADIT amounts for other rate base components as listed in the attached revenue requirement calculations

b. Regulatory Assets (amounts at 12/31/2017):

- a. Currently in rates - remaining balance at December 31, 2017 of \$51.1M over a 5-year amortization period commencing on 1/1/2018. The previously approved regulatory assets have been adjusted to reflect actual unamortized balances.
- b. Currently not in rates - net New Regulatory Assets and Regulatory Liabilities of \$60.8M amortized over 5 years with amortization commencing on 1/1/2018; IM costs not

previously addressed of \$8.58 million are included with the New Regulatory Assets, with amortization over a 5-year period beginning on January 1, 2018. See paragraph 4, below, for description of certain Regulatory Liabilities.

- c. Capital Structure of 49.3% long-term debt; 0.7% preferred stock and 50% common equity
- d. Return on equity of 9.225% (no performance), cost of debt of 4.216%, and cost of preferred stock of 5.293%.
- e. WACC of 6.729%
- f. Kemper CC Annual O&M - \$25.5M
- g. Ad Valorem Annual Taxes - \$8.3M and Payroll Taxes of \$403k.
- h. IM costs after 12/31/2017. MPC's proposal to include an annual recurring amount of \$3.7M per year in 2018 O&M expense is rejected. IM costs are not anticipated to be recurring in 2018. IM costs may continue to be incurred during remaining months of 2017, until a Final Order is issued in this proceeding. MPC's actual verifiable IM costs will be deferred into a regulatory asset account for amortization over a reasonable period. As indicated in item 2(b) above, Staff has included \$8.58 million of IM costs (actual through May 2017 and estimated through December 2017) that were not previously considered in establishing MPC's revenue requirement with the New Regulatory Assets, and has applied a 3-year amortization to such IM costs. No other regulatory assets may be created without prior, specific Commission approval.

This results in a revenue requirement of \$122.055M.

In order to meet the Commission's request for parties to have "serious discussions that would lead to a rate reduction, with a particular focus on residential customers", the parties agree that amount reduction between the current \$126M revenue requirement and new revenue requirement of \$122.055M (\$3.9M) shall be allocated among the customer classes in the following manner: 50% residential, 25% commercial and 25% industrial.

3. Capacity Analysis and Mitigation Plan

- a. Parties agree that a Capacity Analysis and Mitigation Plan is the appropriate procedure and forum to examine and evaluate MPC's current generation reserve margin levels and plans for reducing the reserve margin closer to the long-term targeted levels.
- b. MPC commits to use the most current information available to develop and file a Reserve Margin Plan with the Commission which shall be subject to the following procedure:
 - i. Within six (6) months of Commission approval of this Stipulation, MPC shall, using the most current data available to MPC, develop, complete, and file with the Commission a Capacity Analysis and Mitigation Plan (in substantially similar form as the integrated resource plan included with the Company's certificate petition submitted in Docket No. 2009-UA-0014) as the vehicle to examine and evaluate the current reserve margin levels.
 - ii. MPC's filing shall also contain: (i) discreet alternatives that the Company proposes to address its current reserve margin; (ii) the timeframe over which each alternative can be implemented; (iii) a preliminary estimate of the costs of implementing each alternative, including any incremental transmission investment, any costs associated with retiring any undepreciated assets; and (iv) any other impacts (financial or otherwise) not specifically prescribed herein that

would have a material impact upon the service provided by MPC or the costs to retail customers.

- iii. MPC hereby stipulates and agrees to implement the alternative or alternatives approved by the Commission pursuant to a procedure and schedule to be determined by the Commission.
- c. MPC agrees to fund the costs of independent consultants to be hired by Staff to assist in this review.

4. Regulatory Liabilities for True-Up Calculations for Cost of Capital And Excess Amortization of Regulatory Assets

As provided in the Commission's Final Order in Docket No. 2015-UN-80, the Company will submit a true-up calculation of its cost of capital at the end of the test period May 31, 2016, May 31, 2017, and for the remaining period in 2017 during which the currently approved rates are in effect. The above-described revenue requirement includes an estimate of \$9.6 million for this as a Regulatory Liability through December 31, 2017, to be amortized over 5 years. For purposes of computing the true-up, the parties agree that under no circumstances will that amount of Regulatory Liability be reduced. Furthermore, the Company was previously authorized in Docket No. 2015-UN-80 to amortize certain regulatory assets over a two year period which ended on July 31, 2017. Since new rates will not become effective until January 1, 2018, the Company will recover excess amortization in the amount of \$17.5 million from August 1 to December 31, 2017, which will be accumulated in a Regulatory Liability and will also be amortized over a 5 year period.

5. Stakeholder Initiatives

MPC and Staff agree to discuss and develop certain customer assistance initiatives and economic development initiatives the parties agree would be in the public interest.

6. Prudence/Legal Findings

In consideration of the cost recovery concessions described above, the following stipulated items would be required for inclusion in the executed Stipulation:

- a. All costs included in retail rate base and rates are deemed prudently incurred, reasonable, and used and useful.
- b. The existing Kemper certificate amended to exclude the Gasifier and Gasifier related assets including the lignite mine, CO2 pipeline, etc., and to authorize NGCC operations.
- c. It is in the public interest to remove the Gasifier from retail rates.

