**FLORIDA PUBLIC SERVICE COMMISSION**

 **Fletcher Building**

 **101 East Gaines Street**

 **Tallahassee, Florida 32399‑0850**

 **M E M O R A N D U M**

 **September 24, 1992**

**TO: DIRECTOR OF RECORDS AND REPORTING**

**FROM: DIVISION OF AUDITING AND FINANCIAL ANALYSIS (LEE)**

 **DIVISION OF ELECTRIC AND GAS (TAYLOR)**

 **DIVISION OF LEGAL SERVICES (CHRIST)**

**RE:DOCKET NO. 920618‑EI ‑ TAMPA ELECTRIC COMPANY DEPRECIATION STUDY FOR BIG BEND AND GANNON STATIONS**

**AGENDA: OCTOBER 6, 1992, CONTROVERSIAL, PROPOSED AGENCY ACTION, PARTIES MAY PARTICIPATE**

**CRITICAL DATES:OCTOBER 12, 1992 ‑ HEARING BEGINS IN RATE CASE**

 **(DOCKET NO. 920324‑EI)**

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**ISSUE 1**: Should Tampa Electric Company ( TECO or Company) be prescribed new depreciation rates for use at the Big Bend and Gannon production plants at this time?

**RECOMMENDATION:** Yes. The Company was ordered to file revised site specific studies by June 30, 1992 for Big Bend and Gannon stations (Order No. 25619, from the Company's last full depreciation study). The filing under discussion is that site specific study and a revision of rates for the two subject sites is indicated.

**STAFF ANALYSIS:** An update on these two sites was required in order to take into account activity which had not yet been booked, and also updated life estimates. In the filed update, TECO takes the position "the Company does not see sufficient reasons to change individual unit depreciation rates that would result in little or no change in annual depreciation." This position is based on the fact that TECO's estimate for the combined depreciation expense for these two stations would net a change of only a negative $100,000. (See Attachment #4, page 10. Also Attachment #6, page 13.)

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 By the Company calculations however, the expenses of Big Bend are currently understated by about $900,000, and the expenses of Gannon are overstated by about a million. Staff believes that a bottom‑line measure of depreciation requirements should not take precedence over the determination of requirements on a more specific basis to the extent practicable.

 The staff estimated depreciation expenses for 1992, based on the 1‑1‑92 data and the staff recommendation, indicates that annual expenses for Big Bend will increase by about $25,000 while those for Gannon will decrease just over $1.5 million. This would be a decrease of almost $1.5 million for the net of the two plants. (See Attachment #3, page 9.)

 Without the staff‑recommended reserve reallocations (see Issue 3) the estimated change in annual expenses for Big Bend is an increase of about $100,000 and for Gannon, a decrease of about $1.6 million. The net of the two plants is a decrease of almost $1.5 million, as shown on Attachment 8, page 15.

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**ISSUE 2**: What should be the implementation date for any new depreciation rates?

**RECOMMENDATION:** January 1, 1992.

**STAFF ANALYSIS:** Data and calculations abut this date, and this date is implied in the order for a filing prior to June 30, 1992.

 The Company proposes that the interim rates for these two stations, set in its 1991 study, be approved as final rates effective January 1, 1991.

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**ISSUE 3**: Should there be any reserve reallocations or transfers?

**RECOMMENDATION:** Yes. Staff recommends reallocations of the reserves at these two stations as shown on Attachment #1, page 7. This is basically a reallocation of the existing reserves at each of these stations to more nearly match the theoretically correct reserve position by unit.

**STAFF ANALYSIS:** The Company opposes reserve transfers as shown on the second page of its 9‑2‑92 letter (Attachment #4, page 11). Staff does not believe that reallocations such as these recommended could be considered prior period adjustments, in that there is no adjustment to the total bottom‑line reserve. The ordinary action of Remaining Life depreciation does increase or decrease the expenses (and therefore the reserve) to compensate for historic under or over recovery. Reallocations such as those recommended simply move existing reserve dollars (which were not historically developed by unit) to a more appropriate grouping.

 If the recommended reserve reallocations are not approved, resultant depreciation rates and expenses are shown on Attachments 7 and 8, pages 14 and 15.

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**ISSUE 4**: What depreciation rates should be prescribed for Big Bend and Gannon stations?

**RECOMMENDATION:** The Staff recommended rates are shown on Attachment #2, page 8.

**STAFF ANALYSIS:** The difference between the Company study figures and those of the staff are: (1) Staff properly composited the remaining life values to be used for each of the units, by use of positive weighting, and (2) Staff reallocated the entire reserve amount at each site to the contained Units.

 The Company's proposal is for continuation of current interim rates for each Unit. (See Attachment #5, page 12.)

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**ISSUE 5**: Should this docket be closed?

**RECOMMENDATION:** Yes, assuming no objections to the Proposed Agency Action Order are filed, within 21 days of that Order.

**STAFF ANALYSIS:** In staff's opinion, no further action in this docket is required if no objections to the PAA Order are filed.

