

## BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

In re: Investigation of the ratemaking )	DOCKET NO. 890186-EI
and accounting treatment for the )	ORDER NO. 24305
dismantlement of fossil-fueled )	ISSUED: 3/29/91
generating stations. )	
)	

Pursuant to Notice, a Prehearing Conference was held on March 26, 1991, in Tallahassee, Florida, before Commissioner Gerald L. Gunter, Prehearing Officer.

## APPEARANCES:

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On behalf of Florida Power & Light Company.

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On behalf of Florida Power Corporation.

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On behalf of Tampa Electric Company.

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On behalf of Gulf Power Company.

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DOCUMENT NUMBER-DATE

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### PREHEARING ORDER

#### Background

The Commission, on its own motion, ordered this docket opened on February 7, 1989. The docket was to investigate the ratemaking and accounting treatment for the dismantling of fossil-fueled generating stations. The intent of the Commission was to quantify costs associated with future dismantlement and disposal and to decide whether the provision for these costs should continue through depreciation or through funding or through a combination of both. In the past estimates were used to calculate expenses without detailed cost study support. In order to determine the appropriate method for recovering those costs a cost study was necessary.

A workshop was held on December 14, 1990 with interested parties participating. Subsequently, the parties held a pre-hearing on March 18, 1991 in order to identify the issues and determine the parties' positions on those issues. The Commission issued an order on prehearing procedure, Order No. 24026. Pursuant to that Order testimony has been prefiled by the utilities. In lieu of prehearing statements the parties filed a draft prehearing order on March 19, 1991.

#### Use of Prefiled Testimony

All testimony which has been prefiled in this case will be inserted into the record as though read after the witness has taken the stand and affirmed the correctness of the testimony and exhibits, unless there is a sustainable objection. All testimony remains subject to appropriate objections. Each witness will have the opportunity to orally summarize his or her testimony at the time he or she takes the stand.

#### Use of Depositions and Interrogatories

If any party desires to use any portion of a deposition or an interrogatory, at the time the party seeks to introduce that deposition or a portion thereof, the request will be subject to proper objections and the appropriate evidentiary rules will govern. The parties will be free to utilize any exhibits requested at the time of the depositions subject to the same conditions.

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Order of Witnesses

In keeping with Commission practice, witnesses will be grouped by the subject matter of their testimony. The witness schedule is set forth below in order of appearance by the witness's name, subject matter, and the issues which will be covered by his or her testimony.

	<u>Witness</u>	<u>Subject Matter</u>	<u>Issues</u>
1.	H.A. Gower (FPL, FPC, GPC, TECO)	Funding vs. Non- funding; Current vs. Future Dollars; Percentage Rates vs. Fixed Dollar Accruals	1,9,10,11,15, 16,19,20
2.	A.P. Farinelli, Jr. (FPL)	Dismantlement Studies	2,3,4,6,7,8
3.	K.M. Davis (FPL)	Accounting Treatment of Dismantlement Costs	1,2,5,11,15, 16,17,18,19,20
4.	E.L. Hoffman (FPL)	Financing Issues Associated with Dismantlement	4,8,9,10,11,12, 13,14
5.	T.R. Courtney (FPC)	FPC Dismantlement Cost Study	1,4,6,7,8
6.	J. Scardino, Jr. (FPC)	Accounting and Ratemaking Treat- ment of Dismantle- ment Costs	1-4, 8-20
7.	J.P. Williamson (GPC)	Dismantlement Study	4,6,7,8,19
8.	R.E. Fowler (GPC)	Cash Flow Re- quirements for Dismantlement	4,8,9,12,13,14

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	<u>Witness</u>	<u>Subject Matter</u>	<u>Issues</u>
9.	W.A. Pugh (GPC)	Plant and Depreciation	1, 2, 3, 5, 16, 17, 18, 19, 20
10.	L.L. Lefler (TECO)	Accounting All Issues	1, 2, 3, 4, 5, 6, 7 8, 9, 10, 11, 12, 13, 14, 15, 16, 17, 18, 19, 20