1 **MISSISSIPPI POWER COMPANY**
2 **CALCULATION OF TOTAL RETAIL KEMPER REVENUE REQUIREMENT**
3 **FOR THE PROJECTED TWELVE MONTHS ENDING DECEMBER 31, 2018**

Page 1

	(1) (Note 1) 12 MONTHS ENDING 12/31/18 TOTAL ELECTRIC SYSTEM	(2) RETAIL ALLOCATION	(3) 12 MONTHS ENDING 12/31/18 TOTAL RETAIL SERVICE	(4) REF PAGE
9				
10 Gross Plant in Service	\$933,848,030	Page 2	\$667,216,052	3
11 Accumulated Depreciation	87,020,879	Page 2	62,210,830	4
12 Net Plant in Service	846,827,151		605,005,222	
13 Construction Work in Progress (CWIP)	0	Page 2	0	5
14 Inventory	11,104,286	Page 2	8,000,078	6
15 Prepayments	3,035,622	Page 2	2,167,097	7
16 Regulatory Asset	99,835,005	Page 8A & 8B	99,835,005	8
17 Accumulated Deferred Income Taxes	(200,756,889)	Pages 9-11	(143,451,175)	9-11
18 Total Investment	760,045,175		571,556,227	
19 Weighted Average Cost of Capital			6.729%	12-15
20 Revenue Requirement on Investment Including Interest			38,460,018	
21 Less Interest Expense		Page 16	(11,882,654)	16
22 Permanent Book/Tax Differences	1,033,490	Page 17	737,949	17
23 Revenue Requirement Subject to Income Tax			27,315,313	
24 Income Tax Adjustment Factor			61.763%	18
25 Revenue Requirement on Investment Excluding Interest (Line 14 / Line 15)			44,226,014	
26 Non-fuel Operations & Maintenance Expenses	25,532,679	Page 2	18,635,633	19
27 Specifically Allowed Expenses	0	Page 2	0	19
28 Depreciation and Amortization Expenses	44,888,309	Pages 2 8A, 8B & 20	38,455,454	Below
29 Taxes Other Than Income Taxes	8,721,585	72.560611%	6,328,435	21
30 Interest Expense on Investment		Page 16	11,882,654	16
31 Revenue Requirement Before Municipal Franchise Taxes			119,528,190	
32 Municipal Franchise Tax Adjustment Factor			97.930%	18
33 Total Kemper Revenue Requirement			\$122,054,723	

CCGT Plant Removal Percentage Applied:	0.0%
Removal applied to Production Depreciation and Property Taxes	0.0%
Period in Years for Amortization of 12/31/2017 Regulatory Assets & Liabilities	5

CCGT Production Plant Cost before 2018 additions and before applying removal percent	\$ 814,500,000
--	----------------

Line 28 - Depreciation and Amortization Expense:	Total	Reference	Retail	Reference
Depreciation	\$ 22,520,506	Page 20 and 2	16,087,651	Page 2
Regulatory Asset Amortization				
Previously Addressed	\$ 10,216,816	Page 8A	\$ 10,216,816	Page 8A
New Regulatory Assets	\$ 12,150,987	Page 8B	\$ 12,150,987	Page 8B
Depreciation and Amortization Expenses	\$ 44,888,309		\$ 38,455,454	

1 MISSISSIPPI POWER COMPANY
2 CALCULATION OF TOTAL RETAIL KEMPER REVENUE REQUIREMENT
3 FOR THE PROJECTED TWELVE MONTHS ENDING DECEMBER 31, 2018

Page 2

4	5 FUNCTIONAL ALLOCATIONS OF KEMPER INVESTMENT	(1)	(2)	(3)	
6		12 MONTHS ENDING		12 MONTHS ENDING	
7		12/31/18		12/31/18	
8		TOTAL ELECTRIC	RETAIL	TOTAL RETAIL	REF
9		SYSTEM	ALLOCATION ⁽¹⁾	SERVICE	PAGE
10					
11	<u>Gross Kemper Plant in Service:</u>				3
12	Production	\$819,280,064	71.388894%	\$584,874,976	
13	Transmission	114,046,495	71.873146%	81,968,804	
14	General Property - Other	521,471	71.388894%	372,272	
15	Total	\$933,848,030		\$667,216,052	
16					
17	<u>Kemper Accumulated Depreciation:</u>				4
18	Production	\$69,899,773	71.388894%	\$49,900,675	
19	Transmission	17,029,439	71.903217%	12,244,715	
20	General Property - Other	91,667	71.388894%	65,440	
21	Total	\$87,020,879		\$62,210,830	
22					
23	<u>Kemper Construction Work in Progress:</u>				5
24	Production	\$0	71.388894%	\$0	
25	Transmission	0	71.917914%	0	
26	Total	\$0		\$0	
27					
28	<u>Kemper Inventory:</u>				6
29	Production	\$11,104,286	72.044955%	\$8,000,078	
30	Transmission	0	71.873146%	0	
31	Total	\$11,104,286		\$8,000,078	
32					
33	<u>Kemper Prepayments:</u>				7
34	Production	\$3,035,622	71.388894%	\$2,167,097	
35	Transmission	0	71.917914%	0	
36	Total	\$3,035,622		\$2,167,097	
37					
38	<u>Kemper Non-fuel O&M Expenses:</u>				19
39	Production	\$25,532,679	72.987379%	\$18,635,633	
40	Transmission	0	71.873146%	0	
41	Administrative and General	0	71.388910%	0	
42	Specifically Allowed Expenses	0	72.987379%	0	
43	Total	\$25,532,679		\$18,635,633	
44					
45	<u>Kemper Depreciation Expense:</u>				20
46	Production	\$19,377,659	71.388894%	\$13,833,496	
47	Transmission	3,090,118	71.729049%	2,216,512	
48	General Property - Other	52,729	71.388894%	37,643	
49	Total	\$22,520,506		\$16,087,651	
50					
51	<u>Kemper Taxes Other:</u>	\$8,721,585	72.560611%	\$6,328,435	21

