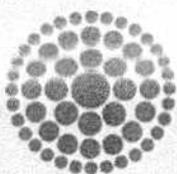


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FILE COPY**



**Florida
Power**
CORPORATION

James A. McGee
SENIOR COUNSEL

July 10, 1989

Mr. Steven C. Tribble
Director of Records and Reporting
Florida Public Service Commission
101 East Gaines Street
Tallahassee, FL 32399-0872

Re: Docket No. 870098-EI

Dear Mr. Tribble:

Enclosed for filing in the subject matter are fifteen (15) copies of Florida Power Corporation's Post-Hearing Statement.

Please acknowledge receipt and filing of the above by completing the form provided on the enclosed copy of this letter and returning same to this writer.

Very truly yours,

James A. McGee

- ACK form
- AFA 3 writer.
- APP _____
- CAF _____
- CMU _____
- CTR _____
- EAG** _____
- LEG 1 _____
- LIN 6 _____
- OPC _____ JAM/jw
- RCH _____ Enclosures
- SEC 1 _____
- WAS _____
- OTH _____

cc: Parties of Record

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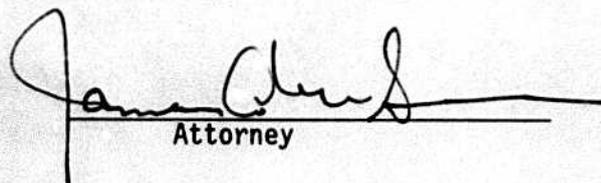
CERTIFICATE OF SERVICE
Docket No. 870098-EI

I HEREBY CERTIFY that a copy of the Florida Power Corporation's Post-Hearing Statement has been served by delivery or U.S. Mail this 10th day of July, 1989, to the following:

Matthew M. Childs, Esquire
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301 West College Avenue
Tallahassee, FL 32301-1406

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Tallahassee, FL 32399-0863


Attorney

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

In re: Petitions for approval of an
increase in the accrual of nuclear
decommissioning costs by Florida
Power Corporation and Florida Power
& Light Company.

Docket No. 870098-EI
Submitted for filing
July 10, 1989

**ORIGINAL
FILE COPY**

**POST-HEARING STATEMENT OF
FLORIDA POWER CORPORATION**

Florida Power Corporation (FPC or the Company), pursuant to Rule 25-22.056, Fla. Admin. Code, hereby submits its post-hearing statement in the subject proceeding and states as follows:

A. BASIC POSITION OF FPC

FPC's basic position is that its Decommissioning Study provides a reasonable basis for establishing the annual accrual needed to fund the estimated future costs of decommissioning the Crystal River 3 (CR3) nuclear plant. Updates to the Study based on current escalation rate projections strongly support and confirm the reasonableness of the Study's initial decommissioning cost accrual, which the Commission previously approved, effective January 1, 1989, and subsequently included in the Company's base rates. The updated Study indicates the need for an annual accrual of \$9,255,465, compared to the accrual of \$9,251,000 approved by the Commission, a difference of less than 5/100 of 1%.

FPC believes that the 25% contingency allowance included in its decommissioning cost estimate is not only reasonable, but essential in order to satisfy the Commission's paramount goal of ensuring that adequate funds will be available to pay the costs of decommissioning at the time they are incurred. The uncontroverted testimony at the hearing dispels the

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misconception that the contingency allowance is a "cushion" intended to absorb the inaccuracies of long-term cost projections. The cost estimates do not attempt to project future decommissioning costs; they estimate what it would cost to decommission the plants today. If funding is not provided for the very real costs of such on-the-job problems as bad weather, equipment breakdowns, etc., a significant burden will be placed on future ratepayers who cannot benefit from the plants' generation.

FPC also believes that the Commission should not mandate a minimum fund earnings rate. While it would be appropriate to expect that fund earnings equal or exceed the CPI, as the Commission recognized when it established the current funding procedure, there are a variety of factors beyond a utility's control that could cause inflation to be greater than fund earnings for a given period. If a minimum earnings rate is established, it should be the rate of inflation, as measured by the CPI, with an opportunity given to the utility at each review hearing to justify any earnings deficiency its fund may have experienced over the period since the prior review.

B. POSITION OF FPC ON FACTUAL ISSUES

ISSUE 1: Are there components and facilities now at the nuclear production units which could be retained to generate electricity with another steam source after the removal of the current nuclear steam generation components?

FPC: While it is possible that, after approximately 40 years of use, certain components and facilities at CR3 could have the physical capability for additional use with a new, non-nuclear steam source, it is unlikely

that such use would be economically feasible. The mere fact that these facilities could be used should not serve as the premise for funding future decommissioning costs.

