

BEFORE THE PUBLIC SERVICE COMMISSION

In re: Petition for approval of depreciation rate changes for Big Bend Combustion Turbine Nos. 2 and 3, and Polk Units 2 and 3, by Tampa Electric Company.

DOCKET NO. 041143-EI
ORDER NO. PSC-05-0210-PAA-EI
ISSUED: February 22, 2005

The following Commissioners participated in the disposition of this matter:

BRAULIO L. BAEZ, Chairman
J. TERRY DEASON
RUDOLPH "RUDY" BRADLEY
CHARLES M. DAVIDSON
LISA POLAK EDGAR

NOTICE OF PROPOSED AGENCY ACTION
ORDER APPROVING DEPRECIATION RATE CHANGES

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.

BACKGROUND

Rule 25-6.0436, Florida Administrative Code, requires investor-owned utilities to file comprehensive depreciation studies at least once every four years. On September 24, 2004, Tampa Electric Company (TECO) filed a petition for the approval of depreciation rate changes for Big Bend Combustion Turbine Units 2 and 3, and Polk Units 2 and 3. By Order No. PSC-04-1224-PCO-EI, issued December 10, 2004 we permitted TECO to implement its depreciation rate changes, recovery schedules, and fossil dismantlement accruals on a preliminary basis, as of January 1, 2004. On November 22, 2004, TECO revised its fossil dismantlement proposal. This Order addresses the revised filing and the reallocation of depreciation reserves. We have jurisdiction over these matters through several provisions of Chapter 366, Florida Statutes, including sections 366.04, 366.05, and 366.06.

DOCUMENT NUMBER-DATE

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FPSC-COMMISSION CLERK

DECISION

We approve TECO's revised lives, net salvage, reserves, resulting depreciation rates, and provision for dismantlement as shown on Attachments A, B, and C, which are incorporated into this Order. The primary difference between the preliminary depreciation rate and fossil dismantlement accrual changes that we approved in Order No. PSC-04-1224-PCO-EI and the revision we approve here is the reallocation of depreciation reserves for Polk Units 2 and 3. The difference is due to account sub-categorization and recalculation of the depreciation rates. Also, for the calculation of fossil dismantlement accrual we used the Global Insight indices updated from 2004 Winter to 2004 Summer, the most current indices available. This decision decreases total depreciation expenses shown on Attachment B by \$745,298, beginning January 1, 2004.

Rule 25-6.0436 requires that data submitted in a depreciation study, including plant and reserve balances or company estimates, must match the effective date of the proposed rates. In this regard, Tampa Electric has provided supporting data and calculations for revised depreciation rates, recovery schedules, and dismantlement provisions to match a January 1, 2004, implementation date, which we approve as the effective date for the new rates.

Some corrections, shown in the table below, must be made to TECO's reserve position for Polk Units 2 and 3. The corrections address the imbalances that affect the company's investments and reserves between accounts of a given unit or function or between accounts and units of the same site. They will bring the affected accounts' reserve more in line with its calculated theoretical level, and they will eliminate the accrual of depreciation expense that may continue beyond the account's current investment. TECO has indicated that it agrees with these corrections.

APPROVED RESERVE TRANSFERS						
Site and Account Number	Est. Book Reserve	Theoretical Reserve	Reserve Imbalance	Reserve Transfers	Restated Imbalance	Restated Reserve
Polk Unit 2 Account 341820	192,147	192,109	38	-38	0	192,109
Polk Unit 2 Account 342820	101,507	129,259	-27,752	27,752	0	129,259
Polk Unit 2 Account 343820	5,172,806	5,657,656	-484,850	484,850	0	5,657,656
Polk Unit 2 Account 345820	1,643,947	1,521,253	122,694	-122,694	0	1,521,253
Polk Unit 2 Account 346820	16,605	16,628	-23	23	0	16,628
Polk Unit 3 Account 341830	461,678	227,416	234,262	-156,069	78,178	305,594
Polk Unit 3 Account 342830	60,003	84,884	-24,881	24,881	0	84,884
Polk Unit 3 Account 343830	2,702,987	2,134,291	568,696	-389,893	178,803	2,313,094
Polk Unit 3 Account 345830	487,717	634,529	-146,812	146,812	0	634,529

