

State of 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-

DATE: December 29, 2010
TO: Docket No. 100419-EI
FROM: Ann Cole, Commission Clerk, Office of Commission Clerk
RE: Recommendation

A handwritten signature in black ink, appearing to read "Ann Cole".

The recommendation, DN 09393-10, was filed on November 16, 2010 for the November 30, 2010 Commission Conference. As the vote sheet reflects, this was deferred. Pursuant to staff's instructions, DN 09393-10 will be placed on the January 11, 2010, Commission Conference Agenda. A copy of staff's instructions and the recommendation are attached to this memorandum.

AC:cp

Attachments

DOCUMENT NUMBER-DATE

10152 DEC 29 0

FPSC-COMMISSION CLERK

Carol Purvis

From: John Slemkewicz
Sent: Thursday, December 23, 2010 9:50 AM
To: Carol Purvis; Jim Breman; Keino Young
Cc: Katie Ely; Mary Macko
Subject: RE: Docket No. 100419-EI, Item No. 15

yes

From: Carol Purvis
Sent: Thursday, December 23, 2010 9:39 AM
To: John Slemkewicz; Jim Breman; Keino Young
Cc: Katie Ely; Mary Macko; Carol Purvis
Subject: RE: Docket No. 100419-EI, Item No. 15
Importance: High

Please advise if this docket is to be placed on the January 11, 2011 Commission Conference and if the same recommendation is to be used.

From: Carol Purvis
Sent: Wednesday, December 15, 2010 4:06 PM
To: John Slemkewicz; Jim Breman; Keino Young
Cc: Katie Ely; Mary Macko; Carol Purvis
Subject: Docket No. 100419-EI, Item No. 15

At the December 14, 2010 Commission Conference, the Commissioners deferred Docket No. 100419-EI, Item No. 15, to the January 11, 2011 Commission Conference.

Please advise **immediately** if this item is to be placed on the January 11, 2010 Conference agenda, and if the same recommendation will be used or if a new one will be filed.

If the recommendation is to be placed on a conference agenda other than the December 14, 2010, please file a revised CASR with Katie Ely by Friday, December 17, 2010.

State of Florida



Public Service Commission

CAPITAL CIRCLE OFFICE CENTER • 2540 SHUMARD OAK BOULEVARD
TALLAHASSEE, FLORIDA 32399-0850

RECEIVED
10 NOV 16 AM 8:52
CLERK'S OFFICE

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

DATE: November 16, 2010

TO: Office of Commission Clerk (Cole)

FROM: Division of Economic Regulation (Slemkewicz, Brennan, Cicchetti, Draper, Laux, *Springer*)
Office of the General Counsel (Young)

RE: Docket No. 100419-EI – Petition for approval of base rate increase for extended power uprate systems placed in commercial service, pursuant to Section 366.93(4), F.S., and Rules 25-6.0423(7) and 28-106.201, F.A.C., by Florida Power & Light Company.

Handwritten notes: JS, McCh, EJD, ALM, mrc, CRB

AGENDA: 11/30/10 – Regular Agenda – Proposed Agency Action – Interested Persons May Participate

COMMISSIONERS ASSIGNED: All Commissioners

PREHEARING OFFICER: Skop

CRITICAL DATES: None

SPECIAL INSTRUCTIONS: None

FILE NAME AND LOCATION: S:\PSC\ECR\WP\100419.RCM.DOC

Case Background

In 2006, the Florida Legislature adopted legislation, Section 366.93, Florida Statutes (F.S.), encouraging the development of nuclear energy in the state. In that section, the Legislature directed the Commission to adopt rules providing for alternative cost recovery mechanisms that would encourage investor-owned electric utilities to invest in nuclear power plants. The Commission adopted Rule 25-6.0423, Florida Administrative Code (F.A.C.), which provides for an annual cost recovery proceeding to consider investor-owned utilities' requests for cost recovery for nuclear plants.

DOCUMENT NUMBER DATE

09393 NOV 16 09

FPSC-COMMISSION CLERK

By Order No. PSC-08-0021-FOF-EI,¹ the Commission made an affirmative determination of need for Florida Power & Light Company's (FPL or Company) Extended Power Uprate (EPU) project. The EPU project will be accomplished at FPL's four nuclear units located at two nuclear generating plant sites in Florida: Turkey Point Units 3 and 4, and St. Lucie Units 1 and 2. The EPU projects will go into commercial service at various points in time, with the majority of the costs anticipated to go into plant in service when the modifications are completed in 2012 and 2013. There will also be interim in-service items, such as the modifications at the St. Lucie and Turkey Point units which are the subject of this recommendation.