52
53
54 **Note 1** Allocators are from MPC's 2015 Cost of Service Study filed with the Commission on November 15, 2016, in MPSC Docket No. 2016-UA-0230.

1 **MISSISSIPPI POWER COMPANY**
2 **CALCULATION OF TOTAL RETAIL KEMPER REVENUE REQUIREMENT**
3 **FOR THE PROJECTED TWELVE MONTHS ENDING DECEMBER 31, 2018**

Page 3

4
5 **KEMPER GROSS PLANT IN SERVICE**
6

	COMBINED CYCLE & RELATED ASSETS			TRANSMISSION			GENERAL PROPERTY
	GROSS PLANT IN SERVICE	OTHER ADJUSTMENT	TOTAL	GROSS PLANT IN SERVICE	OTHER ADJUSTMENT	TOTAL	TOTAL
11 December 2017	\$ 814,500,000	\$0	\$814,500,000	\$114,046,495	\$0	\$114,046,495	\$521,471
12 January	\$ 814,905,743	0	814,905,743	114,046,495	0	114,046,495	
13 February	\$ 815,316,563	0	815,316,563	114,046,495	0	114,046,495	
14 March	\$ 815,751,130	0	815,751,130	114,046,495	0	114,046,495	
15 April	\$ 816,162,306	0	816,162,306	114,046,495	0	114,046,495	
16 May	\$ 816,574,046	0	816,574,046	114,046,495	0	114,046,495	
17 June	\$ 816,987,032	0	816,987,032	114,046,495	0	114,046,495	
18 July	\$ 817,397,336	0	817,397,336	114,046,495	0	114,046,495	
19 August	\$ 817,809,039	0	817,809,039	114,046,495	0	114,046,495	
20 September	\$ 818,235,588	0	818,235,588	114,046,495	0	114,046,495	
21 October	\$ 828,586,822	0	828,586,822	114,046,495	0	114,046,495	
22 November	\$ 829,001,436	0	829,001,436	114,046,495	0	114,046,495	
23 December 2018	\$ 829,413,789	0	829,413,789	114,046,495	0	114,046,495	521,471
24							
25 13 Month-End Average	\$819,280,064	\$0	\$819,280,064	\$114,046,495	\$0	\$114,046,495	
26 Simple Average							\$521,471

Amounts below from MPCo's 3.01 Total CC Filing model from 8/10/2017

	Per MPCO - includes SMEPA	Implied Plant Additions	Staff Before Removal %	Removal	Adjusted
December 2017	\$819,246,602		\$ 814,500,000	\$ -	\$ 814,500,000
January	819,652,345	\$405,743	\$ 814,905,743	\$ -	\$ 814,905,743
February	820,063,165	\$410,820	\$ 815,316,563	\$ -	\$ 815,316,563
March	820,497,732	\$434,567	\$ 815,751,130	\$ -	\$ 815,751,130
April	820,908,908	\$411,176	\$ 816,162,306	\$ -	\$ 816,162,306
May	821,320,648	\$411,740	\$ 816,574,046	\$ -	\$ 816,574,046
June	821,733,634	\$412,986	\$ 816,987,032	\$ -	\$ 816,987,032
July	822,143,938	\$410,304	\$ 817,397,336	\$ -	\$ 817,397,336
August	822,555,641	\$411,703	\$ 817,809,039	\$ -	\$ 817,809,039
September	822,982,190	\$426,549	\$ 818,235,588	\$ -	\$ 818,235,588
October	832,906,875	\$10,351,234	\$ 828,586,822	\$ -	\$ 828,586,822
November	833,321,489	\$414,614	\$ 829,001,436	\$ -	\$ 829,001,436
December 2018	833,733,842	\$412,353	\$ 829,413,789	\$ -	\$ 829,413,789
Average	\$823,928,231	\$14,913,789	\$819,280,064	\$0	\$819,280,064

To page 16

Plant additions related to low Nox burners \$ 23,431,763
Retirements associated with low Nox burners \$ (13,507,078)
Net plant additions related to low Nox burner \$ 9,924,685 Staff has included this amount in October 2018 Implied Plant Additions

1 MISSISSIPPI POWER COMPANY
2 CALCULATION OF TOTAL RETAIL KEMPER REVENUE REQUIREMENT
3 FOR THE PROJECTED TWELVE MONTHS ENDING DECEMBER 31, 2018