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ATTACHMENT #2

TAMPA ELECTRIC COMPANY

BIG BEND AND GANNON STATIONS

REVISED DEPRECIATION RATES AS OF 1‑1‑92

 INTERIM <‑ ‑ ‑ RECOMMENDED ‑ ‑>

 DEPR. REM. NET \* DEPR.

ACCOUNT RATE# LIFE SALV. RES. RATE

 % yr.s % % %

BIG BEND

 Common 2.4 32 (11) 32.74 2.4

 Unit #1 3.0 23 (11) 58.96 2.3

 Unit #2 2.7 26 (11) 44.02 2.6

 Unit #3 2.5 27 (11) 47.11 2.4

 Unit #4 2.6 35 (11) 17.30 2.7

 Unit #4 FGD. 2.3 34 (11) 25.55 2.5

GANNON

 Common 4.0 22 (22) 41.24 3.7

 Unit #1 4.4 12.9 (22) 79.80 3.3

 Unit #2 5.6 13.0 (22) 73.78 3.7

 Unit #3 3.5 15.9 (22) 61.00 3.8

 Unit #4 5.2 14.3 (22) 72.71 3.4

 Unit #5 3.8 19.0 (11) 45.75 3.4

 Unit #6 3.6 22 (11) 41.24 3.2

# Only interim rates were ordered, life and salvage components were not shown in the order.

\* This reserve shown is the Staff recommended reallocated reserve (see Attachment #1).

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 ATTACHMENT #7

 TAMPA ELECTRIC COMPANY

 BIG BEND AND GANNON STATIONS

 REVISED DEPRECIATION RATES AS OF 1‑1‑92

 WITHOUT STAFF RECOMMENDED RESERVE REALLOCATIONS

 INTERIM <‑ ‑ ‑ REVISED ‑ ‑ ‑ ‑>

 DEPR. REM. NET \* DEPR.

ACCOUNT RATE# LIFE SALV. RES. RATE

 % yrs. % % %

BIG BEND

 Common 2.4 32 (11) 27.07 2.6

 Unit #1 3.0 23 (11) 46.74 2.8

 Unit #2 2.7 26 (11) 36.00 2.9

 Unit #3 2.5 27 (11) 38.85 2.7

 Unit #4 2.6 35 (11) 22.33 2.5

 Unit #4 FGD. 2.3 34 (11) 32.80 2.3

GANNON

 Common 4.0 22 (22) 38.13 3.8

 Unit #1 4.4 12.9 (22) 75.05 3.6

 Unit #2 5.6 13.0 (22) 83.37 3.0

 Unit #3 3.5 15.9 (22) 59.37 3.9

 Unit #4 5.2 14.3 (22) 75.87 3.2

 Unit #5 3.8 19.0 (11) 48.70 3.3

 Unit #6 3.6 22 (11) 39.18 3.3

# Only interim rates were ordered, life and salvage components were not shown in the order.

\* This reserve shown is from the Company study as shown on Attachment #5, page 12.

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SEPTEMBER 24, 1992 ATTACHMENT #1

TAMPA ELECTRIC COMPANY

BIG BEND AND GANNON STATIONS

RESERVE REALLOCATIONS AS OF 1‑1‑92

 RECOMMENDED

 RESERVE

ACCOUNT ALLOCATION

 $

BIG BEND

(total reserve) $286,671,126#

 Common .................... 35,561,257

 Unit #1 .................... 42,692,814

 Unit #2 .................... 33,998,740

 Unit #3 .................... 62,538,822

 Unit #4 .................... 65,584,509

 Unit #4 FGD .................... 46,294,984

 286,671,126

GANNON

(total reserve) $134,668,956#

 Common .................... 16,195,625

 Unit #1 .................... 16,700,106

 Unit #2 .................... 16,132,840

 Unit #3 .................... 20,242,155

 Unit #4 .................... 17,644,284

 Unit #5 .................... 19,921,225

 Unit #6 .................... 27,832,721

 134,668,956

 Totals $421,340,082# $421,340,082

# From Company study.

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SEPTEMBER 24, 1992 ATTACHMENT #3

TAMPA ELECTRIC COMPANY

BIG BEND AND GANNON STATIONS

ESTIMATED DEPRECIATION EXPENSES

BASED ON 1‑1‑92 DATA

 INTERIM# RECOMMENDED CHANGE

 1‑1‑92 DEPR. DEPR. DEPR. DEPR. IN

ACCOUNT INVESTMENT RATE EXPENSE RATE EXPENSE EXPENSE

 $ % $ % $ $

BIG BEND

 Common 108,617,554 2.4 2,606,821 2.4 2,606,821 0

 Unit #1 72,411,769 3.0 2,172,353 2.3 1,665,471 (506,882)

 Unit #2 77,227,014 2.7 2,085,129 2.6 2,007,902 (77,227)

 Unit #3 132,740,816 2.5 3,318,520 2.4 3,185,779 (132,741)