Polk Unit 3 Account 346830	20,804	5,195	15,609	-15,609	0	5,195
Total	\$10,860,201	\$10,603,220	\$256,981	0	\$256,981	\$10,860,201

We have reviewed the company's proposed life, salvage and reserve factors, as well as the establishment of a fixed levelized annual accrual for dismantlement of fossil plants in accordance with Order No. 24741, issued July 1, 1991, in Docket No. 890186-EI, In re: Investigation of the rate making and accounting treatment for the dismantlement of fossil-fueled generating stations. The analysis of the company's data and resulting expenses reflects the impact of its current planning to ensure that assets are fully amortized at the time of retirement, as reflected on Attachments A and B. Attachment A shows the comparison of rate components (lives, salvages, and reserves) and Attachment B shows the comparison of expenses approved pursuant to Order No. PSC-04-1224-PCO-EI to the expenses recommended for preliminary implementation. The reallocation of the depreciation reserves for Polk Units 2 and 3 created a recalculation of the depreciation rates for some accounts, which caused a decrease in depreciation expenses from \$746,186 to \$745,298, as shown in the table below. The table provides a summary of the changes to the annual accrual based on a January 1, 2004, estimate of investments resulting from the recommended rates, general plant amortizations, recovery schedules, and provision for fossil dismantlement that are shown in detail in attachments B and C.

Functional Change in Annual Depreciation		
	Preliminary Approval	Final Approval
Production Plant	(746,186)	(745,298) (See Attachment B)
Fossil Dismantlement	(1,637)	2,331 (See Attachment C)
Total Depreciation and Dismantling Cost	(\$747,823)	(742,957)

We approve the annual provision for fossil dismantlement accruals of \$2,331 for Big Bend Combustion Turbines Units 2 and 3, beginning January 1, 2004. Our established methodology for accruing the costs of fossil dismantlement depends on three factors: estimated base costs of dismantling the fossil-fueled plants, projected inflation, and a contingency factor. The fixed annual amount is based on a four year average of the accruals related to the years between depreciation study reviews. In this case the purpose of the review is to reflect changes in estimates, inflation, regulatory, or environmental requirements caused by the refurbishment of the Big Bend Combustion Turbines Units 2 and 3, which itself was caused by the lack of response to TECO's Request for Proposals for purchased power.

For its study, Tampa Electric used the escalation factors from the Winter 2004 issue of "The U.S. Economy: The 25 Year Focus," which is published by Global Insight. The escalation

factors are for compensation per hour, metal and metal products, intermediate materials, and the GDP deflator. The factors are projections of annual rates of change and are used to calculate the inflation compound multiplier.

Attachment C shows a comparison of the preliminarily approved dismantlement accruals to Tampa Electric's revised proposal for Big Bend CTs Units 2 and 3. The company provided updated fossil dismantlement data to support the changes to its dismantlement proposal. By Order No. PSC-04-0815-PAA-EI, in Docket No. 030409-EI, issued August 20, 2004, Big Bend CTs Units 2 and 3 dismantlement accrual was \$10,123 to be effective January 1, 2004. At the time of the preliminary implementation, TECO's dismantlement accrual was \$8,486 based upon the 2004 Winter Indices. With the application of the updated escalation factors from the Summer 2004 Global Insight indices, however, the dismantlement accrual changed from \$8,486 to \$12,454. When the new amount is applied to the dismantlement accrual of \$10,123 from the previous depreciation study, the dismantlement accrual increases \$2,331. This resulted in an overall dismantlement accrual change, from January 1, 2004, in the amount of \$3,874,572 to \$3,876,903.