ISSUE 2: Should the dismantlement of non-contaminated plant components be included in the funding for "Nuclear Decommissioning", or recovered separately through the use of lives and costs specifically related to those non-contaminated reusable components?

FPC: Unless there is some sound basis to conclude that the non-contaminated plant components will be used after decommissioning, it would make little difference whether the cost of their dismantlement is included in decommissioning costs or depreciation expense, since they would be recovered over the same period in either event. Absent such a basis, FPC believes it is preferable at the present time to continue to include these components in the funding of decommissioning costs.

ISSUE 3: Should a decommissioning cost study be required from each company addressing the exclusion of non-contaminated components and facilities which can be used for generation of power subsequent to decommissioning of the present contaminated components? If so, in what time-frame should they be required?

FPC: Future decommissioning studies should be based on those assumptions considered most likely to occur, not on alternatives that are only a possibility. Before a decision is made to conduct a costly, full-scale decommissioning study that excludes non-contaminated components, an evaluation should be performed to determine the engineering and economic

feasibility of using these components with another steam supply after the nuclear components have been decommissioned. If the Commission determines that further use of the non-contaminated components is a viable alternative, a cost study differentiating between contaminated and non-contaminated components could be conducted for the next five-year review.

ISSUE 4: What methodology should Florida Power Corporation and Florida Power & Light utilize to decommission their nuclear units?

FPC: The appropriate decommissioning methodology for CR3 is the Prompt Removal/Dismantlement approach.

ISSUE 5: Should there be a contingency allowance applied to the total cost at this time, and if so, what should the percentage be?

FPC: Yes, a contingency allowance of 25% should be included in the decommissioning cost estimates. Mr. LaGaurdia's uncontroverted testimony clearly explained the reasons why a contingency allowance is needed in order to recognize the costs associated with certain high probability field problems that arise during performance of decommissioning activities. Problems of this kind include such things as weather-related delays, equipment breakdowns, unanticipated regulatory requirements, craft labor disputes, and the like. These problems are not included in developing the basic cost estimate because their specific occurrence, duration, and severity cannot be accurately predicted. Instead, individual contingency factors ranging from 10% to 75% are determined for each major activity area, based on the degree of difficulty and complexity involved. Applying

these individual factors to the appropriate components of the cost estimate results in an average of approximately 25%.

Mr. LaGuardia's explanation of what the contingency allowance represents and how it is developed dispels the misconception that it constitutes a "cushion" against the uncertainties of estimating costs well into the future. To the contrary, his estimates have nothing at all to do with future costs; they are based on the current costs that would be required if the plants were to be decommissioned now. Thus, the opportunity to "zero in" on the actual costs of decommissioning in future review proceedings will not lessen the need for a contingency allowance, since the problem-related costs it provides for cannot be known until the project is actually underway.

Failure to fund these contingency costs would be contrary to the Commission's primary goal of assuring that adequate funds are available when the costs of decommissioning the plants are incurred. The result would be a significant burden placed on future ratepayers and a windfall to the ratepayers before them who received the benefit of the plants' generation.

ISSUE 6: What is the estimated appropriate cost in current (1989) dollars to decommission each of the nuclear units?

FPC: The appropriate estimated total cost in current dollars (as of January 1, 1989) to decommission CR3 is \$195,133,000.

ISSUE 7: What is the appropriate methodology and escalation rate to use in

converting the current estimated decommissioning cost to the future decommissioning estimated cost?

FPC: The methodology used by FPC in its Decommissioning Study is appropriate for converting the current estimate of decommissioning costs to future costs. The appropriate escalation rate to use in converting CR3's current estimated decommissioning costs (in January 1, 1989 dollars) to future costs is 6.66%.

ISSUE 8: What is the total estimated cost of decommissioning each unit in future dollars based upon present operating license termination date?

FPC: The total estimated cost of decommissioning CR3 in future dollars, based upon its present operating license termination date of December 3, 2016, is \$1,471,378,780.

ISSUE 9: As presently planned, in which years will the funds accumulated in the Nuclear Decommissioning Trust Fund be expended, by unit?

FPC: As presently planned, funds accumulated for decommissioning CR3 will be expended in the years 2015 through 2023.

ISSUE 10: What is the estimated future cost of decommissioning, by unit, in each year in which decommissioning funds will be expended?

FPC: As presently planned, total costs for decommissioning CR3 will be incurred in the following future dollar amounts:

2015	\$	35,395,715
2016		37,753,070
2017		40,267,425
2018		321,014,171
2019		342,393,714
2020		365,197,136

2021	156,681,553
2022	83,557,399
2023	<u>89,118,597</u>
TOTAL	\$1,471,378,780

ISSUE 11: What is the projected date that each nuclear unit will no longer be included in rate base for ratemaking purposes?

