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Florida Statute 366 gives the Florida Public Service Commission (FPSC, or the Commission) the authority to establish depreciation rates for utilities under its jurisdiction. No utility can implement or change depreciation rates without Commission approval. Rule 25-6.0436 (8) (a) of the Florida Administrative Code requires filing depreciation studies with the FPSC every four years unless otherwise ordered by the Commission. In addition, the Federal Energy Regulatory Commission (FERC) may require a separate depreciation study to be performed in conjunction with a wholesale rate case (18 CFR § 35.13(10)(iv)).

The depreciation studies compute depreciation rates according to the average remaining life rate methodology, unless otherwise ordered by the Commission. This methodology calculates the depreciation rate needed to recover the net book value of plant investment, expressed as a percentage of total plant, less expected net salvage rate, over the average remaining life of the plant account (by site by unit for Production Plant) or of the plant account (for Transmission, Distribution and General Plant).

The production plant depreciation study is done using the forecast approach. Estimates of the expected future lives of both the generating stations (economic recovery periods) and of individual property retirement units (replacement intervals - in years) are data inputs to this study. These inputs are obtained from discussions with engineers and management in the Power Generation and Nuclear Business Units. The replacement intervals are used to calculate the average service lives (ASL) for the property retirement units. The average remaining life (ARL) for each property retirement unit is its average service life less its age at time of the study. The retirement units' ASL's and ARL's as calculated are then weighted by plant investment dollars and the weighted dollar/year amounts are used to calculate the composite ASL's and ARL's for each plant account for each generating station. The composite average remaining lives become the denominators of the average remaining life depreciation rate equations.

Therefore, the plant investment at study date, less the reserve ratio at that date (the depreciation reserve expressed as a percentage of plant investment), less net salvage rate, divided by the average remaining life, equals the average remaining life depreciation rate for each production plant account at the generating station level.

The net salvage rate used in the numerator of the equation is an estimate (based on past experience) of the percentage relationship that removal cost net of salvage and other recoveries will bear to related retirements in future years.

Depreciation rates for mass property accounts in the Transmission, Distribution and General Plant functions are derived by matching survivor curve stubs (which reflect FPL's actual retirement experience for the plant accounts), to the Iowa Curves. The Iowa Curves, developed by engineers at Iowa State College in the 1920's, indicate the likely average service life to be expected for a plant account, given the Iowa survivor pattern that the account's actuarial experience best matches. The average remaining life of the plant account is calculated by subtracting the average age of the property in the account, (which is calculated based on a vintaged analysis), from the average service life indicated by the matching Iowa Curve.

The net salvage rate used in the numerator of the average remaining life equation is, once again, an estimated rate based on the application of professional judgment to historical net salvage experience.

When a comprehensive depreciation study is filed with the FPSC, the filing is docketed, and a CASR (the Commission's schedule for reviewing and approving the study) is issued. The FPSC depreciation staff reviews the study. Usually the review includes written interrogatories, designed to enhance the Staff's understanding of specific issues and assumptions related to and underlying the study. Staff sometimes directs that changes be made to the study and once the study conforms to Staff's requirements, a favorable Staff Recommendation follows. Usually a favorable Staff recommendation will be accepted by

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the Commission and their recommended rates approved. The rates are implemented as of an effective date and are not changed without Commission approval, usually as a result of a new depreciation study (FPSC Rule 25-6.0436). If new Production Plant sites are expected to be placed in-service sometime after the latest depreciation study was approved then new depreciation rates will be requested from the FPSC for those specific new plant sites using the same methods described above. However, if the new Production Plant sites are similar to existing sites, FPL will notify the FPSC that it will use the same depreciation rates as those approved for similar sites.