**FLORIDA PUBLIC SERVICE COMMISSION**

**Capital Circle Office Center 2540 Shumard Oak Boulevard**

**Tallahassee, Florida 32399-0850**

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

**MAY 30, 1996**

**TO: DIRECTOR, DIVISION OF RECORDS AND REPORTING (BAYO)**

**FROM: DIVISION OF AUDITING & FINANCIAL ANALYSIS (BASS, LEE, HICKS)**

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

**DIVISION OF LEGAL SERVICES (V. JOHNSON)**

**RE: DOCKET NO. 960527-EI - FLORIDA POWER & LIGHT COMPANY - REQUEST FOR APPROVAL OF SITE SPECIFIC DEPRECIATION STUDIES**

**AGENDA: JUNE 11, 1996 - REGULAR AGENDA - PROPOSED AGENCY ACTION -INTERESTED PERSONS MAY PARTICIPATE**

**CRITICAL DATES: NONE**

**SPECIAL INSTRUCTIONS: I:\PSC\AFA\WP\960527.RCM**

**\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_**

**DISCUSSION OF ISSUES**

**ISSUE 1:** Should Florida Power & Light (FPL or Company) be allowed to implement its proposed depreciation rates and amortization provision on a preliminary basis at January 1, 1996?

**RECOMMENDATION:** Yes. FPL should be allowed to implement the proposed rates for its combined cycle units, shown on Attachment A, pages 4 - 6, on a preliminary basis at January 1, 1996. In addition, FPL should be allowed to implement its proposed 3-year amortization period for post-1995 additions of personal computer equipment. The effect of these proposals will increase annual depreciation expense by an estimated $22.4 million annually, based on January 1, 1996 investments and reserves. The rates, amortization period, and resultant expenses will be trued-up when final action is taken by this Commission later in 1996. [BASS]

**STAFF ANALYSIS:** FPL operates combined cycle units for power generation at three sites: Fort Lauderdale, Martin and Putnam. The current depreciation rates for the Fort Lauderdale and Putnam sites were established by Order No. PSC-94-1199-FOF-EI, and effective January 1, 1994. The current depreciation rates for the Martin combined cycle units were established by Order No. PSC-95-1140-FOF-EI, and effective January 1, 1995.

Since the last studies relating to these sites, FPL has completed the classification of plant in service to the retirement unit level by location for each. Also, the Company reports that it has obtained additional information concerning the life expectancy of some combustion turbine engine components. The Company's proposed depreciation rates reflect both of these developments.

Finally, the Company recites rapid developments and trends in personal computer technology. FPL submits that these changes support an amortization period shorter than the current 5 years. A 3-year amortization period has therefore been proposed for post 1995 additions of this type of equipment. Based on projected 1996 investment of $15,000,000, the change from a 5-year to a 3-year period for amortization will result in an increase of about $2,000,000 in annual expense. Mainframe equipment will continue to be amortized over five years.

FPL has requested that it be allowed to implement its proposed depreciation rates and amortization on a preliminary basis, in accord with our depreciation rules. These rates and resulting expenses will be trued-up when final Commission action is taken in this docket, later in 1996.

Preliminary implementation of rates and amortization is likely to result in a more appropriate level of expense than would accrue from retaining the currently effective rates. This does not imply that staff will be in agreement with the specific life, reserve, and salvage proposals made by the Company. In any case, expenses will be trued-up in accord with final Commission action in this docket.

Changes in estimated 1996 expenses resulting from the proposed rates and amortization are as follows:

Fort Lauderdale (Units 3 & 4) $15,130,989

Martin (Units 1 & 2) $ 4,168,644

Putnam (Units 3 & 4) $ 1,063,179

Total increase from generation $20,362,812

Amortization of investment

in personal computers $ 2,000,000

Total increase to expense $22,362,812

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

**RECOMMENDATION:** January 1, 1996. [BASS]

**STAFF ANALYSIS:** The Company has requested, and all data and calculations abut, a January 1, 1996 implementation date. Provision for preliminary implementation is made by Rule 25-6.0436 (5), F.A.C., to permit a more accurate statement of expected expenses during the calendar year.

**ISSUE 3:** Should this docket be closed?

**RECOMMENDATION:** No. This docket should not be closed, pending staff review and final Commission action concerning the appropriate rates under consideration. [BASS]

**STAFF ANALYSIS:** Any person whose interests are substantially affected by the Commission's proposed action may file a protest within 21 days of the issuance of this order. This recommendation only addresses the preliminary booking of depreciation rates and amortization and estimated expenses beginning January 1, 1996, with provision for a true-up of those expenses and the subject rates when final Commission action is taken. The issue regarding appropriate rates cannot be resolved until staff has thoroughly reviewed and analyzed the Company's filed study. Staff expects to bring a recommendation to the Commission for final action on this study in November of this year.

