

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

In Re: Request for approval of ) DOCKET NO. 931231-EI  
change in depreciation rates by ) ORDER NO. PSC-95-0340-FOF-EI  
FLORIDA POWER & LIGHT COMPANY. ) ISSUED: March 13, 1995  
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The following Commissioners participated in the disposition of this matter:

SUSAN F. CLARK, Chairman  
J. TERRY DEASON  
JOE GARCIA  
JULIA L. JOHNSON  
DIANE K. KIESLING

NOTICE OF PROPOSED AGENCY ACTION  
ORDER APPROVING AMORTIZATION COSTS AND PERIOD

BY THE COMMISSION:

NOTICE IS HEREBY GIVEN by the Florida Public Service Commission that the action discussed herein is preliminary in nature and will become final unless a person whose interests are substantially affected files a petition for a formal proceeding, pursuant to Rule 25-22.029, Florida Administrative Code.

Section I of this Order addresses an unresolved issue regarding the appropriate amortization period for the remaining unrecovered costs associated with major overhaul and asbestos abatement projects completed during the 1988 - 1993 period. Section II of this Order addresses the amortization of the deferred costs associated with the Martin Reservoir and Turkey Point steam generators.

I. Amortization of Major Overhaul and Asbestos Abatement Projects

In Order No. PSC-94-1199-FOF-EI, we determined that the amount of unrecovered costs associated with major overhaul and asbestos abatement projects completed during 1988 - 1993 to be amortized by Florida Power & Light Company (FPL or Company) was \$46,272,579. Both FPL and our staff agreed that these costs are non-life related because they represent plant no longer in service and should be written off as fast as economically practicable. FPL and our staff disagreed, however, over the appropriate amortization period. FPL contended that it was appropriate and economically practicable to

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recover these costs over four years, beginning January 1, 1994 through December 31, 1997. Our staff contended that, if feasible, these costs should be amortized over a shorter time period. For this reason, we deferred our decision regarding the amortization period until a more accurate picture of FPL's 1994 earnings would be known.

FPL and our staff now agree that the non-life related costs of \$46,272,579 should be amortized over one year, beginning January 1, 1994. The write-off of these costs has been recognized in surveillance reports filed by the company since issuance of Order No. PSC-94-1199-FOF-EI. FPL's November surveillance report indicates a 12-month return on equity of 12.25% inclusive of the additional non-life related amortization. The Company has been able to incur the additional amortization expense and still achieve earnings within its authorized range. Upon review, we approve the amortization of the \$46,272,579 over one year, beginning January 1, 1994.

II. Amortization of Deferred Costs Associated with the Martin Reservoir and Turkey Point Steam Generator Repairs

Beginning with FPL's 1981 rate case and continuing through various dockets, the costs associated with the Martin Reservoir and Turkey Point steam generator repairs have been deferred until new base rates were established in a general rate proceeding. The total deferred costs for both items is \$110,858,655. Changed circumstances warrant a review of the appropriateness of continuing the deferral of these costs.

In its 1981 rate case, FPL sought to include the costs associated with the repairs and enhancements to the Martin Plant reservoir. The repairs were required due to a break that occurred in the plant's earthen dam. The break caused considerable property damage and led to a review of the dam's construction. Because the repair and enhancement costs were the subject of litigation, we ordered that they not be included in the rate base. We determined that we would only consider them in a ratemaking proceeding following the resolution of the litigation. To avoid any prejudice to FPL, we permitted the company to accrue a deferred return on the repair and enhancement costs. See Order No. 10306, Docket No. 810002-EU.

FPL also sought to include the cost of steam generator repairs at its Turkey Point Plant Units Nos. 3 and 4. Because there was pending litigation against Westinghouse Electric Corporation, the

steam generator vendor, we refused to include the costs in rate base; but we authorized the accrual of a deferred return until FPL filed a ratemaking proceeding following resolution of the litigation.

A subsequent rate case was filed by FPL in 1982 (Docket No. 820097-EU). In that case, FPL again sought the inclusion of its total investment in the Martin Reservoir and Turkey Point steam generators. We allowed FPL to include the enhancement costs but we still excluded the repairs pending resolution of the litigation. The Turkey Point steam generator repairs were excluded from rate base for similar reasons. The company was authorized to continue accruing a deferred return on the amounts excluded.

