401

FPL’s Response to Staff’s Eleventh Interrogatories Nos. 171-178.

QUESTION:
Please refer to the direct testimony of witness Ferguson, Page 14, Lines 3-21. Is it correct that the RSAM is primarily based on proposed extended lives of certain FPL installations, such as St. Lucie Nuclear Power Plant, combined cycle plants, solar plants, as well as extended lives of some transmission, distribution and general assets?

RESPONSE:
For the nuclear, combined cycle and solar functions this is correct. For transmission, distribution and general plant functions of plant the RSAM depreciation parameters include lower negative net salvage estimates as well as different service life estimates when compared with those in the 2021 Depreciation Study.

QUESTION:
Please refer to the direct testimonies of witness Barrett, Page 63, Lines 10-15 and witness Ferguson, Page 14, Lines 3-21. If the proposed RSAM is created primarily through the proposed extension of lives of certain FPL plant assets (notably, transmission, distribution, and general assets), why did FPL select the cost of removal component of FPL's depreciation reserve to create its Reserve Amount rather than the life component of accumulated depreciation?

RESPONSE:
FPL is not using the cost of removal component of depreciation reserve to create the Reserve Amount. Instead, FPL is proposing to attribute the amortization of the Reserve Amount to cost of removal. For FPSC reporting and ratemaking purposes, the depreciation components related to life, gross salvage and cost of removal are all recorded to the same exact account on the balance sheet (Account 108 – Accumulated provision for depreciation of electric utility plant). FPL does not separate out these components for FPSC reporting or ratemaking purposes nor is it required to do so. However, for GAAP (Generally Accepted Accounting Principles) reporting purposes, only the life and gross salvage components are reflected in FPL's accumulated depreciation reserve. Cost of removal is classified as a regulatory asset or liability under GAAP, which means that it is subject to the Commission's authority in terms of how the amounts are recovered or amortized. In contrast, under GAAP, the life and gross salvage components may be subject to limitations in terms of how much could be amortized in a given period. As demonstrated in FPL's earnings surveillance reports, the Reserve Amount amortization can fluctuate significantly from period to period primarily based on the inherent seasonality of the business. In order to maintain alignment between FPL's FPSC financial results and GAAP financial results in each reporting period, it is important for the amortization of the Reserve Amount to be attributed to cost of removal.

Because life, gross salvage and cost of removal are part of the exact same account for FPSC purposes, the Commission should be indifferent as to which component FPL is using to amortize the Reserve Amount. In the next depreciation study, as is the case in all depreciation studies, FPL would reassess its estimates for life, gross salvage and cost of removal and compare the total of these estimates to the total amount of FERC Account 108 to calculate the amount of future accruals. The fact that FPL attributed the amortization of the Reserve Amount to cost of removal as opposed to life would have no impact on customer rates or future accruals because both items are included in Account 108.

FPL would further note that it has consistently amortized its prior reserve amounts to cost of removal since at least FPL's 2012 Settlement Agreement. In addition, Duke Energy Florida amortized surplus depreciation through cost of removal and created a regulatory asset as part of its 2010 Rate Settlement in Order No. PSC-10-0398-S-EI and this approach has been carried forward in subsequent rate agreements.

QUESTION:
Please refer to the direct testimony of Witness Barrett, Page 63, Lines 10-15. Did FPL consider proposing the use of the life component of accumulated reserve to create its Reserve Amount rather than the cost of removal component? Please explain.

RESPONSE:
Please refer to FPL’s response to Staff’s 11th Set of Interrogatories No. 172.

QUESTION:
Please refer to the direct testimony of Witness Barrett, Page 63, Lines 10-15. Under RSAM, does applying the RSAM adjusted depreciation rates result in any changes in the amount of cost of removal that will be needed to retire the transmission, distribution, and general assets? If so, please explain.

RESPONSE:
The depreciation parameters used for the RSAM include net salvage estimates for transmission and general plant assets that differ from those in the 2021 Depreciation Study. Accordingly, the RSAM depreciation parameters forecast a different amount of cost of removal needed to retire the transmission, distribution and general plant assets than forecast by the depreciation parameters in the 2021 Depreciation Study. Additionally, for accounts for which the net salvage estimates are the same for the RSAM as for the 2021 Depreciation Study but for which a different survivor curve is used, the theoretical reserve related to net salvage would be different for the RSAM than for the 2021 Depreciation Study because a change to the survivor curve changes the amount of net salvage that theoretically would have been recovered through depreciation to date.