FLORIDA POWER AND LIGHT COMPANY

1996 DEPRECIATION STUDY

COMBINED CYCLE INSTALLATIONS

COMPARISON OF EXPENSES

CURRENT COMPANY PROPOSED

1‑1‑96 1‑1‑96 CHANGE IN

ACCOUNT INVESTMENT RESERVE RATE EXPENSE RATE EXPENSE EXPENSE

$ $ % $ % $ $

FORT LAUDERDALE COMBINED CYCLE

Fort Lauderdale Common

341 Structures and Improvements 73,301,663 2,941,373 4.2 3,078,670 5.0 3,665,083 586,413

342 Fuel Holders, Producers & Access. 6,429,815 894,961 5.2 334,350 4.4 282,912 (51,438)

343 Prime Movers 15,313,434 1,526,807 3.6 551,284 29.7 4,548,090 3,996,806

344 Generators 313,512 39,506 4.1 12,854 4.5 14,108 1,254

345 Accessory Electric Equipment 11,573,974 1,035,521 3.3 381,941 4.2 486,107 104,166

346 Misc. Power Plant Equipment 1,286,865 302,385 6.6 84,933 6.3 81,072 (3,861)

Total 108,219,263 6,740,553 4,444,032 9,077,372 4,633,340

Fort Lauderdale Unit 4

341 Structures and Improvements 4,654,679 2,828,818 3.7 172,223 1.9 88,439 (83,784)

342 Fuel Holders, Producers & Access. 60,052 46,887 4.2 2,522 1.3 781 (1,741)

343 Prime Movers 146,645,610 14,288,859 3.6 5,279,242 7.3 10,705,130 5,425,888

344 Generators 24,581,760 2,141,946 5.7 1,401,160 4.2 1,032,434 (368,726)

345 Accessory Electric Equipment 26,470,589 3,407,503 3.4 900,000 4.2 1,111,765 211,765

346 Misc. Power Plant Equipment 2,192,007 326,784 5.8 127,136 6.5 142,480 15,344

Total 204,604,697 23,040,797 7,882,283 13,081,029 5,198,746

Fort Lauderdale Unit 5

341 Structures and Improvements 2,887,727 915,092 3.4 98,183 3.2 92,407 (5,776)

342 Fuel Holders, Producers & Access. 16,204 567 4.4 713 5.2 843 130

343 Prime Movers 144,381,613 16,599,570 3.5 5,053,356 7.4 10,684,239 5,630,883

344 Generators 24,986,360 3,502,717 5.9 1,474,195 4.0 999,454 (474,741)

345 Accessory Electric Equipment 22,135,721 3,472,999 3.3 730,479 3.9 863,293 132,814

346 Misc. Power Plant Equipment 1,732,515 77,015 6.2 107,416 7.1 123,009 15,593

Total 196,140,140 24,567,960 7,464,342 12,763,245 5,298,903

TOTAL FORT LAUDERDALE 508,964,100 54,349,310 19,790,657 34,921,646 15,130,989

FLORIDA POWER AND LIGHT COMPANY

1996 DEPRECIATION STUDY

COMBINED CYCLE INSTALLATIONS

COMPARISON OF EXPENSES

CURRENT COMPANY PROPOSED

1‑1‑96 1‑1‑96 CHANGE IN

ACCOUNT INVESTMENT RESERVE RATE EXPENSE RATE EXPENSE EXPENSE

$ $ % $ % $ $

MARTIN COMBINED CYCLE

Martin Common

341 Structures and Improvements 40,057,273 6,584,184 4.0 1,602,291 4.3 1,722,463 120,172

342 Fuel Holders, Producers & Access. 2,720,120 503,774 0.0 0 4.0 108,805 108,805

343 Prime Movers 24,197,451 4,811,722 16.3 3,944,185 16.1 3,895,790 (48,395)

344 Generators 0 0 0.0 0 0.0 0 0

345 Accessory Electric Equipment 4,580,781 844,768 4.0 183,231 3.4 155,747 (27,484)

346 Misc. Power Plant Equipment 4,079,523 688,490 0.0 0 7.6 310,044 310,044

Total 75,635,148 13,432,938 5,729,707 6,192,849 463,142

Martin Combined Cycle Unit 3

341 Structures and Improvements 1,918,202 535,847 5.1 97,828 3.1 59,464 (38,364)

342 Fuel Holders, Producers & Access. 867,282 49,963 4.5 39,028 5.0 43,364 4,336

343 Prime Movers 148,820,261 4,125,538 4.7 6,994,552 6.3 9,375,676 2,381,124

344 Generators 24,476,951 2,153,729 4.7 1,150,417 4.1 1,003,555 (146,862)

345 Accessory Electric Equipment 19,054,209 1,997,991 6.2 1,181,361 6.9 1,314,740 133,379

346 Misc. Power Plant Equipment 532,349 89,323 5.9 31,409 3.5 18,632 (12,777)

Total 195,669,254 8,952,391 9,494,595 11,815,431 2,320,836

Martin Combined Cycle Unit 4

341 Structures and Improvements 1,873,410 492,139 5.1 95,544 3.2 59,949 (35,595)

342 Fuel Holders, Producers & Access. 653,322 74,011 5.1 33,319 4.6 30,053 (3,266)