4
5 KEMPER ACCUMULATED DEPRECIATION OF PLANT IN SERVICE

	COMBINED CYCLE & RELATED ASSETS				TRANSMISSION				GENERAL PROPERTY OTHER		
	MONTHLY DEPRECIATION	LESS OTHER DEPRECIATION ADJUSTMENT	MONTHLY RETIREMENTS, COR, SALVAGE ADJUSTMENTS	ACCUMULATED DEPRECIATION MONTHLY BALANCE	MONTHLY DEPRECIATION	LESS OTHER DEPRECIATION ADJUSTMENT	MONTHLY RETIREMENTS, COR, SALVAGE ADJUSTMENTS	ACCUMULATED DEPRECIATION MONTHLY BALANCE	ANNUAL DEPRECIATION	RETIREMENTS, COR, SALVAGE ADJUSTMENTS	ACCUMULATED DEPRECIATION MONTHLY BALANCE
13 December 2017				63,065,083				\$15,484,380			65,302
14 January	1,654,040	\$0	\$0	64,719,123	\$257,510	\$0	\$0	15,741,890	52,729	\$0	118,031
15 February	1,654,506	0	0	66,373,629	257,510	0	0	15,999,400	\$52,729	\$0	
16 March	1,655,050	0	0	68,028,679	257,510	0	0	16,256,910			\$91,667
17 April	1,655,621	0	0	69,684,301	257,510	0	0	16,514,420			
18 May	1,656,264	0	0	71,340,565	257,510	0	0	16,771,930			
19 June	1,657,002	0	0	72,997,567	257,510	0	0	17,029,439			
20 July	1,657,856	0	0	74,655,423	257,510	0	0	17,286,949			
21 August	1,658,886	0	0	76,314,309	257,510	0	0	17,544,459			
22 September	1,660,219	0	0	77,974,528	257,510	0	0	17,801,969			
23 October	(11,832,464)	0	0	66,142,065	257,510	0	0	18,059,479			
24 November	1,704,163	0	0	67,846,228	257,510	0	0	18,316,989			
25 December 2018	1,709,317	0	0	69,555,545 [a]	257,510	0	0	18,574,498 [a]			
26											
27 Total	\$6,490,462	\$0	\$0	\$69,899,773	\$3,090,118	\$0	\$0	\$17,029,439			
28 13 Month-End Average											

29
[a] Dec 2018 amount to ADIT calc

1 **MISSISSIPPI POWER COMPANY**

Page 6

2 **CALCULATION OF TOTAL RETAIL KEMPER REVENUE REQUIREMENT**
 3 **FOR THE PROJECTED TWELVE MONTHS ENDING DECEMBER 31, 2018**

4

5 **KEMPER INVENTORY**

6

7

8

9 December 2017

\$10,559,467

\$0

10 January

10,650,270

0

11 February

10,741,073

0

12 March

10,831,876

0

13 April

10,922,679

0

14 May

11,013,483

0

15 June

11,104,286

0

16 July

11,195,089

0

17 August

11,285,892

0

18 September

11,376,696

0

19 October

11,467,499

0

20 November

11,558,302

0

21 December 2018

11,649,105

0

22

23 13 Month-End Avg

\$11,104,286

\$0

24

2 CALCULATION OF TOTAL RETAIL KEMPER REVENUE REQUIREMENT
 3 FOR THE PROJECTED TWELVE MONTHS ENDING DECEMBER 31, 2018

4
 5 KEMPER PREPAYMENTS

	PRODUCTION ⁽²⁾	TRANSMISSION	GENERAL PROPERTY MINE
December 2017	\$5,272,829	\$0	
January	5,272,829	0	\$0
February	2,628,857	0	
March	2,628,857	0	
April	2,628,857	0	
May	2,628,857	0	
June	2,628,857	0	
July	2,628,857	0	
August	2,628,857	0	
September	2,628,857	0	
October	2,628,857	0	
November	2,628,857	0	
December 2018	2,628,857	0	0
13 Month-End Avg	\$3,035,622	\$0	
Simple Average			\$0

1 MISSISSIPPI POWER COMPANY
2 CALCULATION OF TOTAL RETAIL KEMPER REVENUE REQUIREMENT
3 FOR THE PROJECTED TWELVE MONTHS ENDING DECEMBER 31, 2018

