

State of Florida



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PUBLIC SERVICE COMMISSION
CLERK

Public Service Commission

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TALLAHASSEE, FLORIDA 32399-0850

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DATE: April 21, 2004

TO: Director, Division of the Commission Clerk & Administrative Services (Bayó)

FROM: Division of Economic Regulation (Gardner, Colson) *RCY*
Office of the General Counsel (Jaeger) *RET* *JDJ*

RE: Docket No. 040008-EI – Petition for approval of depreciation rate applicable to new plant subaccounts for Hines Unit 2 by Progress Energy Florida, Inc.

AGENDA: 05/03/04 – Regular Agenda – Proposed Agency Action- Interested Persons May Participate

CRITICAL DATES: None

SPECIAL INSTRUCTIONS: None

FILE NAME AND LOCATION: S:\PSC\ECR\WP\040008-A.RCM.DOC

Case Background

Pursuant to Rule 25-6.0436(3)(a), Florida Administrative Code (F.A.C.), electric utilities are required to maintain depreciation rates and accumulated depreciation reserves in accounts or subaccounts as prescribed in Rule 25-6.014(1), F.A.C. (i.e., the FERC Uniform Systems Of Accounts). Rule 25-6.0436(3)(b), F.A.C., further provides that “Upon establishing a new account or subaccount classification, each utility shall request Commission approval of a depreciation rate for the new plant category.” On January 5, 2004, Progress Energy Florida, Inc. (PEF) filed its petition in accordance with this rule for Hines Unit 2. PEF requested preliminary implementation of its proposed rate as of December 4, 2003. This request was approved by Order No. PSC-04-0357-PCO-EI, issued April 5, 2004. The docket remained opened pending review and Commission action concerning the appropriate depreciation rates. Staff has completed its review and presents its recommendation herein.

The Commission has jurisdiction in this matter pursuant to Sections 366.04, 366.05, and 366.06, Florida Statutes.

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Discussion of Issues

Issue 1: Should the previously approved preliminary depreciation rate for Hines Unit 2 be made final?

Recommendation: Yes. Staff recommends that for Hines Unit 2, PEF's request for a 30-year average service life, 10% negative net salvage, and a resulting depreciation rate of 3.7% is reasonable and should be made final. (Gardner)

Staff Analysis: Progress Energy proposed a 30-year average service life, 10% negative net salvage, and a resulting whole life depreciation rate of 3.7% for the newly established Hines Unit 2 subaccounts.

Staff reviewed all the Company's supporting data used to develop the proposed average service life, net salvage value, and depreciation rate for Hines Unit 2. The company has gained more knowledge and experience with combined cycle generating units since the 1997 and 1999 in-service date for Tiger Bay and Hines Unit 1, respectively. Currently, PEF's Hines Unit 1 average service life, net salvage, and depreciation rate is a 20 year-life, negative 10%, and 5.5%, respectively. The historical data of the other state regulated investor-owned utilities with combined cycle generating units were reviewed for comparison to PEF's proposed average service life, negative net salvage, and resulting depreciation rate. In Florida, the average service lives, net salvage, and depreciation rates for each combined cycle subaccount vary among investor-owned electric utilities. However, for Hines Unit 2, PEF proposed an identical depreciation rate for each subaccount. PEF's proposed depreciation rate is within the range of depreciation rates for combined cycle units previously approved by the Commission for Florida regulated electric utilities. Florida's combined cycle units net salvage ranges from 0 to a negative 4% by subaccount and a negative 10% by plant unit. Florida's historical data supports PEF's 10% negative net salvage for Hines Unit 2 subaccounts taken as a whole or by plant unit. Also, the industry's subaccounts' average service life ranges from 9.4 to 31 years. Therefore, staff is recommending a 30-year average service life, 10% negative net salvage, and a resulting whole life depreciation rate of 3.7 %.

The next regular depreciation study for PEF as required by Rule 25-6.0436 (8)(a), F.A.C., is due to be filed June 30, 2005 for a January 1, 2006 implementation. The study will provide further review of PEF's experience with combined cycle generating units and any action on life and salvage parameters on a going forward basis.

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Issue 2: What should be the effective date of the implementation for the new depreciation rate for Hines Unit 2?

Recommendation: Staff recommends December 4, 2003 as an implementation date for PEF's depreciation rate. (Gardner, Colson)

Staff Analysis: The depreciation rate for Hines Unit 2 new accounts or subaccounts should be implemented when the installation or plant becomes commercially operational or placed in service. Accordingly, PEF has requested that a depreciation rate for the new unit be effective on December 4, 2003, the commercially operational or in-service date of the combined cycle generating unit.

Issue 3: Should this docket be closed?

Recommendation: If no person whose substantial interests are affected by the proposed agency action files a protest within 21 days of the issuance of the order, this docket should be closed upon the issuance of a consummating order. (Jaeger)

Staff Analysis: If no person whose substantial interests are affected by the proposed agency action files a protest within 21 days of the issuance of the order, this docket should be closed upon the issuance of the order, this docket should be closed upon the issuance of a consummating order.