343 Prime Movers 144,813,816 10,510,583 4.7 6,806,249 5.8 8,399,201 1,592,952

344 Generators 29,263,816 2,412,954 4.7 1,375,399 4.1 1,199,816 (175,583)

345 Accessory Electric Equipment 15,198,695 1,410,576 6.9 1,048,710 7.0 1,063,909 15,199

346 Misc. Power Plant Equipment 475,879 74,851 5.5 26,173 3.6 17,132 (9,041)

Total 192,278,938 14,975,114 9,385,394 10,770,060 1,384,666

TOTAL MARTIN 463,583,340 37,360,443 24,609,696 28,778,340 4,168,644

FLORIDA POWER AND LIGHT COMPANY

1996 DEPRECIATION STUDY

COMBINED CYCLE INSTALLATIONS

COMPARISON OF EXPENSES

CURRENT COMPANY PROPOSED

1‑1‑96 1‑1‑96 CHANGE IN

ACCOUNT INVESTMENT RESERVE RATE EXPENSE RATE EXPENSE EXPENSE

$ $ % $ % $ $

PUTNAM COMBINED CYCLE

Putnam Common

341 Structures and Improvements 11,296,271 6,669,915 2.9 327,592 4.0 451,851 124,259

342 Fuel Holders, Producers & Access. 7,458,083 3,950,215 4.5 335,614 4.2 313,239 (22,375)

343 Prime Movers 10,039,430 5,461,852 5.0 501,972 4.0 401,577 (100,395)

344 Generators 36,487 28,535 4.6 1,678 1.9 693 (985)

345 Accessory Electric Equipment 1,721,222 886,280 4.6 79,176 4.3 74,013 (5,163)

346 Misc. Power Plant Equipment 1,081,079 731,898 4.1 44,324 3.3 35,676 (8,648)

Total 31,632,572 17,728,695 1,290,356 1,277,049 (13,307)

Putnam Unit 1

341 Structures and Improvements 34,624 24,564 3.1 1,073 2.5 866 (207)

342 Fuel Holders, Producers & Access. 61,742 25,842 3.0 1,852 7.2 4,445 2,593

343 Prime Movers 48,779,325 17,201,390 4.9 2,390,187 5.8 2,829,201 439,014

344 Generators 5,382,575 3,739,686 3.2 172,242 2.6 139,947 (32,295)

345 Accessory Electric Equipment 6,509,413 4,276,893 3.3 214,811 3.1 201,792 (13,019)

346 Misc. Power Plant Equipment 387,624 264,064 0.0 0 2.6 10,078 10,078

Total 61,155,303 25,532,439 2,780,165 3,186,329 406,164

Putnam Unit 2

341 Structures and Improvements 34,624 25,018 2.9 1,004 2.6 900 (104)

342 Fuel Holders, Producers & Access. 61,685 27,675 3.3 2,036 7.0 4,318 2,282

343 Prime Movers 49,241,908 18,623,840 4.8 2,363,612 6.1 3,003,756 640,144

344 Generators 5,382,575 3,802,317 3.1 166,860 2.8 150,712 (16,148)

345 Accessory Electric Equipment 6,663,199 4,263,877 3.1 206,559 3.6 239,875 33,316

346 Misc. Power Plant Equipment 373,512 250,923 0.0 0 2.9 10,832 10,832

Total 61,757,503 26,993,650 2,740,071 3,410,393 670,322

TOTAL PUTNAM 154,545,378 70,254,784 6,810,592 7,873,771 1,063,179

TOTAL COMBINED CYCLE INSTALLATIONS 1,127,092,818 161,964,537 51,210,945 71,573,757 20,362,812

**ISSUE 1:** Should Florida Power & Light (FPL or Company) be allowed to implement its proposed depreciation rates and amortization provision on a preliminary basis at January 1, 1996?

**RECOMMENDATION:** Yes. FPL should be allowed to implement the proposed rates for its combined cycle units, shown on Attachment A, pages 4 - 6, on a preliminary basis at January 1, 1996. In addition, FPL should be allowed to implement its proposed 3-year amortization period for post-1995 additions of personal computer equipment. The effect of these proposals will increase annual depreciation expense by an estimated $22.4 million annually, based on January 1, 1996 investments and reserves. The rates, amortization period, and resultant expenses will be trued-up when final action is taken by this Commission later in 1996. [BASS]

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

**RECOMMENDATION:** January 1, 1996. [BASS]

**ISSUE 3:** Should this docket be closed?

**RECOMMENDATION:** No. This docket should not be closed, pending staff review and final Commission action concerning the appropriate rates under consideration. [BASS]