4 KEMPER REGULATORY ASSETS - APPROVED ITEMS

KEMPER REGULATORY ASSETS - APPROVED ITEMS					Adjustment to Get to MPCo 12/31/2017 Balance*	Adjusted 12/31/2017 Balance Used			Annual Amortization Expense Using Current Amortization	Proposed Remaining Amortization Period in Months	Currently Authorized Total Amortization Period in Years	
					Staff Calculated	Ending Balance						
Regulatory Asset Description - Retail					Dec-17	Dec-17	Dec-18	Simple Average	Monthly Amortization			
Ending Balance 7/31/2017	Monthly Amortization	5 Months Amortization August-Dec 2017										
Screening & Evaluation Costs	\$ 3,102,563	\$ 32,318	\$ 161,592	\$ 2,940,971	\$ 518,996	\$3,459,967	\$2,767,974	\$3,113,970	\$ 57,666	691,993	60	10
Corporate Franchise Tax	\$ 4,530,561	\$ 47,193	\$ 235,967	\$ 4,294,594	\$ 2,237	\$4,296,831	\$3,437,465	\$3,867,148	\$ 71,614	859,366	60	10
Transmission	\$ 4,266,395	\$ 44,442	\$ 222,208	\$ 4,044,187	\$ 866,648	\$4,910,835	\$3,928,868	\$4,419,751	\$ 81,847	982,167	60	10
Ad Valorem on AFUDC	\$ 1,620,452	\$ 16,880	\$ 84,399	\$ 1,536,053	\$ 207,499	\$1,743,553	\$1,394,842	\$1,569,197	\$ 29,059	348,711	60	10
Prudence proceedings	\$ 5,894,544	\$ 98,242	\$ 491,212	\$ 5,403,332	\$ 420,278	\$5,823,610	\$4,658,888	\$5,241,249	\$ 97,060	1,164,722	60	7
Independent Monitors	\$ 13,677,697	\$ 227,962	\$ 1,139,808	\$ 12,537,889	\$ (208,674)	\$12,329,215	\$9,863,372	\$11,096,293	\$ 205,487	2,465,843	60	7
Deferred depreciation and O&M (CC, transmission, regulatory and other assets)	\$ 17,807,320	\$ 185,493	\$ 927,465	\$ 16,879,855	\$1,640,214	\$18,520,069	\$13,175,841	\$15,847,955	\$ 308,668	3,704,014	60	10

to Page 9

Notes and Source

Line 17: Adjusted after 8/18/2017 call to MPCo proposed balance

See response to MPUS-LA-IDR 5-1 for itemization of which reg asset balances had the SMEPA allocation applied

Compare

\$16,879,855 Amount from carrying forward approved levels

	Authorized Amortization Period in Years	Start of Amortization	Months of Amortization Through 12/31/2017	Remaining Months of Amortization At 12/31/2017	Adjusted Remaining Amortization For 1/1/2018 Forward	
					In Months	In Years
Screening & Evaluation Costs	10	8/1/2015	29	91	60	5
Corporate Franchise Tax	10	8/1/2015	29	91	60	5
Transmission	10	8/1/2015	29	91	60	5
Ad Valorem on AFUDC	10	8/1/2015	29	91	60	5
Prudence proceedings	7	8/1/2015	29	55	60	5
Independent Monitors	7	8/1/2015	29	55	60	5
Deferred depreciation and O&M (CC, transmission, regulatory and other assets)	10	8/1/2015	29	91	60	5

1 MISSISSIPPI POWER COMPANY
2 CALCULATION OF TOTAL RETAIL KEMPER REVENUE REQUIREMENT
3 FOR THE PROJECTED TWELVE MONTHS ENDING DECEMBER 31, 2018

4
5 KEMPER REGULATORY ASSETS - NEW ITEMS NOT INCLUDED IN IN-SERVICE ASSETS RATE BASE

KEMPER REGULATORY ASSETS - NEW ITEMS NOT INCLUDED IN IN-SERVICE ASSETS RATE BASE							Annual	Proposed
	Staff Proposed						Amortization	Amortization
	Allowed Items						Expense	Starting
	Ending Balance	Monthly Deferral	Ending Balance		Simple	Monthly	Using	1/1/2018
	6/30/2017	July-Dec 2017	Dec-17	Dec-18	Average	Amortization	Current	Amortization
							Amortization	Period in Years
Regulatory Asset Description - Retail								
Other PS&I/Post Certificate Costs	\$ 11,118,981	\$ 65,503	\$11,184,484	\$8,947,587	\$10,066,036	\$ 186,408	2,236,897	5
Non-Capitalizable Labor and Expenses	\$ 2,611,367	\$ 28,409	\$2,639,776	\$2,111,821	2,375,799	\$ 43,996	527,955	5
Legal Proceedings, Fees, and Rate Case Expenses	\$ 10,569,897	\$ 206,581	\$10,776,479	\$8,621,183	9,698,831	\$ 179,608	2,155,296	5
Costs Associated with Refunds (Retail Only)	\$ 1,641,004		\$1,641,004	\$1,312,804	1,476,904	\$ 27,350	328,201	5
Carrying Costs on Assets not in ISA Proposal	\$ 4,865,998		\$4,865,998	\$3,892,799	4,379,399	\$ 81,100	973,200	5
Carrying Costs on Items Excluded from Stipulation	\$ 14,021,212	\$ 4,365,195	\$18,386,407	\$14,709,126	16,547,766	\$ 306,440	3,677,281	5
Deferred Depr on Items Excluded from Stipulation	\$ 4,874,931	\$ 1,292,925	\$6,167,856	\$4,934,285	5,551,070	\$ 102,798	1,233,571	5
Carrying Costs on ISA 15% (@ Debt Rate)	\$ 10,125,450	\$ 1,682,823	\$11,808,273	\$9,446,618	10,627,446	\$ 196,805	2,361,655	5
Deferred Depr on ISA 15%	\$ 3,321,750	\$ 888,615	\$4,210,365	\$3,368,292	3,789,329	\$ 70,173	842,073	5
Deferred Amortization on ISA 15%	\$ 7,596,270	\$ -	\$7,596,270	\$6,077,016	6,836,643	\$ 126,605	1,519,254	5
Independent Monitor Costs Estimated Through 12/31/2017 Not Yet Approved (a)			\$8,579,966	\$6,863,973	7,721,969	\$ 142,999	1,715,993	5
Cost of Capital Regulatory Liability			\$ (9,617,742)	\$ (7,694,193)	(8,655,968)	\$ (160,296)	(1,923,548)	5
Debt Carrying Costs (CC, Transmission, Regulatory and Other Assets) Regulatory Liability	\$ (6,809,432)	\$ (6,809,432)	\$ (6,809,432)	\$ (5,447,545)	(6,128,489)	\$ (113,491)	(1,361,886)	5
Equity Carrying Costs (CC, Transmission, Regulatory and Other Assets) Regulatory Liability	\$ (10,674,770)	\$ (10,674,770)	\$ (10,674,770)	\$ (8,539,816)	(9,607,293)	\$ (177,913)	(2,134,954)	5
Total	\$70,746,861	(\$8,954,150)	\$60,754,935	\$48,603,948	\$54,679,442	\$1,012,582	\$12,150,987	
ADITS on Regulatory Assets	(\$27,051,763)		(\$23,231,110)	(\$18,584,888)	(\$20,907,999)			