EXHIBIT LIST

<u>EXHIBIT</u>	<u>WITNESS</u>	<u>DESCRIPTION</u>
<u>1</u> (APF-1)	A. P. Farinelli (FPL)	Doc. No. 1-- Dismantling Activities (Non-Coal). Doc. No. 2- Dismantling Activities (Coal) Doc. No. 3-- NUS Independent Opinion Letter. Doc. No. 4-- Decommissioning Costs by Unit.
<u>2</u> (APF-2)	A.P. Farinelli (FPL)	FPL Dismantlement Cost Studies
<u>3</u> (ELH-1)	E. L. Hoffman (FPL)	Doc. No. 1--Capital Expenditures Versus Dismantlement Costs. Doc. No. 2--Projected Future Dismantlement Costs.
<u>4</u> (LLL-1)	L.L. Lefler (TECO)	Comparison of Dismantling Cost To Five Year Construction Budget
<u>5</u> (LLL-2)	L.L. Lefler (TECO)	TECO Dismantlement Cost Study

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<u>EXHIBIT</u>	<u>WITNESS</u>	<u>DESCRIPTION</u>
<u>6</u> (HAG-1)	H.A. Gower (FPL, FPC, GPC, TECO)	Illustration of Present Dismantlement Accounting
<u>7</u> (HAG-2)	H.A. Gower (FPL, FPC, GPC, TECO)	Impact of Inflation on Purchasing Power
<u>8</u> (HAG-3)	H.A. Gower (FPL, FPC, GPC, TECO)	Illustration of Ratemaking Treatment for Dismantlement Costs
<u>9</u> (REF-1)	R.E. Fowler (GPC)	Estimated Cash Flow for Dismantlement; Comparison of Disman- tlement Costs to Capital Additions Budget
<u>10</u> (WAP-1)	W.A. Pugh (GPC)	Accumulated Provisions for Depreciation and Amortization by Category, 12-31-90
<u>11</u> (JPW-1) (WAP-2)	J.P. Williamson W.A. Pugh (GPC)	Gulf's Response to Staff's First Set of Interrogatories (8-21-89)
<u>12</u> (JS-1)	J. Scardino, Jr. (FPC)	Estimated Dismantle- ment Costs
<u>13</u> (JS-2)	J. Scardino, Jr. (FPC)	Summary of Cash Requirements
<u>14</u> (JS-3)	J. Scardino, Jr. (FPC)	Comparison of Dismantlement Costs with Five-Year Construction Budget
<u>15</u> (TRC-1)	T.R. Courtney (FPC)	FPC Dismantlement Cost Study Estimates and Assumptions



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<u>EXHIBIT</u>	<u>WITNESS</u>	<u>DESCRIPTION</u>
<u>16</u> (TRC-2)	T.R. Courtney (FPC)	FPC Dismantlement Costs Study

STAFF'S EXHIBIT LIST

<u>EXHIBIT</u>	<u>DESCRIPTION</u>
<u>17</u>	FPL's Response to Staff Data Request of September 27, 1990
<u>18</u>	FPL's Response to Staff Supplemental Data Request from December 14, 1990 Workshop
<u>19</u>	FPC's Response to Staff Data Request of September 27, 1990
<u>20</u>	FPC's Response to Staff Supplemental Data Request from December 14, 1990 Workshop
<u>21</u>	Gulf's Response to Staff Data Request of September 27, 1990
<u>22</u>	Gulf's Response to Staff Supplemental Data Request from December 14, 1990
<u>23</u>	TECO's Response to Staff Data Request of September 27, 1990

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STAFF'S EXHIBIT LIST

<u>EXHIBIT</u>	<u>DESCRIPTION</u>
<u>24</u>	TECO's Response to Staff Supplemental Data Request from December 14, 1990
<u>25</u>	TECO's Response to Staff Interrogatories 2 and 3 (Lefler)
<u>26</u>	FPL's Response to Staff Interrogatory 2 (Davis)
<u>27</u>	FPL's Response to Staff Interrogatory 3 (Farinelli)
<u>28</u>	FPC's Response to Staff Interrogatory 3
<u>29</u>	FPC's Response to Staff Interrogatories 4-16
<u>30</u>	FPC's Response to Staff Interrogatories 17-19
<u>31</u>	Gulf's Response to Staff Interrogatories 2 and 3
<u>32</u>	Depo. 1 Yearly Dismantlement Costs and Escalation Rates (Lefler)
<u>33</u>	Depo. 2 Revised Rates, Annual Rates of Change (Hoffman)

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STAFF'S EXHIBIT LIST

<u>EXHIBIT</u>	<u>DESCRIPTION</u>
<u>34</u>	Depo. 3 Revised Document 2, Page 1 of 6, in 1990 Dollars (Hoffman)
<u>35</u>	Depo. 4 Gulf Power's Fossil Fuel Dismantlement (Fowler)
<u>36</u>	Depo. 6 Work Papers for Four-Year Option (Gower)
<u>37</u>	Depo. 7 Work Papers for Document 3 (Gower)
<u>38</u>	Depo. 8 Staff Prepared Chart of Florida Power and Light, Florida Power Corp., Tampa Electric and Gulf Power by Plant, In-Service Date, Dismantle Date, and Overall Span