On October 7, 2010, FPL filed a petition to increase its base rates by the \$1,952,620 revenue requirements associated with the 2010 modifications made at the St. Lucie and Turkey Point units pursuant to Rule 25-6.0423(7), F.A.C. Further, FPL has requested an additional \$198,307 base rate increase for the 5-year amortization of EPU assets that are being retired during 2010 pursuant to Rule 25-6.0423(7)(e), F.A.C. FPL has also included a \$48,335 true-up of the 2010 base rate revenue requirement for the St. Lucie 2 (PSL2) turbine gantry crane.² In total, FPL has requested a base rate increase of \$2,199,261, which equates to \$0.02 per month on a 1,000 kWh residential bill.

The Commission has jurisdiction over this subject matter pursuant to the provisions of Section 366.93, F.S., and other provisions of Chapter 366, F.S.

¹ Order No. PSC-08-0021-FOF-EI, issued January 7, 2008, in Docket No. 070602-EI, In re: Petition for determination of need for expansion of Turkey Point and St. Lucie nuclear power plants, for exemption from Bid Rule 25-22.082, F.A.C., and for cost recovery through the Commission's Nuclear Power Plant Cost Recovery Rule, Rule 25-6.0423, F.A.C.

² Order No. PSC-10-0207-PAA-EI, issued April 5, 2010, in Docket No. 090529-EI, In re: Petition to include costs associated with the extended power uprate project in base rates, by Florida Power & Light Company.

Discussion of Issues

Issue 1: Should FPL's request to increase its base rates by \$1,952,620 for the 2010 EPU project modifications at the St. Lucie and Turkey Point units be approved?

Recommendation: Yes. FPL's request to increase its base rates by \$1,952,620 for the 2010 EPU project modifications at the St. Lucie and Turkey Point units should be approved. This approval should be subject to true-up and revision based on the final review of the 2010 modification expenditures in Docket No. 100009-EI, Nuclear Cost Recovery Clause. (Slemkewicz, Breman, Cicchetti, Laux, Springer)

Staff Analysis: FPL has requested approval to increase its base rates by \$1,952,620 for the EPU project modifications at the St. Lucie and Turkey Point units that went into service during 2010.

Rule 25-6.0423(7), F.A.C., states the following:

(7) Commercial Service. As operating units or systems associated with the power plant and the power plant itself are placed in commercial service:

(a) The utility shall file a petition for Commission approval of the base rate increase pursuant to Section 366.93(4), F.S., separate from any cost recovery clause petitions, that includes any and all costs reflected in such increase, whether or not those costs have been previously reviewed by the Commission; provided, however, that any actual costs previously reviewed and determined to be prudent in the Capacity Cost Recovery Clause shall not be subject to disallowance or further prudence review except for fraud, perjury, or intentional withholding of key information.

(b) The utility shall calculate the increase in base rates resulting from the jurisdictional annual base revenue requirements for the power plant in conjunction with the Capacity Cost Recovery Clause projection filing for the year the power plant is projected to achieve commercial operation. The increase in base rates will be based on the annualized base revenue requirements for the power plant for the first 12 months of operations consistent with the cost projections filed in conjunction with the Capacity Cost Recovery Clause projection filing.

(c) At such time as the power plant is included in base rates, recovery through the Capacity Cost Recovery Clause will cease, except for the difference between actual and projected construction costs as provided in subparagraph (5)(c)4. above.

(d) The rate of return on capital investments shall be calculated using the utility's most recent actual Commission adjusted basis overall weighted average rate of return as reported by the utility in its most recent Earnings Surveillance Report prior to the filing of a petition as provided in paragraph (7)(a). The return on equity cost rate used shall be the midpoint of the last Commission approved range for return on equity or the last Commission approved return on equity cost rate established for use for all other regulatory purposes, as appropriate.

(e) The jurisdictional net book value of any existing generating plant that is retired as a result of operation of the power plant shall be recovered through an increase in base rate charges over a period not to exceed 5 years. At the end of the

recovery period, base rates shall be reduced by an amount equal to the increase associated with the recovery of the retired generating plant.

In compliance with Rule 25-6.0423(7), F.A.C., FPL submitted its calculation of the annualized base rate revenue requirements for the EPU project modifications for the first 12 months of operations. This calculation is shown on Attachment A, Page 1 of 25, attached to FPL's petition. Staff has reviewed the calculation of the \$1,952,620 jurisdictional annual revenue requirement. Staff believes the annual revenue requirement calculation has been calculated in compliance with Rule 25-6.0423(7), F.A.C.

