

EXHIBIT D  
STATEMENT OF COSTS AND FINANCING

**FINAL**  
**ALABAMA POWER COMPANY**  
**WARRIOR RIVER PROJECT**  
**FERC NO. 2165**  
**APPLICATION FOR NEW LICENSE**  
**FOR MAJOR WATER POWER PROJECT - EXISTING DAM**

**EXHIBIT D**

**STATEMENT OF COSTS AND FINANCING**

**TABLE OF CONTENTS**

1.0	ORIGINAL COSTS OF PREVIOUSLY CONSTRUCTED UNLICENSED FACILITIES .....	D-1
2.0	ESTIMATE OF THE AMOUNT PAYABLE IF THE PROJECT WERE TO BE TAKEN OVER PURSUANT TO SECTION 14 OF THE FEDERAL POWER ACT.....	D-2
2.1	Fair Value.....	D-2
2.2	Net Investment.....	D-2
2.3	Severance Damages .....	D-2
3.0	ESTIMATED COST OF NEW DEVELOPMENT .....	D-4
4.0	ESTIMATED AVERAGE ANNUAL COST OF THE PROJECT .....	D-5
5.0	ESTIMATED ANNUAL VALUE OF PROJECT POWER .....	D-6
6.0	SOURCES AND EXTENT OF FINANCING AND ANNUAL REVENUES.....	D-8
7.0	COST TO DEVELOP THE LICENSE APPLICATION .....	D-9
8.0	VALUE OF PROJECT POWER .....	D-10
9.0	THE EFFECT OF PROPOSED CHANGES IN PROJECT OPERATION .....	D-11

**LIST OF TABLES**

Table D-1:	Project Costs .....	D-3
Table D-2:	Summary of Annual Benefits and Costs.....	D-7

**FINAL**  
**ALABAMA POWER COMPANY**  
**WARRIOR RIVER PROJECT**  
**FERC NO. 2165**  
**APPLICATION FOR NEW LICENSE**  
**FOR MAJOR WATER POWER PROJECT - EXISTING DAM**  
  
**EXHIBIT D**  
  
**STATEMENT OF COSTS AND FINANCING**

**1.0 ORIGINAL COSTS OF PREVIOUSLY CONSTRUCTED UNLICENSED FACILITIES**

This section is not applicable to the Warrior River developments, which comprise the existing Warrior River Project (Lewis Smith and Bankhead, Project No. 2165). Alabama Power Company (APC) is applying for a new license for the Warrior River Project; however, this section does not apply as APC is requesting a new license, not an initial license. Hereinafter in this exhibit, “Project” will apply to the two Warrior River hydro developments.

## **2.0 ESTIMATE OF THE AMOUNT PAYABLE IF THE PROJECT WERE TO BE TAKEN OVER PURSUANT TO SECTION 14 OF THE FEDERAL POWER ACT**

To date, no agency or interested party has recommended a federal takeover of the Project pursuant to Section 14 of the Federal Power Act. If such a takeover were to occur, APC would have to be reimbursed for the net investment, not to exceed the fair value, of the property taken, plus severance damages (Section 14, Federal Power Act).

### **2.1 Fair Value**

The fair value of this Project is dependent on prevailing power values and license conditions, both of which are currently subject to change. The best approximation of fair value would likely be the cost to construct and operate a comparable power generating facility. Because of the high capital costs involved with constructing new facilities and the increase in fuel costs (assuming a fossil fueled replacement), the fair value would be considerably higher than the net investment (see section 2.2). If a takeover were to be proposed, APC would calculate fair value based on current conditions.

### **2.2 Net Investment**

In 2007, the net investment for the Project is forecasted to be \$33.39 million. This amount includes the original costs, accumulated depreciation, capitalized CWIP expenses prior to 2007, and net investment, according to the Commission's Uniform System of Accounts.

### **2.3 Severance Damages**

The Project provides power to the APC transmission and distribution system for ultimate consumption by APC's customers. Severance damages are determined either by the cost of replacing (retiring) equipment that is "dependent for its usefulness upon the continuance of the License" (Section 14, Federal Power Act), or the cost of obtaining an amount of power equivalent to that generated by the Project from the least expensive alternative source, plus the

capital cost of constructing any facilities that would be needed to transmit the power to APC's customers, minus the cost savings that would be realized from not operating the Project. Again, these values would need to be calculated based on power values and license conditions at the time of project takeover.

**Table D-1: Project Costs**

<b>UNIFORM SYSTEM OF ACCOUNTS NO.</b>	<b>TITLE</b>	<b>ORIGINAL COST (\$)</b>	<b>ACCUMULATED DEPRECIATION (\$)</b>	<b>NET INVESTMENT (\$)</b>
302	Relicensing Cost	<b>2,542,372.86</b>		
330	Land and Land Rights	<b>4,745,902.96</b>		
331	Structures & Improvements	<b>9,650,790.45</b>		
332	Reservoirs, Dams, and Waterways	<b>17,883,178.80</b>		
333	Waterwheels, Turbines and Generators	<b>15,343,240.01</b>		
334	Accessory Electrical Equipment	<b>2,558,948.65</b>		
335	Misc. Power Plant Equipment	<b>589,275.58</b>		
336	Roads, Railroads, and Bridges	<b>167,277.83</b>		
	<b>Totals</b>	<b>53,480,987.14</b>	<b>21,533,437.27</b>	<b>31,947,549.87</b>

Note: These are values as of 12/31/2004. Detailed records for depreciation of plant by Account No. are not compiled, only depreciation for total projects.