We find that the current amortization of investment tax credits (ITC) and the flowback of excess deferred income taxes (EDIT) should be revised to match the actual recovery periods for the related property. The company shall file detailed calculations of the revised ITC amortization and flowback of EDIT at the same time it files its surveillance report covering the period ending December 31, 2004. Revising a utility's book depreciation lives generally results in a change in its rate of ITC amortization and flowback of EDIT to comply with the normalization requirements of the Internal Revenue Code (IRC) and implementing regulations.

It is therefore,

ORDERED by the Florida Public Service Commission that the Petition for approval of depreciation rate changes for Big Bend Combustion Turbine Nos. 2 and 3, and Polk Units 2 and 3, by Tampa Electric Company is approved as described in the body of this Order. It is further

ORDERED that the depreciation rate changes shall be effective as of January 1, 2004. It is further

ORDERED that Attachments A, B, and C are incorporated by reference herein. It is further

ORDERED that this Order shall become final upon issuance of a Consummating Order unless an appropriate petition, in the form provided by Rule 28-106.201, Florida Administrative Code, is received by the Director, Division of the Commission Clerk and administrative services, 2540 Shumard Oak Boulevard, Tallahassee, Florida 32399-0850, by the close of business on the date set forth in the "Notice of Further Proceedings" attached hereto. It is further

ORDERED that in the event his Order becomes final, this docket shall be closed upon issuance of a Consummating Order.

By ORDER of the Florida Public Service Commission this 22nd day of February, 2005.

BLANCA S. BAYÓ, Director
Division of the Commission Clerk
and Administrative Services

By: 
Kay Flynn, Chief
Bureau of Records

(S E A L)

MCB

NOTICE OF FURTHER PROCEEDINGS OR JUDICIAL REVIEW

The Florida Public Service Commission is required by Section 120.569(1), Florida Statutes, to notify parties of any administrative hearing that is available under Section 120.57, 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 will be granted or result in the relief sought.

Mediation may be available on a case-by-case basis. If mediation is conducted, it does not affect a substantially interested person's right to a hearing.

The action proposed herein is preliminary in nature. Any person whose substantial interests are affected by the action proposed by this order may file a petition for a formal proceeding, in the form provided by Rule 28-106.201, Florida Administrative Code. This petition must be received by the Director, Division of the Commission Clerk and Administrative Services, 2540 Shumard Oak Boulevard, Tallahassee, Florida 32399-0850, by the close of business on March 15, 2005.

ORDER NO. PSC-05-0210-PAA-EI
DOCKET NO. 041143-EI
PAGE 6

In the absence of such a petition, this order shall become final and effective upon the issuance of a Consummating Order.