The 2010 expenditures related to the EPU project modifications are still under review in Docket No. 100009-EI. A final determination of the reasonableness and prudence of the 2010 expenditures will be made during 2011. Per Attachment A, Page 1 of 25, to FPL's petition, the increase in Electric Plant in Service included in the calculation is \$9,580,345 (\$9,467,123 jurisdictional), net of joint owners. If the \$9,580,345 amount is revised based on a final audit and review of the 2010 expenditures, the annual revenue requirement will have to be recalculated. This would require a true-up of the revenues already collected and a revision of the related tariffs. Therefore, staff further recommends that the approval of the \$1,952,620 base rate increase be made subject to true-up and revision based on the final review of the 2010 EPU project modification expenditures at the St. Lucie and Turkey Point units in Docket No. 100009-EI.

Issue 2: Should FPL's request to increase its base rates by \$198,307 for the 5-year amortization of the EPU assets that are being retired during 2010 be approved?

Recommendation: Yes. FPL's request to increase its base rates by \$198,307 for the 5-year amortization of the EPU assets that are being retired during 2010 should be approved. (Slemkewicz)

Staff Analysis: FPL has requested approval to increase its base rates by \$198,307 for the 5-year amortization of EPU assets that are being retired during 2010 pursuant to Rule 25-6.0423(7)(e), F.A.C., which states:

The jurisdictional net book value of any existing generating plant that is retired as a result of operation of the power plant shall be recovered through an increase in base rate charges over a period not to exceed 5 years. At the end of the recovery period, base rates shall be reduced by an amount equal to the increase associated with the recovery of the retired generating plant.

Per Attachment A to FPL's petition, the net book value of the EPU asset retirements³ will be \$1,394,393 at December 31, 2010. This results in an annual amortization of \$278,879 over the 5-year period. In addition, FPL has proposed to offset the annual amortization by an annual depreciation credit of \$50,966 and an annual property tax credit of \$16,445. This results in a net annual amortization of \$211,468 (\$198,307 jurisdictional).

Staff recommends that \$198,307 is the appropriate jurisdictional annual amount for the 5-year amortization of the EPU assets that are being retired during 2010.

³ Pages 5, 8, 10, 12, 16, and 18 of Attachment A to FPL's Petition (Document No. 08409-10)

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Issue 3: Should FPL's request to increase its base rates by \$48,335 for a true-up of the 2010 base rate revenue requirement for the PSL2 turbine gantry crane be approved?

Recommendation: Yes. FPL's request to increase its base rates by \$48,335 for a true-up of the 2010 base rate revenue requirement for the PSL2 turbine gantry crane should be approved. (Slemkewicz, Breman, Laux)

Staff Analysis: Per Order No. PSC-10-0207-PAA-EI,⁴ FPL was authorized to increase its base rates by \$354,225 for the PSL2 turbine gantry crane phase of the EPU project. This approval was subject to true-up and revision based on the final review of the 2009 turbine gantry crane phase expenditures in Docket No. 100009-EI, the Nuclear Cost Recovery Clause.

As shown on Page 22 of 25 of Attachment A to FPL's Petition, the Company is requesting a true-up to increase base rates by \$48,335. The primary reason for the true-up is a \$168,948 Electric Plant in Service difference between the estimated \$2,455,535 used in the previous calculation and the final amount of \$2,624,483 used in the current calculation. Staff has reviewed the true-up calculation and recommends that the \$48,335 base rate increase be approved.

⁴ Order No. PSC-10-0207-PAA-EI, issued April 5, 2010, in Docket No. 090529-EI, In re: Petition to include costs associated with the extended power uprate project in base rates, by Florida Power & Light Company.

Issue 4: What is the appropriate effective date of FPL's revised base rates?

Recommendation: If the Commission approves the staff recommendation in Issues 1, 2, and 3, the revised base rates should be implemented with the first billing cycle for 2011, which falls on January 3, 2011. Furthermore, FPL should file revised tariff sheets to implement the Commission vote in Issues 1, 2, and 3 for administrative approval by staff prior to their effective date. (Draper)

Staff Analysis: FPL proposed to revise base rates by increasing the energy charge for all rate classes. FPL has allocated the total increase of \$2,199,261 among the various rate classes with the energy and demand allocation factors FPL utilized in its calculation of the 2011 Capacity Cost Recovery factors (Docket No. 100001-EI). In response to Staff's First Set of Data Requests, FPL explained that because of the comparatively small magnitude of the increase, changing the energy charges only, as opposed to changing the energy and demand charges, is expected to result in a more accurate recovery of the revenue requirement. The total base rate increase recommended in Issues 1, 2, and 3 results in a \$0.02 increase in the 1,000 kilowatt-hour residential bill.

If the Commission approves the staff recommendation in Issues 1, 2, and 3, the revised base rates should be implemented with the first billing cycle for 2011, which falls on January 3, 2011. Furthermore, FPL should file revised tariff sheets to implement the Commission vote in Issues 1, 2, and 3 for administrative approval by staff prior to their effective date.

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Date: November 16, 2010

Issue 5: Should this docket be closed?

Recommendation: Yes. 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. (Young)

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 a consummating order.