



# 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-

RECEIVED-FPSC  
SEP 4 AM 11:03  
COMMISSION CLERK  
DM  
ALM

**DATE:** SEPTEMBER 4, 2003

**TO:** DIRECTOR, DIVISION OF THE COMMISSION ADMINISTRATIVE SERVICES (BAYÓ)

**FROM:** OFFICE OF THE GENERAL COUNSEL (MOORE) DIVISION OF ECONOMIC REGULATION (GARDNER, LEE, LESTER, HEWITT)

**RE:** DOCKET NO. 030714-EI - PROPOSED ADOPTION OF RULE 25-6.04364, F.A.C., ELECTRIC UTILITIES DISMANTLEMENT STUDIES.

**AGENDA:** 9/16/2003 - REGULAR AGENDA - RULE PROPOSAL - INTERESTED PERSONS MAY PARTICIPATE

**RULE STATUS:** PROPOSAL MAY BE DEFERRED

**SPECIAL INSTRUCTIONS:** NONE

**FILE NAME AND LOCATION:** S:\PSC\GCL\WP\030714.RCM

### CASE BACKGROUND

The Commission's policy concerning the ratemaking and accounting treatment of costs associated with dismantlement of fossil fuel generating units was established in In re: Investigation of the ratemaking and accounting treatment for the dismantlement of fossil-fueled generating stations, Order No. 24741, issued July 1, 1991, in Docket No. 890186. Pursuant to that order, investor-owned electric utilities were required to file dismantlement studies at least once every four years in connection with their depreciation studies. Each of the affected utilities thereafter filed studies that were reviewed by the Commission and approved or revisions directed in the following orders: Order No. PSC-94-1331-FOF-EI, issued October 27, 1994, in In re: Request for Approval of 1993 Depreciation Study by Florida Power Corporation; Order No. PSC-00-0293-PAA-EI, issued February 14, 2000, in In re: Request for approval of revised fossil dismantlement expense accruals, . . . , by Florida Power & Light Company; Order No. PSC-

DOCUMENT NUMBER-DATE

08250 SEP-4 8

FPSC-COMMISSION CLERK

DOCKET NO. 030714-EI  
DATE: 9/4/2003

98-0921-FOF-EI, issued July 7, 1998, in In re: 1997 depreciation study by Gulf Power Company; Order No. PSC-00-0603-PAA-EI, issued March 29, 2000, In re: Petition for 1999 depreciation study by Tampa Electric Company; Order No. PSC-01-2386-FOF-EI, issued December 10, 2001 in In re: 2000 Fossil Dismantlement Cost Study by Florida Power Corporation; and Order No. 02-0787-FOF-EI, issued June 10, 2002, in In re: Request for rate increase by Gulf Power Company.

The rule Staff recommends in this docket codifies the policy set out in the Commission's orders.

A Notice of Proposed Rule Development was published in the Florida Administrative Weekly on February 21, 2003, and a rule development workshop was held on March 25, 2003. Representatives from Florida Power and Light Company, Gulf Power, Progress Energy Florida, and Tampa Electric Company participated in the workshop.

#### DISCUSSION OF ISSUES

**ISSUE 1:** Should the Commission propose Rule 25-6.04364, F.A.C., Electric Utilities Dismantlement Studies?

**RECOMMENDATION:** Yes.

**STAFF ANALYSIS:** Rule 25-6.04364 implements provisions of sections 366.041 and 366.06(1), Florida Statutes, prescribing the Commission's responsibility to fix rates, taking into consideration, among other things, the cost of providing service, and to investigate and determine the legitimate costs of each utility's property that is actually used and useful in the public service.

Subsection (1): Subsection (1) sets forth the purpose of the rule, to codify the Commission's policy of requiring each utility that owns a fossil fuel generating unit to accumulate a reserve sufficient to meet all estimated expenses associated with the removal, or disposal, and site restoration less any gross salvage, upon final retirement of the assets, unit, or site from service. Utilities are required to establish a dismantlement accrual as approved by the Commission. The dismantlement accrual is equivalent to the depreciation expense for other assets. It is booked separately from the depreciation accrual and provides for

dismantlement costs associated with retiring the generating station.

