



## Report of Independent Accountants

To the Board of Directors  
Georgia Power Company

### Introduction

We have been engaged to report on the appropriate application of accounting principles generally accepted in the United States of America to the specific transaction described below. This report is being issued to Georgia Power Company for assistance in evaluating accounting principles for the described specific transaction. Our engagement has been conducted in accordance with standards established by the American Institute of Certified Public Accountants.

### Description of Transaction

The facts, circumstances, and assumptions relevant to the specific transaction as provided to us by the management of Georgia Power Company are as follows:

Georgia Power Company is in the process of constructing a power plant herein referred to as Vogtle Units 3 and 4. The Georgia Public Service Commission ("GPSC") Public Interest Advocacy Staff ("Staff") have proposed a risk sharing mechanism that would modify Georgia Power Company's ("GPC" or the "Company") profit on Plant Vogtle Units 3 and 4 ("Vogtle 3 & 4" or the "Project") once it has been completed and placed into service. The profit modification is based on the actual total Project cost, and would be accomplished through a regulatory ratemaking adjustment to the Company's return on common equity ("ROE"), thus impacting the profit on Vogtle 3 & 4.

Under the GPSC Staff's proposed risk sharing mechanism, the ROE the Company would be allowed the opportunity to earn on the Vogtle 3 & 4 rate base would be directly tied to the total Project cost.

This would be accomplished by adjusting the most recently awarded ROE by the GPSC (currently 11.15%) that the Company is allowed to earn on its rate base, and applying an adjustment to this ROE ("Adjusted ROE") specifically to the Vogtle 3 & 4 rate base (total Project cost) component as follows:

| Total Project Cost<br>(\$ millions) | ROE Adjustment<br>(Basis Points) |
|-------------------------------------|----------------------------------|
| 5,500                               | +155                             |
| 5,800                               | 0                                |
| 6,100                               | 0                                |
| 6,400                               | 0                                |
| 6,700                               | -128                             |
| 7,000                               | -185                             |
| 8,000                               | -350                             |
| 9,000                               | -483                             |

If the Project is completed within \$300 million above or below the current certified amount of \$6.1 billion then there would be no adjustment to the ROE applied to the Project. The proposal would create a dead-band for total Project cost between \$5.8 billion and \$6.4 billion, where there would be no adjustment to the ROE the Company would be allowed to earn. If total Project cost is under \$5.8 billion then the ROE



applied to Vogtle 3 & 4 rate base would be increased as an incentive, and the converse holds that if total Project cost exceeds \$6.4 billion then the ROE applied to Vogtle 3 & 4 rate base is decreased as a disallowance.

The Company would be allowed full recovery of prudent operating costs, including depreciation, fuel and O&M costs, and additionally would be allowed to recover all financing costs and corresponding income taxes regardless of the final in-service cost or the time to complete the Project.

### Appropriate Accounting Principles

The potential decrease in the ROE that would arise if total Project cost exceeds \$6.4 billion is evaluated under the Financial Accounting Standards Board's ("FASB") Accounting Standards Codification Topic 980, *Regulated Operations* (Topic 980), which includes guidance on accounting for property, plant and equipment by rate-regulated enterprises. Section 980-340-55, paragraphs 33 through 38 (Example 6: Phase-In Plan with an Indirect Disallowance) provide implementation guidance on accounting for plant disallowances including those that are indirect (for example, representing a disallowance of all or a portion of return on the total cost of a plant to be included in rate base). Example 6 and Section 980-360-35 require a partial disallowance of the rate of return to be recorded when it is probable and can be reasonably estimated. Example 6 also provides a sample calculation of an effective disallowance, which uses the weighted-average cost of capital ("WACC") allowed pursuant to the example Utility's latest rate case as the basis for the disallowance and discount factor.

This accounting is further supported by Section 980-360-35, which addresses cost disallowances on recently completed plants in paragraph 980-360-35-12 as follows:

"When it becomes probable that part of the cost of a recently completed plant will be disallowed for rate-making purposes and a reasonable estimate of the amount of the disallowance can be made, ***the estimated amount of the probable disallowance shall be deducted from the reported cost of the plant and recognized as a loss.*** Section 450-20-55 [Contingencies] provides guidance for making a reasonable estimate of the amount of a loss. ***If part of the cost is explicitly, but indirectly, disallowed (for example, by an explicit disallowance of return on investment on a portion of the plant), an equivalent amount of cost shall be deducted from the reported cost of the plant and recognized as a loss.***" (emphasis added)

While the decrease in ROE is not an explicit disallowance, it is an indirect disallowance as contemplated by Topic 980. In the event total Project cost exceeds \$6.4 billion, the GPSC Staff is disallowing a portion of what otherwise would be the allowed ROE on the total Project cost, through the downward adjustment to ROE. As a result, even though the Adjusted ROE would be applied over the entire service life of the Project, GPC would need to determine the effective disallowance by calculating the present value of the estimated future cash flow that is not allowed, and would be required to reduce the carrying value of the plant in-service by that amount with a current charge to earnings for financial reporting in accordance with accounting principles generally accepted in the United States of America.

In accordance with Subtopic 980-360, the effective disallowance would be recorded when it is both probable and reasonably estimable, which is expected to be in the period in which it is evident that the estimated cost at completion of the Project would exceed the top of the dead-band. If additional increases in the Project costs become probable, those increases would be recognized as incremental disallowance losses.



In the event the final project cost is below the dead-band, the Adjusted ROE would result in additional revenue earned. Subtopic 980-605 does not provide for the immediate recognition of excess return to be earned over the in-service period of the referenced assets.

### **Concluding Comments**

The ultimate responsibility for the decision on the appropriate application of accounting principles generally accepted in the United States of America for an actual transaction rests with the preparers of financial statements, who should consult with their continuing accountant. Our judgment on the appropriate application of accounting principles generally accepted in the United States of America for the described specific transaction is based solely on the facts provided to us as described above; should these facts and circumstances differ, our conclusion may change.

We were not engaged to, and did not, perform an audit of the amounts provided to us by management of the Company relating to the specific transaction described above. Accordingly, we do not express an opinion on such amounts.

### **Restricted Use**

This report is intended solely for the information and use of the Board of Directors and management of the Company for inclusion as a component of Witness Ann Daiss' written testimony to be filed with the Georgia Public Service Commission on or about April 27, 2011, and is not intended to be and should not be used by anyone other than these specified parties.

*Price Waterhouse Coopers LLP*

April 26, 2011  
Atlanta Georgia