to Page 9

\$79,276,913 Above lines 11 through 20
\$79,276,913 Detail page
\$0 Difference

to Page 9

1 **MISSISSIPPI POWER COMPANY**
2 **CALCULATION OF TOTAL RETAIL KEMPER REVENUE REQUIREMENT**
3 **FOR THE PROJECTED TWELVE MONTHS ENDING DECEMBER 31, 2018**

Page 9

4
5 **SUMMARY OF KEMPER ACCUMULATED DEFERRED INCOME TAXES**
6

7				
8		TOTAL	RETAIL	
9		COMPANY	AVERAGE	
10		AVERAGE	BALANCE	
11	Debit/(Credit)	BALANCE	BALANCE	Reference
12				
13	Account 190 Non-Property Related ADIT	\$0	\$0	Page 10
14				
15	Account 282 Property Related ADIT	(147,283,145)	(105,276,861)	Page 11
16				
17	Account 283 Non-Property Related ADIT	<u>(53,473,743)</u>	<u>(38,174,314)</u>	Page 8A & 8B
18				
19	Total Accumulated Deferred Income Taxes	<u>(\$200,756,889)</u>	<u>(\$143,451,175)</u>	Per Staff
20				

MISSISSIPPI POWER COMPANY

CALCULATION OF TOTAL RETAIL KEMPER REVENUE REQUIREMENT

FOR THE PROJECTED TWELVE MONTHS ENDING DECEMBER 31, 2018

KEMPER NON-PROPERTY RELATED ACCUMULATED DEFERRED INCOME TAXES (Note 1)

ACCOUNT 190

	BEGINNING BALANCE June 1, 2015	ENDING BALANCE May 31, 2016	AVERAGE BALANCE
FEDERAL	\$0	\$0	\$0
STATE	0	0	0
TOTAL	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>
Retail Non-Property Related Accumulated Deferred Income Taxes Allocator			<u>71.388894%</u>
Retail Portion of Non-Property Related Accumulated Deferred Income Taxes			<u>\$0</u>

1 MISSISSIPPI POWER COMPANY
2 CALCULATION OF TOTAL RETAIL KEMPER REVENUE REQUIREMENT
3 FOR THE PROJECTED TWELVE MONTHS ENDING DECEMBER 31, 2018

Page 11

4
5 KEMPER PROPERTY RELATED ACCUMULATED DEFERRED INCOME TAXES
6 ACCOUNT 282

7 Combined Cycle & Related Assets

	ENDING ADIT	Staff Adjusted CC and Related	Total per MPCo Adjustment from detail	Staff Adjusted to Detail 12/31/2018 CC Related	Use same as MPCo Transmission
11 Dec-17	(100,254,778)	\$ (117,226,778)		\$ (105,825,004)	
12 Dec-18	(105,825,004)	\$ (122,797,004)		(16,972,000)	
13	<u>(\$5,570,226)</u>	<u>\$ (5,570,226)</u>		<u>ADIT \$ (122,797,004)</u>	<u>(27,476,007)</u>

14 IRS METHOD -

	NET PROVISION	DAYS IN MONTH	PRO RATA PORTION	PRO RATA AMOUNT	Per MPCo ADIT	Per Staff ADIT CC & Related
18 December 2017					(\$100,254,778)	\$ (117,226,778)
19 January	(\$464,185)	31	0.9178	(\$426,029)	(100,680,807)	\$ (117,652,807)
20 February	(464,185)	28	0.8411	(\$390,426)	(101,071,234)	\$ (118,043,234)
21 March	(464,185)	31	0.7562	(\$351,017)	(101,422,251)	\$ (118,394,251)
22 April	(464,185)	30	0.6740	(\$312,861)	(101,735,112)	\$ (118,707,112)
23 May	(464,185)	31	0.5890	(\$273,405)	(102,008,517)	\$ (118,980,517)
24 June	(464,185)	30	0.5068	(\$235,249)	(102,243,766)	\$ (119,215,766)
25 July	(464,185)	31	0.4219	(\$195,840)	(102,439,606)	\$ (119,411,606)
26 August	(464,185)	31	0.3370	(\$156,431)	(102,596,037)	\$ (119,568,037)
27 September	(464,185)	30	0.2548	(\$118,274)	(102,714,311)	\$ (119,686,311)
28 October	(464,185)	31	0.1699	(\$78,865)	(102,793,176)	\$ (119,765,176)
29 November	(464,185)	30	0.0877	(\$40,709)	(102,833,885)	\$ (119,805,885)
30 December 2018	(464,185)	31	0.0027	(\$1,253)	(102,835,138)	\$ (119,807,138)
31	<u>(\$5,570,226)</u>	<u>365</u>		<u>(\$2,580,361)</u>		