FPC: The projected date that CR3 will be removed from rate base is December 3, 2016, the date its operating license is scheduled to terminate.

ISSUE 12: Do FP&L and FPC comply with NRC requirements as they pertain to control of the decommissioning fund?

FPC: NRC regulations (10 C.F.R. Section 50.75) require each electric utility licensee to certify that "financial assurance" for decommissioning will be provided by one of three enumerated methods. One such method is an "external sinking fund," defined in the regulations as "an account segregated from licensee assets and outside licensee's administrative control," which "may be in the form of a trust," FPC's establishment of an external trust fund under the administrative control of an independent trustee complies with this requirement.

ISSUE 13: Do FP&L and FPC comply with NRC requirements as they pertain to the management of the investments of the decommissioning fund?

FPC: FPC is not aware of any NRC requirement pertaining to the management of the investments of its decommissioning trust fund. If NRC regulations are subsequently deemed by it to be applicable to investment management, FPC will comply with any such requirements to the extent it is not already in compliance.

ISSUE 14: Do FP&L and FPC comply with IRS requirements as they pertain to control of the decommissioning fund?

FPC: In order for contributions to a nuclear decommissioning fund to qualify for a current income tax deduction under IRS regulations (Section 1.468A-5), the fund "must be established and maintained . . . pursuant to an arrangement that qualifies as a trust under State law." FPC's establishment of an external decommissioning trust fund under the control of an independent trustee complies with this requirement.

ISSUE 15: Do FP&L and FPC comply with IRS requirements as they pertain to the management of the investments of the decommissioning trust fund?

FPC: IRS regulations (Section 1.468A-5) require the assets of a qualified decommissioning fund to be invested in (1) public debt securities of the United States, (2) obligations of a State or local government not in default, or (3) time or demand deposits in a bank or credit union. The investment management of FPC's decommissioning trust fund complies with these requirements.

ISSUE 16: What are the fee structures associated with administration and management of the decommissioning trust funds for Florida Power & Light and Florida Power Corporation and are these appropriate?

FPC: FPC's fee structure for the administration and management of its decommissioning trust fund is appropriate and consists of the following annual fees: Trustee fees of 2/100 of 1% of the market value of the trust fund; Investment manager fees of 29/100 of 1% of the market value of the

trust fund, reduced to 25/100 of 1% when the market value reaches \$100 million; and investment performance evaluation consulting fees of \$1,438 for each of four quarterly performance evaluation (\$5,752 annually). In 1988, FPC's trustee fees totaled \$4,115, and its investment manager fees totaled \$78,480.

ISSUE 17: Are the parties owning an interest in the nuclear units of Florida Power & Light and Florida Power Corporation providing their fair share of the total decommissioning costs?

FPC: Yes. The 10% co-owners of CR3 are contractually obligated to provide their pro rata share of the plant's decommissioning costs.

ISSUE 18: What is an appropriate investment strategy for a nuclear decommissioning trust fund?

FPC: An appropriate investment strategy for a decommissioning trust fund is one which attempts to maintain the purchasing power of contributed funds without undue risk. This strategy will ensure that the funds required at the time of decommissioning are available. FPC's current strategy is consistent with the investment guidelines for a qualified trust fund under Section 468(a) of the Internal Revenue Code.

ISSUE 19: Should a minimum fund earnings rate be imposed, and if so, how should that rate be determined?

FPC: The Commission should not impose a mandatory minimum fund earnings rate. As an overall objective, FPC believes it would be reasonable to expect that fund earnings will equal or exceed the CPI, as

the Commission recognized when it adopted the current funding procedure in Order No. 10987, Docket No. 810100-EU(CI). This would enable the value of the fund to increase with the rate of inflation, and thereby maintain its ultimate purchasing power. However, even if this objective is met over the long run, there will undoubtedly be some periods when, due to sharp increases in inflation or decreases in interest rates, fund earnings fall short of the CPI. In instances such as these, it would be inequitable to hold utilities accountable for the effects of economic conditions over which they have no control. This is especially true with the particular funds involved here, since the utilities do not have the prerogative to guard against the risk of a penalty by investing in high-yield, high-risk securities. The overriding importance of protecting the funds' integrity requires investment in low-risk securities, which necessarily provide lower relative yields.

In the event the Commission decides that a minimum earnings rate should be established, the method by which it is applied should be sufficiently flexible to accommodate the effects of circumstances and events beyond the utilities' control. In such event, FPC would suggest that a minimum earnings rate be set for each five-year review period equal to the rate of inflation, as measured by the CPI, and that the utilities be given an opportunity at the review hearings to justify any earnings deficiency their funds may have experienced over the preceding five-year period.