Subsection (2): Subsection (2) is the definitions section in which "contingency costs," "dismantlement," and "dismantlement costs" are defined.

Subsection (3): Subsection (3) sets out the requirements for the dismantlement study that a utility must file for each generating site at least once every four years unless otherwise required by the Commission. The study must be site-specific unless a utility shows that such a study is not possible.

Subsection (4): Subsection (4) codifies the requirements for accrual calculations.

Subsection (5): Subsection (5) requires the accruals to be recorded monthly, consistent with the Federal Energy Regulatory Commission Uniform System of Accounts, adopted with modification by Commission Rule 25-6.014, requiring that a utility's books be kept on a monthly basis. (Code of Federal Regulations, Title 18, Subchapter C, Part 101).

Subsection (6): Subsection (6) requires prior Commission approval for a utility to establish a new annual accrual, revise its annual accrual, or transfer a dismantlement reserve.

Subsection (7): Subsection (7) requires that the annual accrual be a fixed dollar amount based on a 4-year average of the accruals for the years between studies.

Subsection (8): Subsection (8) requires utilities to maintain the accumulated dismantlement reserve and accruals in a subaccount separate from the accumulated depreciation reserve and expenses.

Staff recommends that the Commission propose the attached Rule 25-6.04356 to codify its longstanding policy.

**Statement of Estimated Regulatory Costs:** No statement of estimated regulatory costs was prepared because utilities are already required to file dismantlement studies. There should be no additional costs other than those associated with the rule's promulgation. In addition, there should be no negative impacts on utilities, small businesses, small cities, or small counties.

DOCKET NO. 030714-EI

DATE: 9/4/2003

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

**RECOMMENDATION:** Yes, if no requests for hearing or comments are filed, the rule as proposed should be filed for adoption with the Secretary of State and the docket be closed.

**STAFF ANALYSIS:** Unless comments or a request for hearing is filed, the rule as proposed may be filed with the Secretary of State without further Commission action. The docket may then be closed.

CTM/

Attachments:

Rule 25-6.04364

Statement of Estimated Regulatory Cost Memorandum

1 DOCKET NO. 030714-EI  
2 DATE: 9/4/2003

3 **25-6.04364 Electric Utilities Dismantlement Studies**

4 (1) Each utility that owns a fossil fuel generating unit is  
5 required to establish a dismantlement accrual as approved by the  
6 Commission to accumulate a reserve that is sufficient to meet all  
7 expenses at the time of dismantlement. The purpose of the study  
8 required by (3) is to obtain sufficient information to update cost  
9 estimates based on new developments, additional information,  
10 technological improvements, and forecasts; to evaluate alternative  
11 methodologies; and to revise the annual accrual needed to recover  
12 the costs.

13 (2) For the purpose of this rule, the following definitions  
14 shall apply:

15 (a) "Contingency Costs." A specific provision for  
16 unforeseeable elements of cost within the defined project scope.

17 (b) "Dismantlement." The process of safely managing,  
18 removing, demolishing, disposing, or converting for reuse the  
19 materials and equipment that remain at the fossil fuel generating  
20 unit following its retirement from service and restoring the site  
21 to a marketable or useable condition.

22 (c) "Dismantlement Costs." The costs for the ultimate  
23 physical removal and disposal of plant and site restoration, minus  
24 any attendant gross salvage amount, upon final retirement of the  
25

CODING: Words underlined are additions; words in ~~struck~~  
through type are deletions from existing law.

1 DOCKET NO. 030714-EI

2 DATE: 9/4/2003

3 site or unit from service.

4 (3) Each utility shall file a dismantlement study for each  
5 generating site once every 4 years from the submission date of the  
6 previous study unless otherwise required by Commission order. The  
7 study shall be site-specific unless a showing is made by the  
8 utility that a site-specific study is not possible. A utility may  
9 file a study sooner than 4 years. Each utility's dismantlement  
10 study shall include:

11 (a) A narrative describing each fossil fuel generating unit,  
12 including the in-service date and estimated retirement date.

13 (b) A list of all entities owning an interest in each  
14 generating unit and the percentage of ownership by each entity.

15 (c) The dismantlement study methodology.

16 (d) A summary of the major assumptions used in the study.