34 Retail Property Related Accumulated Deferred Income Taxes Allocator	71.388894%	71.388894%
35 Retail Portion of Property Related Accumulated Deferred Income Taxes	<u>(\$73,412,868)</u>	<u>(\$85,528,991)</u>

36
37 Transmission

	ENDING ADIT	
40 Dec-17	(\$27,634,560)	
41 Dec-18	(27,290,080)	
42	<u>\$344,479</u>	

	NET PROVISION	DAYS IN MONTH	PRO RATA PORTION	PRO RATA AMOUNT	ADIT	
47 December 2017					(\$27,634,560)	(\$27,634,560)
48 January	\$28,707	30	0.9205	\$26,424	(27,608,136)	(\$27,608,136)
49 February	28,707	31	0.8356	23,987	(27,584,149)	(\$27,584,149)
50 March	28,707	31	0.7507	21,550	(27,562,599)	(\$27,562,599)
51 April	28,707	30	0.6685	19,190	(27,543,409)	(\$27,543,409)
52 May	28,707	31	0.5836	16,753	(27,526,656)	(\$27,526,656)
53 June	28,707	30	0.5014	14,393	(27,512,263)	(\$27,512,263)
54 July	28,707	31	0.4164	11,953	(27,500,310)	(\$27,500,310)
55 August	28,707	31	0.3315	9,516	(27,490,794)	(\$27,490,794)
56 September	28,707	28	0.2548	7,314	(27,483,480)	(\$27,483,480)
57 October	28,707	31	0.1699	4,877	(27,478,603)	(\$27,478,603)
58 November	28,707	30	0.0877	2,518	(27,476,085)	(\$27,476,085)
59 December 2018	28,707	31	0.0027	78	(27,476,007)	(\$27,476,007)
60						
61	<u>\$344,479</u>	<u>365</u>		<u>\$158,553</u>		

63 Retail Property Related Accumulated Deferred Income Taxes Allocator	71.873146%	71.873146%
64 Retail Portion of Property Related Accumulated Deferred Income Taxes	<u>(\$19,747,870)</u>	<u>(\$19,747,870)</u>

	MPCO	Staff	
66 Total Company	(\$130,311,145)	(\$147,283,145)	to page 9
67 Retail Allocation	(\$93,160,738)	(\$105,276,861)	to page 9

1 **MISSISSIPPI POWER COMPANY**
2 **CALCULATION OF TOTAL RETAIL KEMPER REVENUE REQUIREMENT**
3 **FOR THE PROJECTED TWELVE MONTHS ENDING DECEMBER 31, 2018**

4
5 **COST OF CAPITAL (COC)**

	For Adjustment In Settlement CAPITAL STRUCTURE RATIO	EMBEDDED COST	PERFORMANCE ADJUSTMENT	COST OF COMMON EQUITY	RETURN ON INVESTMENT
12					
13 Debt	49.301%	4.216%			2.079%
14					
15 Preferred Stock	0.699%	5.293%			0.037%
16					
17 Common Equity	50.000%	9.225%	0.000%	9.225%	4.613%
18					
19	100.000%				6.729%

1 **MISSISSIPPI POWER COMPANY**
2 **CALCULATION OF TOTAL RETAIL KEMPER REVENUE REQUIREMENT**
3 **FOR THE PROJECTED TWELVE MONTHS ENDING DECEMBER 31, 2018**

Page 16

4
5 **KEMPER INTEREST EXPENSE**

6		
7	Total Retail Kemper Investment (Page 1)	\$571,556,227
8	Weighted Embedded Cost of Debt (Page 13)	<u>2.079%</u>
9		
10	Kemper Interest Expense (Total Retail Kemper Investment	
11	x Weighted Embedded Cost of Debt)	<u><u>\$11,882,654</u></u>

12

1 **MISSISSIPPI POWER COMPANY**
2 **CALCULATION OF TOTAL RETAIL KEMPER REVENUE REQUIREMENT**
3 **FOR THE PROJECTED TWELVE MONTHS ENDING DECEMBER 31, 2018**

4
5 **PERMANENT BOOK/TAX DIFFERENCES**
6
7
8
9

	Book/Tax Difference	Retail Allocator	Retail Book/Tax Difference
10			
11			
12			
13 Combined Cycle & Related Assets AFUDC Equity non-deductible book depreciation	989,079	71.388894%	706,093
14			
15 Transmission AFUDC Equity non-deductible book depreciation	44,411	71.729049%	31,856
16			
17 Total	\$1,033,490		\$737,949

2 **CALCULATION OF TOTAL RETAIL KEMPER REVENUE REQUIREMENT**
 3 **FOR THE PROJECTED TWELVE MONTHS ENDING DECEMBER 31, 2018**

4
 5 **TAX ADJUSTMENT FACTOR**

- 6
 7 1. The effective combined tax rate was developed using
 8 the following components:

9 Federal Income Tax Rate	35.00%
10 Mississippi Income Tax Rate	5.00%
11 Alabama Income Tax Rate	6.50%

- 12
 13 2. State Income Tax is deductible for Federal Income
 14 Tax purposes:

15 Federal Income Tax Rate	35.00%
16 Combined State Income Tax Rate	5.00%
17 Adjustment for Deductibility of State Taxes	1.75%
18 Federal Income Tax Rate	35.00%
19 Effective Federal Income Tax Rate	33.25%

- 20
 21 3. Federal Income Tax is deductible for Alabama State
 22 Income Tax purposes:

23 Alabama Statutory Income Tax Rate	6.50%
24 Federal Income Tax Rate	35.00%
25 Adjustment to Alabama Statutory Rate	2.28%
26 Alabama Statutory Income Tax Rate	6.50%
27 Adjusted Alabama Statutory Rate	4.23%
28 Alabama Apportionment Factor	1.6253%
29 Alabama Effective Income Tax Rate	0.0687%

- 30
 31 4. Mississippi Income Tax Rate:

32 Mississippi Statutory Income Tax Rate	5.00%
33 Mississippi Apportionment Factor	98.3747%
34 Mississippi Effective Income Tax Rate	4.9187%

- 35
 36 5. Development of the Company's composite tax rate:

37 Effective Federal Income Tax Rate	33.2500%
38 Alabama Effective Income Tax Rate	0.0687%
39 Mississippi Effective Income Tax Rate	4.9187%
40 Company's Composite Income Tax Rate	38.2374%
41 Reciprocal of Composite Income Tax Rate	61.763%

- 42
 43 6. MPC pays Municipal Franchise Taxes on a portion of
 44 its retail revenues collected. The Municipal
 45 Franchise Tax Rate is adjusted to reflect this.

46 Municipal Franchise Tax Rate	3.0084%
47 Percentage of Retail Revenues Paid On	68.82%
48 Adjusted Municipal Franchise Tax Rate	2.07%
49 Reciprocal of Municipal Franchise Tax Rate	97.930%

1 MISSISSIPPI POWER COMPANY
2 CALCULATION OF TOTAL RETAIL KEMPER REVENUE REQUIREMENT
3 FOR THE PROJECTED TWELVE MONTHS ENDING DECEMBER 31, 2018

4
5 KEMPER NON-FUEL OPERATIONS & MAINTENANCE EXPENSES

6

7

8

9

AMOUNT

10 Non-fuel Operations and Maintenance Expenses:

11 Production CC O&M

\$25,532,679

12 Transmission

0

13 Administrative & General Expenses

0

14 Total Company Kemper Non-fuel Operations & Maintenance Expenses

25,532,679

1 **MISSISSIPPI POWER COMPANY**
2 **CALCULATION OF TOTAL RETAIL KEMPER REVENUE REQUIREMENT**
3 **FOR THE PROJECTED TWELVE MONTHS ENDING DECEMBER 31, 2018**

4
5 **KEMPER DEPRECIATION EXPENSE**

6		Reflects the
7		Excess Capacity
8		Removal
9		<u>DEPRECIATION</u>
10	<u>DEPRECIATION</u>	<u>EXPENSE</u>
11	Total Production Depreciation	\$19,377,659 ⁽¹⁾
12		
13	Total Transmission Depreciation	3,090,118
14		
15	Total General Property Depreciation - Other	<u>52,729</u>
16		
17	Total Depreciation Expense	<u><u>\$22,520,506</u></u>

18
19
20 ⁽¹⁾ removed gas pipeline of \$323,354 which is recovered through fuel

1 **MISSISSIPPI POWER COMPANY**
2 **CALCULATION OF TOTAL RETAIL KEMPER REVENUE REQUIREMENT**
3 **FOR THE PROJECTED TWELVE MONTHS ENDING DECEMBER 31, 2018**

Page 21

4
5 **KEMPER TAXES OTHER THAN INCOME TAXES**
6
7
8

	<u>Taxes Other</u>
11 Franchise Tax	\$25,000
12 Ad Valorem Taxes ⁽¹⁾	8,293,205
13 Payroll Taxes	403,380
14 Total	<u>\$8,721,585</u>
15	
16	
17	
18 Ad Valorem Taxes before applying removal percent	8,293,205 See below
19 Removal Percent	<u>0.0%</u>
20 Allowed Ad Valorem Tax Expense	<u><u>8,293,205</u></u>

	Amount Per
25 Description	MPUS-MPC-IDR 10-4
26 Combined Cycle/Common	\$ 628,135,690
27 Transmission	\$ 106,593,378
28 Gas Pipeline	\$ 12,214,776
29 M&S Inventory	\$ 44,673,173
30 Water Pipeline	\$ 80,984,585
31 Total Estimated Valuation	<u>\$ 872,601,602</u>
32 Public Utility Assessment Rate	30%
33 Assessment Value	<u>\$ 261,780,481</u>
34 Estimated Average Millage Rate	0.09600
35 Estimated Ad Valorem Taxes	<u>\$25,130,926</u>
36 Estimated Exemption	<u>\$16,837,721</u>
37 Estimated Ad Valorem Taxes	<u><u>\$8,293,205</u></u>

38