 Unit #4 379,067,023 2.6 9,855,743 2.7 10,234,809 379,066

 Unit #4 FGD 181,171,890 2.3 4,166,953 2.5 4,529,297 362,344

 24,205,519 24,230,079 24,560

GANNON

 Common 39,270,858 4.0 1,570,834 3.7 1,453,022 (117,812)

 Unit #1 20,928,320 4.4 920,846 3.3 690,635 (230,211)

 Unit #2 21,865,436 5.6 1,224,464 3.7 809,021 (415,443)

 Unit #3 33,182,738 3.5 1,161,396 3.8 1,260,944 99,548

 Unit #4 24,267,177 5.2 1,261,893 3.4 825,084 (436,809)

 Unit #5 43,542,200 3.8 1,654,604 3.4 1,480,435 (174,169)

 Unit #6 67,488,277 3.6 2,429,578 3.2 2,159,625 (269,953)

 10,223,615 8,678,766 (1,544,849)

# The Company proposes

 to retain as finalized

 rates.

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SEPTEMBER 24, 1992 ATTACHMENT #8

TAMPA ELECTRIC COMPANY

BIG BEND AND GANNON STATIONS

ESTIMATED DEPRECIATION EXPENSES

WITHOUT STAFF RECOMMENDED RESERVE REALLOCATIONS

 INTERIM# RECOMMENDED CHANGE

 1‑1‑92 DEPR. DEPR. DEPR. DEPR. IN

 ACCOUNT INVESTMENT RATE EXPENSE RATE EXPENSE EXPENSE

 $ % $ % $ $

BIG BEND

 Common 108,617,554 2.4 2,606,821 2.6 2,824,056 217,235

 Unit #1 72,411,769 3.0 2,172,353 2.8 2,027,530 (144,823)

 Unit #2 77,227,014 2.7 2,085,129 2.9 2,239,583 154,454

 Unit #3 132,740,816 2.5 3,318,520 2.7 3,584,000 265,480

 Unit #4 379,067,023 2.6 9,855,743 2.5 9,476,676 (379,067)

 Unit #4 FGD 181,171,890 2.3 4,166,953 2.3 4,166,953 0

 24,205,519 24,318,798 113,279

GANNON

 Common 39,270,858 4.0 1,570,834 3.8 1,492,293 (78,541)

 Unit #1 20,928,320 4.4 920,846 3.6 753,420 (167,426)

 Unit #2 21,865,436 5.6 1,224,464 3.0 655,963 (568,501)

 Unit #3 33,182,738 3.5 1,161,396 3.9 1,294,127 132,731

 Unit #4 24,267,177 5.2 1,261,893 3.2 776,550 (485,343)

 Unit #5 43,542,200 3.8 1,654,604 3.3 1,436,893 (217,711)

 Unit #6 67,488,277 3.6 2,429,578 3.3 2,227,113 (202,465)

 10,223,615 8,636,359 (1,587,256)

# The Company proposes

 to retain as finalized

 rates

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TAMPA ELECTRIC COMPANY

BIG BEND AND GANNON STATIONS

THEO RESERVE WORKSHEET AS OF 1‑1‑92

 WHOLE REM. NET THEORETICAL REALLOCATED

ACCOUNT INVEST.\* LIFE LIFE SALV. RESERVE RESERVE

 $ yrs. yrs. % % $ $

BIG BEND

(total res.) $286,671,126\*

 Common .......... 108,617,554 ... 41 32 (11) 24.6 26,719,920 35,561,257

 Unit #1 ........... 72,411,769 ... 38 23 (11) 44.3 32,078,410 42,692,814

 Unit #2 ........... 77,227,014 ... 37 26 (11) 33.0 25,545,880 33,998,740

 Unit #3 .......... 132,740,816 ... 40 27 (11) 35.4 46,990,250 62,538,822

 Unit #4 .......... 379,067,023 ... 40 35 (11) 13.0 49,278,710 65,584,509

 Unit #4 FGD .......... 181,171,890 ... 41 34 (11) 19.2 34,785,000 46,294,984

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 215,398,170 286,671,126

GANNON

(total res.) $134,668,956\*

 Common ........... 39,270,858 ... 32 22 (22) 38.4 15,080,010 16,195,625

 Unit #1 ........... 20,928,320 ... 33 12.9 (22) 74.3 15,549,740 16,700,106

 Unit #2 ........... 21,865,436 ... 30 13.0 (22) 68.7 15,021,550 16,132,840

 Unit #3 ........... 33,182,738 ... 30 15.9 (22) 56.8 18,847,800 20,242,155

 Unit #4 ........... 24,267,177 ... 32 14.3 (22) 67.7 16,428,880 17,644,284

 Unit #5 ........... 43,542,200 ... 31 19.0 (11) 42.6 18,548,977 19,921,225

 Unit #6 ........... 67,488,277 ... 34 22 (11) 38.4 25,915,500 27,832,721

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 125,392,457 134,668,956

 Totals $421,340,082 $421,340,082

 \* From Company study.