### **3.0 ESTIMATED COST OF NEW DEVELOPMENT**

No new development has been proposed at the Project. The primary costs will be those costs associated with the PM&E measures related to the APC Enhancement Proposal. PM&E costs related to the APC Enhancement Proposal will increase operation and maintenance costs by approximately \$1.2 million annually. The annual cost for capital and for operation and maintenance associated with the APC Enhancement Proposal is approximately \$12.1 million.

#### **4.0 ESTIMATED AVERAGE ANNUAL COST OF THE PROJECT**

The estimated average cost of the total Project (two developments) before PM&E measures (No-Action alternative) will be approximately \$7.6 million per year, based on a 30-year period of analysis. This estimate includes annualized values for the cost of capital, taxes depreciation, and operation and maintenance expenses.

With the APC Enhancement Proposal, total project costs will be approximately \$9.8 million per year. This estimate includes annualized values for the cost of capital, taxes, depreciation, and operation and maintenance expenses. The annual cost estimates associated with the APC Enhancement Proposal may not include all final costs. Should cost estimates change, APC will supplement this license application filing to include these final costs.

Comparatively, with the ARA/AR/WWF alternative, total project costs would be approximately \$100.5 million per year. This estimate includes annualized values for the cost of capital, taxes, depreciation, and operation and maintenance expense.

## 5.0 ESTIMATED ANNUAL VALUE OF PROJECT POWER

APC estimates total annual energy production of the Warrior Project to be approximately 398,223 MWh, which is sold at prevailing regulated rates as approved by the Alabama Public Service Commission.

The estimated average annual Project cost under the APC Enhancement proposal will be approximately \$24.5 per MWh.

In contrast, the estimated average annual Project cost with the ARA/AR/WWF alternative would be approximately \$252 per MWh.

APC has recently constructed combined cycle generating capacity, which is the capacity type competing to serve the peak period customer loads served by APC. Were the Warrior Project not to be retained, additional combined cycle generating capacity would be required to replace lost hydro capacity. Using typical capital cost for APC and projected gas, combined cycle capacity, and O&M cost as forecasted by the Department of Energy's (DOE) Energy Information Agency (EIA), alternative capacity and energy equivalent to Warrior Project capacity and energy is expected to cost approximately \$120 per MWh of average level annual cost over the same 30 year period of life expected for the Warrior projects.

Accordingly, the estimated annual value of the Project (defined as the difference between the cost to operate the Warrior Project and the cost to replace the generation associated with the Warrior Project, *i.e.*, avoided cost) is approximately \$95.5 per MWh (\$120 per MWh minus 24.5 per MWh) or a total of \$38.0 million per year over the 30 year period for the APC Enhancement Proposal.

In contrast, with the ARA/AR/WWF proposal, the estimated annual value of the Project (again, defined as the difference between the cost to operate the Warrior Project minus the cost to replace the generation associated with the Warrior Project) is approximately negative \$152 per MWh (\$120 per MWh minus \$252 per MWh) or a total of negative \$56.2 million per year over the 30 year period for the APC Enhancement Proposal.

**Table D-2: Summary of Annual Benefits and Costs**

	<b>NO ACTION ALTERNATIVE</b>	<b>APC ENHANCEMENT PROPOSAL</b>	<b>ARA/AR/WWF ALTERNATIVE</b>
Annual Generation (MWh)	398,223	398,223	398,223
Average Annual Project Cost (\$)	\$7.6 million	\$9.8 million	\$100.5 million
Average Annual Project Cost (\$/MWh)	\$19.1/Mwh	\$24.6/Mwh	\$252.4/Mwh
Annual Replacement Cost (\$)	\$47.7 million	\$47.7 million	\$47.7 million
Annual Replacement Cost (\$/MWh)	\$120/Mwh	\$120/Mwh	\$120/Mwh
Estimated Annual Project Value (Avoided Cost in \$)	\$40.1 million	\$37.9 million	(\$52.8 million)
Estimated Annual Project Value (Avoided Cost in \$/MWh)	\$100.9/Mwh	\$95.4/Mwh	(\$132.4/Mwh)

Numbers in parentheses indicate a negative number.

## **6.0 SOURCES AND EXTENT OF FINANCING AND ANNUAL REVENUES**

APC obtains its annual revenues generally from the sale of electricity under retail rates established by the Alabama Public Service Commission and under wholesale rate contracts approved by the Federal Energy Regulatory Commission.

APC has sufficient resources to finance the PM&E measures in the APC Alternative proposed in this application. If additional financing is necessary, APC will use its traditional sources of debt and equity financing.

A more detailed description of APC's financial information is provided in its most recent FERC Form 1.

## **7.0 COST TO DEVELOP THE LICENSE APPLICATION**

Simultaneous with the development of the Coosa River relicensing application, APC developed its application to relicense the Warrior River Project (P-2165), which will be filed no later than August 31, 2005. Because the Coosa and Warrior relicensing processes had many common stakeholders, APC held many joint Coosa and Warrior relicensing meetings and activities. The combined Coosa and Warrior relicensing process cost is anticipated to be approximately \$19.7 Million. APC estimates that the Warrior Project relicensing process costs are approximately \$2.5 million.

## **8.0 VALUE OF PROJECT POWER**

For APC, hydropower is sold under retail rates set by the Alabama Public Service Commission.

## **9.0 THE EFFECT OF PROPOSED CHANGES IN PROJECT OPERATION**

Certain components within the APC Enhancement Proposal will impact generation at the Smith development. Those components include the loss of generation resulting from the flow release in the Smith tailrace during non-generation. APC estimates that the average annual decrease in the value of project power will be approximately 270,000 per year, based on the impact of the aforementioned change.

In contrast, the ARA/AR/WWF has proposed that the Warrior Project generation units be ramped into operation. APC estimates that the average annual decrease in the value of Project power from the ARA/AR/WWF alternative would be approximately \$73 million, based on the flow release and unit ramping.