QUESTION:
Beginning in 2022 and extending forward, what is the proposed RSAM's impact on the total amount of depreciation expense collected from customers versus not implementing the RSAM, assuming all capital items proposed for recovery are included in rates at the time FPL proposes in both cases?

RESPONSE:
The impact of RSAM to total depreciation expense is represented by the difference in the amounts shown on page 1 in column 4 on Exhibits KF-3(A) and KF-3(B).

Calculated Expense Using Proposed Rates

	2022 ($000)	**2023 ($000)**
KF-3(A)	$2,138,532	$2,328,965
KF-3(B) - RSAM	1,894,512	2,061,584
Difference	$(244,020)	$(267,381)

This represents a significant portion of the difference in revenue requirements in 2022 and 2023 between the two-year rate proposal and the four-year rate proposal discussed in FPL witness Barrett's direct testimony.

QUESTION:
Please refer to the direct testimony of Witness Barrett, Page 63, Lines 10-15. Does the amount of dollars that would be removed from accumulated depreciation to comprise the Reserve Amount represent dollars that have already been collected from customers to pay for the cost of removal of transmission, distribution, and general assets? If not, please explain.

RESPONSE:
The RSAM does not remove dollars from accumulated depreciation. Instead, accumulated depreciation is reduced when RSAM is amortized. Similarly, if there is a reserve surplus for an account, the resulting remaining life depreciation rates are lower in order to effectively amortize the reserve surplus over the remaining life. This does not mean that dollars are removed from accumulated depreciation, but instead that the rate of recovery is lower due to the amount that has been recovered in the past. The RSAM also reduces depreciation but does so over a four-year period rather than the remaining life.

QUESTION:
Please refer to the direct testimony of Witness Barrett, Page 63, Lines 10-15. Does FPL intend to, at some point after the proposed 4 year term, collect an equivalent amount of dollars from its customers to replenish its accumulated reserve in order to match the dollars which were taken out of accumulated depreciation to create the Reserve Amount?

RESPONSE:
Please see FPL's response to Staff's Eleventh Set of Interrogatories No. 176. The proposed RSAM does not take dollars out of accumulated depreciation but rather reduces annual depreciation expense. In future depreciation studies, FPL expects that it will propose to recover its unrecovered costs (original cost less net salvage less book accumulated depreciation) at the time the study is conducted. If the full amount of RSAM has been used by the time the next depreciation study is prepared, then FPL's depreciation proposal will incorporate the resultant book depreciation reserve at that time, just as the accumulated depreciation used for the depreciation study and FPL's proposal in this case incorporate amortizations of the theoretical reserve imbalances determined in prior rate cases.

QUESTION:
Please refer to the direct testimonies of Witness Barrett, Page 63, Lines 10-15, and Witness Ferguson, Page 14, Lines 3-21. Over the service lives of certain assets, will FPL technically recover its cost of removal twice for such assets based on its proposed implementation of the RSAM? If yes, please quantify such recovery amounts and specify which assets. If no, please explain.

RESPONSE:
No. Please refer to the responses to Staff's Eleventh Set of Interrogatories Nos. 176 and 177. Depreciation rates and any related reserve adjustments, such as the RSAM, are calculated to recover the full service value of the Company's assets (original cost less net salvage) over their estimated lives. The depreciation expense recorded by FPL each year is related to assets that are in service and not at the end of their useful lives and, as a result, these assets generally will have future costs left to recover through depreciation expense. If there is a reserve surplus, either an RSAM approach or the remaining life technique will reduce depreciation expense on a prospective basis to incorporate the reserve surplus, which is designed to ensure that FPL recovers the full service value of the Company's assets over their service lives. Accordingly, either approach is designed to recover the estimated cost of removal one time over the service lives of the assets.

DECLARATION

I, Keith Ferguson, co-sponsored the answers to Interrogatory Nos. 171-178 from Staff's Eleventh Set of Interrogatories to Florida Power & Light Company in Docket No. 20210015-EI, and the responses are true and correct based on my personal knowledge.

Under penalty of perjury, I declare that I have read the foregoing declaration and the interrogatory answers identified above, and that the facts stated therein are true.

Keith Ferguson

Date: July 19, 2021