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

TAMPA ELECTRIC COMPANY
 BIG BEND CTs 2 & 3 AND POLK UNITS 2 & 3 REVISIONS
 COMPARISON OF RATES AND COMPONENTS

ATTACHMENT A

ACCOUNT OTHER PRODUCTION	CURRENT				PRELIMINARY APROVED 1/1/04				COMMISSION APPROVED				
	AVERAGE REMAINING LIFE (YRS)	NET SALVAGE (%)	01/01/04 RESERVE	REMAINING LIFE RATE (%)	AVERAGE REMAINING LIFE (YRS)	NET SALVAGE (%)	01/01/04 RESERVE (%)	REMAINING LIFE RATE (%)	AVERAGE SERVICE LIFE (YRS)	AVERAGE REMAINING LIFE (YRS.)	NET SALVAGE (%)	01/01/04 RESERVE (%)	REMAINING LIFE RATE (%)
	Big Bend Station												
Combustion Turbine 2 & 3	17.0	0.0		2 yr	9.3	0.0	98.8	0.1	37.0	9.3	0.0	98.8	0.1
Combustion Turbine 2 & 3	32.0	-18.0		2 yr	8.7	(1)	69.7	3.6	26.0	8.7	-1.0	69.7	3.6
Combustion Turbine 2 & 3	29.0	-15.0		2 yr	8.8	-3.0	75.2	3.2	21.0	8.8	-3.0	75.2	3.2
Combustion Turbine 2 & 3	23.0	-0.3		2 yr	8.1	-3.0	97.2	0.7	28.0	8.1	-3.0	97.2	0.7
Combustion Turbine 2 & 3	20.0	-0.4		2 yr	10.2	0.0	100.0	0.0	37.0	10.2	-1.0	100.0	0.0
Polk Power Station													
Unit No. 2	21.0	0.0		4.1	34.0	-1.0	9.2	2.7	38.0	34.0	-1.0	9.2	2.7
Unit No. 2	9.4	0.0		4.1	31.0	3.0	10.3	3.0	35.0	31.0	-3.0	13.1	2.9
Unit No. 2	8.7	0.0		4.1	17.4	-10.0	17.9	5.3	21.0	17.4	-10.0	19.5	5.2
Unit No. 2	4.6	0.0		4.1	32.0	-2.0	9.9	2.9	35.0	32.0	-2.0	9.2	2.9
Unit No. 2	4.0	10.0		4.1	33.0	-2.0	9.6	2.8	37.0	33.0	-2.0	9.6	2.8
Unit No. 3	2.6	0.0		4.1	38.0	-1.0	4.5	2.5	39.0	38.0	-1.0	3.0	2.6
Unit No. 3	4.5	0.0		4.1	33.0	-3.0	5.2	3.0	35.0	33.0	-3.0	7.3	2.9
Unit No. 3	6.3	0.0		4.1	19.8	-10.0	8.9	5.1	21.0	19.8	-10.0	7.6	5.2
Unit No. 3	0.0	0.0		4.1	32.0	-3.0	5.4	3.1	34.0	32.0	-3.0	7.0	3.0
Unit No. 3	8.2	3.1		4.1	36.0	-2.0	4.8	2.7	37.0	36.0	-2.0	1.2	2.8

*Denotes restated reserve rate.

** Denotes change in depreciation rates.

TAMPA ELECTRIC COMPANY
 2004 BIG BEND CTS 2 & 3 AND POLK UNITS 2 AND 3 REVISIONS
 COMPARISON OF EXPENSES

ACCOUNT	1/1/04	1/1/04
OTHER PRODUCTION	INVESTMENT	RESERVE
	(\$)	(\$)
BIG BEND STATION		
Combustion Turbine 2 & 3	1,611,601	1,592,347
Combustion Turbine 2 & 3	1,814,488	1,263,928
Combustion Turbine 2 & 3	20,499,383	15,417,991
Combustion Turbine 2 & 3	2,584,914	2,513,610
Combustion Turbine 2 & 3	27,718	27,718
TOTAL Big Bend CT 2 & 3	26,538,104	20,815,594
POLK POWER STATION		
Unit No. 2	2,088,136	192,109 *
Unit No. 2	986,713	129,259 *
Unit No. 2	28,983,894	5,657,656 *
Unit No. 2	16,535,362	1,521,253 *
Unit No. 2	173,210	16,628 *
Total Unit No. 2	48,767,315	7,516,905 *
Unit No. 3	10,337,092	305,594 *
Unit No. 3	1,162,800	84,884 *
Unit No. 3	30,316,638	2,313,094 *
Unit No. 3	9,064,703	634,529 *
Unit No. 3	432,910	5,195 *
Total Unit No. 3	51,314,143	3,343,296
Total Polk Unit 2 and 3	100,081,458	10,860,201
TOTAL Big Bend Cts 2 & 3 and Polk Units 2 & 3	126,619,562	31,675,795