In its 1983 rate case (Docket No. 830465-EI), FPL did not include the costs of the Turkey Point steam generators or the Martin Reservoir, because they were still the subject of pending litigation. FPL raised concerns, however, about the growing balances of the accumulated deferred costs associated with the two items. Nonetheless, in Order No. 13537, we determined that the costs should continue to be excluded from FPL's rate base.

In November 1985, FPL filed two petitions seeking recovery of the Turkey Point Steam Generator Repair costs (Docket No. 850782-EI) and the Martin Reservoir Repair and Enhancement costs (Docket No. 850783-EI). These dockets were collectively referred to as the "Litigation Items." FPL argued that the deferred costs associated with the litigation items had grown to such a level that they would become material for financial reporting purposes. Due to the uncertainty of the recovery of the litigation costs, FPL contended its independent auditors could issue a qualified opinion of its financial statements unless we took action to demonstrate that recovery of the costs was probable. FPL further argued that the Turkey Point steam generator litigation, originally thought likely to be concluded by 1985, was then projected to conclude no sooner than 1988. In addition, in the Martin Reservoir litigation, the federal court had ruled that the reservoir's design engineer's potential liability was limited to \$50,000. Faced with a maximum potential recovery of only \$50,000, FPL sought and was granted a dismissal of its lawsuit. As a result, FPL requested that it should be allowed to include and recover the litigation costs in its next rate proceeding.

In Order No. 16907, issued December 2, 1986, we approved an agreement that: (1) ended the deferral of the accrued return and depreciation; (2) placed the litigation items and the associated

accumulated deferred costs in rate base; and (3) authorized the recovery of the accumulated deferred costs to commence with the effective date of new base rates established in FPL's next general rate proceeding and to be amortized over five years.

When Order No. 16907 was issued, we did not anticipate that over eight years would pass without FPL's base rates being changed in a general rate proceeding. Given the current economic, competitive, and regulatory environments, it is unlikely that FPL will be involved in a rate case in the foreseeable future. Currently, the deferred amounts subject to the five year amortization are \$12,644,089 for the Martin Reservoir and \$98,214,576 for the Turkey Point steam generators. The annual amortization amounts, based on a five year amortization period, would be \$2,528,818 and \$19,642,915, respectively. The total annual amortization of \$22,171,733 would decrease FPL's return on equity by approximately .41% each year.

The uncertainty regarding a possible commencement date for the amortization of the costs associated with the litigation items causes us concern. It has been more than 16 years since the events occurred that gave rise to the deferral of these costs. Accounting pronouncements issued by the Financial Accounting Standards Board (FASB) address the accounting for the effects of certain types of regulation and for the abandonment and disallowance of plant costs. These pronouncements require regulated enterprises to demonstrate that recovery of the deferred asset is likely and that recovery will commence within a reasonable time period. In order to obtain an unqualified audit opinion, FPL's independent auditors could determine that FPL no longer meets the criteria set forth in FASB Statement Nos. 71 and 90 for continued deferral of the litigation costs and require it to write-off the entire amount in one year. The total deferred costs of \$110,858,655 are significant. An immediate write-off would reduce FPL's return on equity by over 2.00%. We are also cognizant that as the electric industry moves towards increased competition, utilities with higher deferred asset concentration and higher production costs will face greater risk that future revenues may not be sufficient to recover prior investments in regulatory assets and deferred charges.

As previously discussed, FPL's November 1994 return on equity was 12.25%, inclusive of virtually all of the \$46,272,579 costs associated with the major overhaul and asbestos abatement projects. Even with these costs included, FPL continued to earn within its authorized return on equity range of 11.00% to 13.00%. Therefore,

unless its financial situation substantially changes, FPL has sufficient earnings to absorb the \$22,171,733 annual amortization for the litigation items and still earn within the authorized return on equity range.

The deferred costs should be recovered as quickly as is economically practicable. Due to efficiency measures implemented by FPL and the non-recurring amortization expense approved in Section I of this Order, we believe FPL will have sufficient earnings in 1995 and beyond to amortize at least one-fifth of these deferred costs each year and still earn within its authorized return on equity.

FPL should be granted flexibility to amortize more than one-fifth of the deferred costs in a calendar year. This flexibility furthers our goal of amortizing the deferred costs as quickly as is economically practicable. In addition, we believe allowing FPL to record more amortization expense will encourage efficiency since the company can use any improved earnings from its efficiency gains to amortize the deferred costs. Amortizing these costs as quickly as possible will also better prepare FPL for possible increased competition.