ISSUE 20: What is the appropriate assumed fund earnings rate, net of tax, for a nuclear decommissioning trust fund?

FPC: The long-term expected earnings rate, net of taxes, for FPC's decommissioning trust fund should be equal to or greater than the rate of inflation, measured by the CPI.

ISSUE 21: How often should contributions be made to the company's decommissioning fund?

FPC: Since decommissioning costs are recovered through rates on a monthly basis, contributions to the fund should be made monthly.

ISSUE 22: What are the tax and revenue requirement implications of having a qualified fund vs. a non-qualified fund?

FPC: Assuming that tax rates remain constant, the overall revenue requirements of a qualified and non-qualified fund would be approximately the same. However, a qualified fund will minimize any inter-generational differences in revenue requirements which could occur under a non-qualified fund due to either changes in the tax rate, or the inability to fully utilize tax deductions because of insufficient earnings at the time decommissioning costs are incurred. On the other hand, a non-qualified fund provides the option to invest in higher risk securities, with the opportunity to earn higher rates of return. This option may also become available to qualified funds if pending legislation to remove "black lung" investment restrictions is enacted.

ISSUE 23: Was it appropriate for Florida Power & Light and Florida Power Corporation to qualify the nuclear decommissioning funds under Section 468(a) of the Internal Revenue Code for 1984 through 1987?

FPC: Yes. By qualifying its decommissioning fund under Section 468A, FPC was able to claim an income tax refund of \$10.2 million for the benefit of the fund.

ISSUE 24: Was it appropriate for Florida Power & Light to not qualify the nuclear decommissioning funds under Section 468(a) of the Internal Revenue Code for 1988?

FPC: No position.

ISSUE 25: Should utility companies, prospectively, be required to qualify nuclear decommissioning trust funds pursuant to Section 468(a) of the Internal Revenue Code?

FPC: FPC believes its decision to elect qualified fund status under Section 468(a) for tax year 1988 is justified by the benefits associated with such qualification, and currently anticipates renewing its election for tax year 1989. However, FPC also believes that the decision to elect qualification for each individual tax year in the future should remain with the utility, based on its assessment of conditions then existing and subject to the burden of justifying the reasonableness of its decision.

ISSUE 26: What is the appropriate annual accrual in equal dollar amounts necessary to recover future decommissioning costs, net of tax, over the remaining life of each nuclear power plant for Florida Power Corporation and Florida Power & Light?

FPC: By Order No. 18627 in Docket No. 870220-EI, the Commission increased the retail portion of FPC's levelized annual decommissioning

accrual to \$9,251,000. This accrual was derived from FPC's Decommissioning Study initially filed in this docket and remains the appropriate accrual based on recent updates to the Study.

ISSUE 27: In which years are decommissioning costs projected to be included in the company's cost of service, and what are the projected amounts that will be included each year?

FPC: Decommissioning accrual amounts, as periodically reviewed and approved by the Commission, will be included in FPC's cost of service each year until the expiration date of CR3's operating license. The jurisdictional amount that should be included each year until the Commission's next review is \$9,251,000.

ISSUE 28: What should be the effective date for adjusting the annual accrual amount?

FPC: FPC's annual accrual was adjusted effective January 1, 1989 by Order No. 18627 in Docket No. 870220-EI. Any adjustment to that annual accrual should be made effective January 1, 1990.

ISSUE 29: What are the additional jurisdictional revenue requirements needed to recover the costs associated with the decommissioning of each nuclear unit?

FPC: No additional jurisdictional annual revenue requirements are needed to recover the costs associated with the decommissioning of CR3. The additional revenue requirements approved by the Commission in Order No. 20632, Docket No. 870220-EI, are as follows:

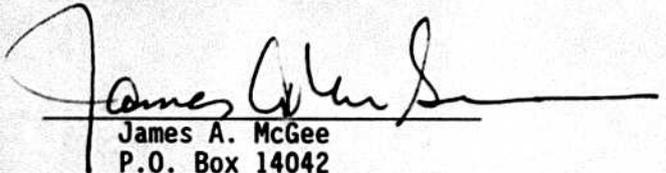
<u>Amount Previously Approved</u>	<u>Additional Amount Approved Effective January 1, 1989</u>	<u>Total Approved Amount as of January 1, 1989</u>
\$5,031,000	\$4,369,000	\$9,400,000

ISSUE 30: Should rates be revised in this docket to reflect any change in revenue requirements?

FPC: FPC's rates have already been revised in Docket No. 870220-EI to reflect the revenue requirements associated with the annual accrual derived from its initial and updated Decommissioning Study. Accordingly, FPC has not requested that its rates be revised in this proceeding.

Respectfully submitted,

OFFICE OF THE GENERAL COUNSEL
FLORIDA POWER CORPORATION



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