17 (e) The methodology selected to dismantle each generating unit  
18 and support for the selection.

19 (f) The methodology and escalation rates used in converting  
20 the current estimated dismantlement costs to future estimated  
21 dismantlement costs and supporting documentation and analyses.

22 (g) The total utility and jurisdictional dismantlement cost  
23 estimates in current dollars for each unit.

24 (h) The total utility and jurisdictional dismantlement cost  
25

CODING: Words underlined are additions; words in ~~struck~~  
through type are deletions from existing law.

1 DOCKET NO. 030714-EI

2 DATE: 9/4/2003

3 estimates in future dollars for each unit.

4 (i) For each year, the estimated amount of dismantlement  
5 expenditures.

6 (j) The projected date each generating unit will cease  
7 operations.

8 (k) For each site, a comparison of the current approved  
9 annual dismantlement accruals with those proposed. Current  
10 accruals shall be identified as to the effective date and proposed  
11 accruals to the proposed effective date.

12 (l) A summary and explanation of material differences between  
13 the current study and the utility's last filed study including  
14 changes in methodology and assumptions.

15 (m) Supporting schedules, analyses, and data, including the  
16 contingency allowance, used in developing the dismantlement cost  
17 estimates and annual accruals proposed by the utility. Supporting  
18 schedules shall include the inflation analysis.

19 (4) The dismantlement annual accrual shall be calculated  
20 using the current cost estimates escalated to the expected dates of  
21 actual dismantlement. The future costs less amounts recovered to  
22 date shall then be discounted in a manner that accrues the costs  
23 over the remaining life span of the unit.

24 (5) Dismantlement accruals shall be recorded monthly to  
25

CODING: Words underlined are additions; words in ~~struck~~  
through type are deletions from existing law.

1 DOCKET NO. 030714-EI  
2 DATE: 9/4/2003

3 assure that the costs for dismantlement have been provided for at  
4 the time the production unit or site ceases operations.

5 (6) A utility shall not establish a new annual dismantlement  
6 accrual, revise its annual dismantlement accrual, or transfer a  
7 dismantlement reserve without prior Commission approval.

8 (7) The annual dismantlement accrual shall be a fixed dollar  
9 amount and shall be based on a 4-year average of the accruals  
10 related to the years between the dismantlement study reviews.

11 (8) The accumulated dismantlement reserve and accruals shall  
12 be maintained in a subaccount of Account 108 "Accumulated  
13 Depreciation" and separate from the accumulated depreciation  
14 reserve and expenses. Subsidiary records shall include sufficient  
15 detail to allow for separate site or unit reporting.

16 Specific Authority: 350.127(2), 350.115, F.S.

17 Law Implemented: 366.041, 366.06(1), F.S.

18 History: New \_\_\_\_\_.

19  
20  
21  
22  
23  
24  
25  
CODING: Words underlined are additions; words in ~~struck~~  
through type are deletions from existing law.



State of Florida



Public Service Commission  
-M-E-M-O-R-A-N-D-U-M-

---

**DATE:** June 16, 2003  
**TO:** Office of the General Counsel (Moore) *CH*  
**FROM:** Division of Economic Regulation (Hewitt) *CH*  
**RE:** Statement of Estimated Regulatory Costs for Proposed Rule 25-6.04364, F.A.C., Electric Utilities Dismantlement Studies

---

Proposed Rule 25-6.04364, F.A.C., Electric Utilities Dismantlement Studies, would codify Commission policy of requiring each utility that owns a fossil fuel generating unit to file a dismantlement study every four years and identifies the information to be filed with the study. The accumulated dismantlement reserve and accruals would be maintained in a subaccount and separate from the accumulated depreciation reserve and expenses.

The Florida Administrative Procedures Act encourages an agency to prepare a Statement of Estimated Regulatory Costs (SERC). However, because utilities are already required to file dismantlement studies by order and maintain reserve and accrual records in accordance with the Commission policy, there should be no significant additional costs in addition to the costs to promulgate a rule and no significant negative impacts on utilities, small businesses, small cities, or small counties. Therefore, a SERC will not be prepared for the proposed rule amendments.

CH:kb

cc: Mary Andrews Bane, Executive Director  
Pat Lee  
Hurd Reeves

dismantlement.wpd