Although the total deferred costs are \$110,858,655, the effect of amortizing these costs on FPL's revenue requirements is approximately \$131.4 million due to income taxes. If economic conditions are favorable and the company is able to attain efficiency gains, it may be able to amortize these costs in two or three years rather than five years. Further, by granting flexibility to FPL now, in early 1995, we are providing an additional incentive to FPL for 1995 and the subsequent years.

For the above reasons, we authorize FPL to begin amortizing the deferred costs associated with the Martin Reservoir and the Turkey Point steam generator repairs effective January 1, 1995. We also find that FPL should record annual amortization expense of at least \$2,528,818 for the deferred costs associated with Martin Reservoir and annual amortization expense of at least \$19,642,915 for the deferred costs associated with the Turkey Point steam generators, until the deferred costs are fully amortized.

In consideration of the foregoing, it is

ORDERED by the Florida Public Service Commission that Florida Power & Light Company shall amortize \$46,272,579 of unrecovered costs associated with major overhaul and asbestos abatement projects completed during 1988 - 1993 over one year, beginning January 1, 1994. It is further

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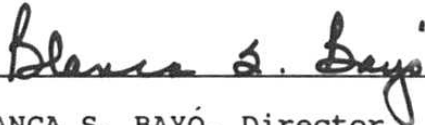
ORDERED that effective January 1, 1995, Florida Power & Light Company shall amortize at least \$2,528,818 for the deferred costs associated with Martin Reservoir and at least \$19,642,915 for the deferred costs associated with the Turkey Point steam generators, until the deferred costs are fully amortized. It is further

ORDERED that any protest filed to any of the actions proposed in Sections I and II of this Order shall be specific as to the action or Section being protested. It is further

ORDERED that the provisions of this Order, issued as proposed agency action, shall become final and effective unless an appropriate petition, in the form provided by Rule 25-22.036, Florida Administrative Code, is received by the Director, Division of Records and Reporting, 101 East Gaines Street, Tallahassee, Florida 32399-0870, by the close of business on the date set forth in the "Notice of Further Proceedings or Judicial Review" attached hereto. It is further

ORDERED that this docket shall remain open.

By ORDER of the Florida Public Service Commission, this 13th day of March, 1995.



A handwritten signature in cursive script, reading "Blanca S. Bayó", is written over a horizontal line.

BLANCA S. BAYÓ, Director  
Division of Records and Reporting

( S E A L )

VDJ

NOTICE OF FURTHER PROCEEDINGS OR JUDICIAL REVIEW

The Florida Public Service Commission is required by Section 120.59(4), Florida Statutes, to notify parties of any administrative hearing or judicial review of Commission orders that is available under Sections 120.57 or 120.68, Florida Statutes, as well as the procedures and time limits that apply. This notice should not be construed to mean all requests for an administrative hearing or judicial review will be granted or result in the relief sought.

The action proposed herein is preliminary in nature and will not become effective or final, except as provided by Rule 25-22.029, Florida Administrative Code. Any person whose substantial interests are affected by the action proposed by this order may file a petition for a formal proceeding, as provided by Rule 25-22.029(4), Florida Administrative Code, in the form provided by Rule 25-22.036(7)(a) and (f), Florida Administrative Code. This petition must be received by the Director, Division of Records and Reporting, 101 East Gaines Street, Tallahassee, Florida 32399-0870, by the close of business on April 3, 1995.

In the absence of such a petition, this order shall become effective on the day subsequent to the above date as provided by Rule 25-22.029(6), Florida Administrative Code.

Any objection or protest filed in this docket before the issuance date of this order is considered abandoned unless it satisfies the foregoing conditions and is renewed within the specified protest period.

If this order becomes final and effective on the date described above, any party substantially affected may request judicial review by the Florida Supreme Court in the case of an electric, gas or telephone utility or by the First District Court of Appeal in the case of a water or wastewater utility by filing a notice of appeal with the Director, Division of Records and Reporting and filing a copy of the notice of appeal and the filing fee with the appropriate court. This filing must be completed within thirty (30) days of the effective date of this order, pursuant to Rule 9.110, Florida Rules of Appellate Procedure. The notice of appeal must be in the form specified in Rule 9.900(a), Florida Rules of Appellate Procedure.