

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 (SLEMKEWICZ, CAUSSEAU) *JS*
DIVISION OF LEGAL SERVICES (JOHNSON) *USE RVE* *JS* *am* *TS*

RE: DOCKET NO. 960672-EI - FLORIDA POWER CORPORATION -
REQUEST TO ACCELERATE THE AMORTIZATION OF CERTAIN
REGULATORY ASSETS BY FLORIDA POWER CORPORATION

AGENDA: 06/11/96 - REGULAR AGENDA - PROPOSED AGENCY ACTION -
INTERESTED PERSONS MAY PARTICIPATE

CRITICAL DATES: NONE

SPECIAL INSTRUCTIONS: S:\PSC\AFA\WP\960672.RCM
ATTACHMENT NOT AVAILABLE

DISCUSSION OF ISSUES

ISSUE 1: Should the Commission approve Florida Power Corporation's request (ATTACHMENT) to accelerate the amortization of regulatory assets related to the Sebring Going Concern Value, the Unamortized Accumulated Carrying Costs - Extended Cold Shutdown Units, and the Interest on Tax Deficiencies?

RECOMMENDATION: Yes, the Commission should approve Florida Power Corporation's request to accelerate the amortization of regulatory assets related to the Sebring Going Concern Value, the Unamortized Accumulated Carrying Costs - Extended Cold Shutdown Units, and the Interest on Tax Deficiencies. [SLEMKEWICZ, CAUSSEAU]

STAFF ANALYSIS: The Commission has authorized various utilities, including Florida Power Corporation (FPC), to accelerate the amortization of certain regulatory assets to eliminate them from the utilities' balance sheets. The acceleration of these items would be at FPC's discretion. FPC's request is consistent with the previous decisions of the Commission.

The details of each item are included in the attachment. The following is a brief discussion of each item contained in FPC's request:

DOCUMENT NUMBER-DATE

05921 MAY 30 96

FPSC-RECGROS/REPORTING

DOCKET NO. 960672-EI
DATE: MAY 30, 1996

Sebring Going Concern Value - The amortization of this item was approved in Order No. PSC-94-0152-FOF-EI. At the end of 1996, the remaining balance will be only approximately \$360,000 and represents the amount that could be accelerated during 1996.

Unamortized Accumulated Carrying Costs - Extended Cold Shutdown Units - During FPC's rate case in Docket No. 830470-EI, the Commission approved the placing of certain generating units in extended cold standby. These units were removed from rate base and were allowed to accumulate a carrying cost until such time as the units were returned to service. As of December 31, 1995, the remaining balance of these costs to be amortized is \$6.7 million, which is currently being amortized at a rate of \$700,000 per year.

Interest on Tax Deficiencies - In Docket No. 910890-EI, FPC was authorized a three year amortization of the interest on certain income tax deficiencies that were the result of aggressive, but reasonable, income tax strategies. These income tax strategies were shown to be cost effective to the ratepayers. Since that time, FPC has incurred additional interest on other deficiencies resulting in a \$4.4 million balance at December 31, 1995. The reasons that gave rise to the additional interest have been reviewed and appear to be reasonable. The approval of this item is for the current balance only and does not extend to any additional future amounts.

Staff has reviewed these items and recommends that it is reasonable to approve the accelerated amortization as requested by FPC.

ISSUE 2: Should this docket be closed?

RECOMMENDATION: Yes, this docket should be closed if no substantially affected person timely files a protest to the Commission's proposed agency action. [JOHNSON]

STAFF ANALYSIS: The Staff recommends that this docket be closed if no substantially affected person files a timely request for a \$120.57, Florida Statutes, hearing within twenty-one days of the issuance of this proposed agency action.



**Florida
Power**
CORPORATION

John Scardino, Jr.
VICE PRESIDENT AND
CONTROLLER

April 10, 1996

Mr. Tim Devlin
Director of Auditing and Financial Analysis
Florida Public Service Commission
2540 Shumard Oak Boulevard
Tallahassee, FL 32399-0850

Dear Mr. Devlin:

Florida Power Corporation (Company) requests authorization from the Florida Public Service Commission (Commission) to accelerate the amortization of certain regulatory assets currently outstanding on its balance sheet as of December 31, 1995. The Company's request to record increased amortization expense originates from similar action taken by this Commission in Docket No. 9500270-EI, Order No. PSC-95-1230-FOF-EI, dated October 3, 1995. The Company was authorized in that Order to record additional amortization of the remaining regulatory asset associated with the canceled 500KV Lake Tarpon-Kathleen transmission line project above the annual amounts calculated using a four year amortization period as long as the Company's earnings are sufficient to absorb the increased expense.

Regulatory Assets that would qualify for accelerated amortization:

Sebring Going Concern Value:

The Company is continuing to amortize the Sebring "Going Concern" value as authorized in Docket No. 931150-EI, Order No. PSC-94-0152-FOF-EI, dated February 8, 1994. This regulatory asset has a net book value of \$1.8 million at the end of December 31, 1995 and is expected to be fully amortized by the end of March 1997. If you recall, in 1994 as part of our agreement with Staff, the Company agreed to accelerate the write-off of this asset in the event our FPSC adjusted return on equity exceeded 12.50%. In the discussions leading up to our agreement, Staff expressed the position that this asset was of little significance and should be written off as quickly as possible, preferably in one year.

Unamortized Accumulated Carrying Costs - Extended Cold Shutdown Units

The Company is currently amortizing the AFUDC equivalent accumulated on the net book value of certain peaking units that were placed in extended cold shutdown in 1984 and returned to service beginning in 1988. The accumulation of the AFUDC carrying cost on these units was in accordance with state and federal regulatory decisions from 1984. The annual amortization is calculated based on the remaining life of the associated peaking unit. As of December 31, 1995, the unamortized balance related to these costs is \$6.7million. The Company recorded \$.7 million in amortization expense for the twelve months ended December 31, 1995.

Interest on Tax Deficiencies:

The Company is currently amortizing interest on tax deficiencies over a three year period as authorized in Docket No. 910890-EI, Order No. PSC-92-1197-FOF-EI, dated October 22, 1992. The unamortized balance as of December 31, 1995 is \$4.4 million. This interest expense arises from the accrual and amortization of interest for actual and potential tax deficiencies. After reviewing a cost/benefit analysis prepared by the Company in our last base rate proceeding, the Commission concluded that interest on tax deficiencies was an appropriate cost of service item because it benefited our ratepayers through the avoidance of cost-based external financing. The Company's proposal affects only the \$4.4 million unamortized balance at December 31, 1995 and does not include any adjustments to the \$4.4 million or new items giving rise to income tax deficiencies in subsequent years.

Company's commitment is to remain competitive and financially strong:

The Company believes this request in no way harms its ratepayers but quite the contrary, assures them that their utility will remain competitive and financially healthy in a rapidly changing environment. It is for this reason that the Company desires to have this request placed before the Commission with support by the Staff. If the Staff cannot support this request as presented here, then please notify the Company and we will withdraw it without prejudice. If the Staff would like to offer alternative suggestions for our consideration, I would be available to meet with you or other members of Staff at your earliest possible convenience.

Finally, if the Staff concurs with the Company's request, Florida Power agrees to practice good judgment in determining the amount of increased amortization and the order by which each asset will be affected. In an effort to keep the Staff apprised of our actions, Florida Power Corporation will footnote each occurrence of accelerated amortization in the cover letter accompanying our monthly surveillance report.

Sincerely,

JS:kf

cc: Office of Public Counsel