**FLORIDA PUBLIC SERVICE COMMISSION**

 **Fletcher Building**

 **101 East Gaines Street**

 **Tallahassee, Florida 32399-0850**

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

 **JUNE 24, 1993**

**TO : DIRECTOR OF RECORDS AND REPORTING**

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

 **DIVISION OF ELECTRIC & GAS (KUMMER)**

 **DIVISION OF LEGAL SERVICES (PALECKI)**

**RE : DOCKET NO. 930611-EI - INVESTIGATION INTO DEFERRAL OF IMPLEMENTATION OF ANY CHANGE TO METHODOLOGY USED IN ESTABLISHING CURRENT DEPRECIATION, DISMANTLEMENT, AND DECOMMISSIONING RATES TO FLORIDA POWER & LIGHT COMPANY'S NEXT GENERAL BASE RATE PROCEEDING**

**AGENDA : JULY 6, 1993 - PROPOSED AGENCY ACTION - PARTIES MAY PARTICIPATE**

**CRITICAL DATES: NONE**

**SPECIAL INSTRUCTIONS: I:\PSC\AFA\WP\930611.RCM**

 **ATTACHMENT A - NOT AVAILABLE**

**THIS RECOMMENDATION IS TO PLACED IMMEDIATELY FOLLOWING THE**

**RECOMMENDATION IN DOCKET NO. 930612-EI**

 **CASE BACKGROUND**

 Staff set up a meeting with Florida Power & Light (FPL) on June 3, 1993, to discuss its currently authorized return on equity (ROE). The Office of Public Counsel (OPC) and the Florida Industrial Power Users Group (FIPUG) were represented at the meeting. At the meeting, Staff suggested that FPL's currently authorized ROE may need to be reduced given the current market conditions and the authorized ROEs of the other major electric companies in Florida. While the currently authorized ROE for Gulf Power Company (Gulf), Tampa Electric Company (TECO), and Florida Power Company (FPC) is 12.0%, FPL's currently authorized ROE is 12.8%. FPL responded to Staff's suggestion by stating it would be willing to reduce its ROE to 12.0% if it was allowed to defer the implementation of "any change to the methodology used in establishing FPL's current depreciation, dismantlement and decommissioning rates and accruals" to FPL's next general base rate proceeding. Staff requested another meeting to give Staff an opportunity to review FPL's proposal.

 On June 8, 1993, FPL, OPC, FIPUG, and Staff met again to continue the discussions of the previous meeting. Staff indicated that it does not believe that the issues of ROE and depreciation methodology should be addressed together. At that time, FPL agreed to a reduced ROE of 12.0% for all prospective regulatory purposes regardless of the Commission's decision on the implementation of changes to depreciation methodology. However, FPL desired to get the implementation issue before the Commission. On June 17, 1993, FPL filed a letter with Staff (Attachment A) summarizing the outcome of the meetings discussed above. Since the agreement to reduce ROE is not contingent upon the determination of the depreciation issue, the issues will be addressed in separate recommendations. The previous recommendation addresses the issue of FPL's authorized ROE. This recommendation will deal with FPL's depreciation concern.

 **DISCUSSION OF ISSUES**

**ISSUE :** Should FPL be allowed to defer the implementation of any change to the methodology used in establishing FPL's current depreciation, dismantlement and decommissioning rates and accruals until FPL's next general base rate proceeding?

**RECOMMENDATION:** No. (Lee)

**STAFF ANALYSIS:** On November 12, 1992, the Commission issued Order No. PSC-92-1303-FOF-EI requiring that FPL file an updated comprehensive depreciation study by June 1993. All issues, including those related to methodology, were mooted. The new study is an effort by the Commission to recognize any catastrophic effects of Hurricane Andrew. On November 30, 1992, FPL filed a request that the Commission waive the June 1993 comprehensive depreciation study deadline. By Order No. PSC-93-0211-FOF-EI, FPL is required to file a depreciation study covering production, transmission, distribution and general plant with a January 1, 1994 implementation date in December 1993. In December 1994, FPL is to file its nuclear decommissioning and fossil fuel dismantlement studies. These studies will have a January 1, 1995 implementation date.

 On June 17, 1993, FPL filed a letter that included, with a commitment to reduce its ROE to 12.0%, a request for the Commission to decide that "any change to the methodology used in establishing FPL's current depreciation, dismantlement and decommissioning rates and accruals will be implemented in FPL's next general base rate proceeding." Staff believes this issue is before the Commission prematurely and the Commission should defer resolution of this issue until a later date. At this time, Staff does not know what will be contained in FPL's studies: what FPL may propose, what Staff will recommend or what the financial impact of a change in depreciation rates may have upon the company. The isolation of the impact of "changes in methodology" may lead to higher or lower expenses. At this time, the phrase "change in methodology" is undefined and may be a point of disagreement. In addition, Staff does not know when FPL intends to file a rate case so we do not know how long the deferral will be. Staff believes that the Commission should not make a decision based upon so few facts.

 In addition, Staff philosophically believes that depreciation rates should be based upon theoretical concepts and should not be earnings driven. Deferral of implementation always concerns Staff from an intergenerational inequity perspective.

 Staff recommends that the Commission deny FPL's request to defer implementation of any change in methodology used in establishing FPL's current depreciation, dismantlement and decommissioning rates and accruals until its next general base rate proceeding.

**ISSUE 2:** Should this docket be closed?

**RECOMMENDATION:** Yes, the docket should be closed if there is no protest to the order issued in this docket.

**STAFF ANALYSIS:** Staff believes that this docket should be closed if there is no protest to the order issued.