2004 Depreciation Study		Preliminary Approval			COMMISSION APPROVED		
		Big Bend Cts 2 & 3 And Polk Unit 2 & 3			Big Bend Cts 2 & 3 and Polk Unit 2 & 3		
		1/1/04		CHANGE	1/1/04		CHANGE
RATE	EXPENSES	RATE	EXPENSES	IN	RATE	EXPENSES	EXPENSES
(%)	(\$)	(%)	(\$)	EXPENSES	(%)	(\$)	(\$)
NA	19,254	0.1	1,612	-17,642	0.1	1,612	-17,642
NA	550,560	3.6	65,322	-485,238	3.6	65,322	-485,238
NA	981,392	3.2	655,980	-325,412	3.2	655,980	-325,412
NA	71,303	0.7	18,094	-53,209	0.7	18,094	-53,209
NA	0	0	0	0	0	0	0
	1,622,510		741,008	-881,501		741,008	-881,501
4.1	85,614	2.7	56,380	-29,234	2.7	56,380	-29,234
4.1	40,455	3	29,601	10,854	2.9 **	28,615	-11,840
4.1	1,188,340	5.3	1,536,146	347,806	5.2 **	1,507,162	318,822
4.1	677,950	2.9	479,525	-198,425	2.9	479,525	-198,425
4.1	7,102	2.8	4,850	-2,252	2.8	4,850	-2,252
	1,999,461		2,106,502	107,041		2,076,532	77,071
4.1	423,821	2.5	258,427	165,394	2.6 **	268,764	-155,057
4.1	47,675	3	34,884	12,791	2.9 **	33,721	-13,954
4.1	1,242,982	5.1	1,546,149	303,167	5.2 **	1,576,465	333,483
4.1	371,653	3.1	281,006	90,647	3 **	271,941	-99,712
4.1	17,749	2.7	11,689	6,060	2.8 **	12,121	-5,628
	2,103,880		2,132,155	28,275		2,163,012	59,132
	4,103,341		4,238,657	135,316		4,239,544	136,203
	5,725,851		4,979,665	-746,186		4,980,552	-745,298

* Denotes restated reserves. ** Denotes change in depreciation rates.

Tampa Electric Company
 Dismantling Accruals

Attachment C

	Commission Approved 01/01/04	Commission Approved 01/01/04	Change In Accrual 01/01/04	Commission Approved Accruals 01/01/04***	Change In Accrual 01/01/04
2004 Depreciation Study* Preliminary Implementation**					
Big Bend Common	396,163	396,163	0	396,163	0
Big Bend Unit 1	247,815	247,815	01/01/04	247,815	0
Big Bend Unit 2	391,667	391,667	0	391,667	0
Big Bend Unit 3	444,968	444,968	0	444,968	0
Big Bend Unit 4	299,958	299,958	0	299,958	0
Big Bend FGD Systems	387,538	387,538	0	387,538	0
Surviving Turbine Assets					0
Gannon Common	71,854	71,854	0	71,854	0
Gannon Unit 3	25,844	25,844	0	25,844	0
Gannon Unit 4	40,723	40,723	0	40,723	0
Gannon Unit 5	172,992	172,992	0	172,992	0
Gannon Unit 6	97,196	97,196	0	97,196	0
Bayside Common	103,920	103,920	0	103,920	0
Bayside Unit 1	199,295	199,295	0	199,295	0
Bayside Unit 2	273,648	273,648	0	273,648	0
Big Bend CT 1,2&3	10,123	8,486	(1,637)	12,454	2,331
Phillips Station	74,865	74,865	0	74,865	0
Polk Common & Gasifier	532,151	532,151	0	532,151	0
Polk Unit 1	62,584	62,584	0	62,584	0
Polk Unit 2	9,881	9,881	0	9,881	0
Polk Unit 3	10,721	10,721	0	10,721	0
City of Tampa	20,666	20,666	0	20,666	0
Total	3,874,572	3,872,935	(1,637)	3,876,903	2,331

* Order No.PSC-04-0815-PAA-EI -2004 Depreciation Study
 ** Order No.PSC-04-1224-PCO-EI- Preliminary Implementation
 *** Commission Approved Dismantment Provision for Docket No. 041143-EI reflecting change in accruals for Big Bend CT 1, 2, and 3.