PARTIES' STATEMENT OF BASIC POSITION

The parties have indicated that the following are their basic positions in this matter:

Florida Power & Light Company (FPL): Dismantlement cost studies should be performed for each one of a utility's fossil generating units. FPL's site-specific dismantlement cost studies estimate the total cost of dismantling each fossil unit located at FPL's thirteen fossil sites. These comprehensive studies of each unit



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should be reviewed by the Commission every four years until the units are dismantled to ensure the updating of the original studies on a regular basis.

The Commission should not require FPL to fund the accumulated reserve for fossil dismantlement costs. Rather, FPL should continue to accrue the dismantlement costs associated with its fossil units on a monthly basis and maintain records for the accumulated reserve on a unit-specific basis. The monthly accrual amount should be a fixed dollar amount that will result in the accumulation of the future cost of dismantlement over the estimated remaining lives of the fossil units. The accrual amount should change as updated studies are approved to reflect changes in the underlying assumptions and changes in the purchasing power of the dollar available to the respective generations of ratepayers.

Changes in Commission policy concerning dismantlement costs that affect the level of accruals should be implemented at the time base rates are next set.

Florida Power Corporation (FPC): FPC considers the following points to be essential to the proper ratemaking and accounting treatment for fossil dismantlement costs.

1. The estimated cost of dismantlement should be recovered from customers equitably, reflecting the current dollar value of their real purchasing power at the time of recovery. A simple amortization of future dismantlement costs over the remaining plant lives places an inequitable cost responsibility on current customers, and is therefore an inappropriate ratemaking treatment.
2. The annual dismantlement accrual should be established as a separate fixed dollar expense, rather than as an element of the depreciation rate. The fixed dismantlement accrual should also be levelized for inflation anticipated over the period until the Commission's next scheduled review of dismantlement costs.
3. To achieve the lowest overall revenue requirement, dismantlement expense should be accrued to an unfunded internal reserve, rather than a funded reserve. Fossil plant dismantlement does not involve the kind or degree of risk that would justify the use of a more costly funded reserve, as was the case with nuclear plant dismantlement.

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Gulf Power Company (GULF): Gulf Power Company believes the current accounting treatment of dismantlement costs is appropriate at this time. As part of the Company's last filing for approval of depreciation rates (December 31, 1987; Docket No. 880053) Gulf included a detailed dismantlement study. Gulf's existing approved depreciation rates include a factor for dismantlement. While we believe that some refinements in the current system may be appropriate, these refinements, such as basing the accrual on a fixed dollar amount for dismantlement rather than applying percentage rates to depreciable plant costs, can be adequately addressed at the time the Company submits its next dismantlement and depreciation studies for approval. Gulf strongly believes that rates should not be changed as part of this proceeding. The format of this proceeding as a generic docket does not provide the parties with an adequate opportunity to address implementation concerns as they may affect the individual utilities. Company specific proceedings that take into account any changes the Commission adopts as part of this proceeding would be a more appropriate forum for setting dismantlement rates. If changes are adopted that would result in a material increase in expense, implementation should be deferred until the next rate proceeding.

Tampa Electric Company (TECO): 1) Accruals for dismantlement of fossil-fueled generating stations should not be funded. 2) The cost of dismantling of fossil-fueled generating stations should be accrued through depreciation expense as a fixed amount escalated at the rate of inflation to levelize the constant dollar amount charged to each year's Customers. 3) Changes associated with this docket should be addressed in the next depreciation study; significant changes in expenses should be addressed in the next rate proceeding.

STAFF: Dismantlement studies should be site-specific and be reviewed at least once every four years in connection with each company's regular comprehensive depreciation study review. These studies should include those units in service, those units in extended cold stand-by status, and also those units that have been removed from the ratemaking structure but which require ultimate dismantlement.

While funding provides greater assurance that funds will be available at the time of dismantlement, not funding is the least costly alternative to the company and ratepayer. If funding is required, the fund should be external and should at least retain

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its purchasing power. The dismantlement accrual should be booked on a monthly basis and can either be based on a separate dismantlement rate or a fixed dollar amount as long as the amount to be recovered is based on the estimated future dismantlement dollars spread over the remaining span-of-years for the plant unit (projected dismantlement date less study date).

STATEMENT OF ISSUES AND POSITIONS

The parties have identified the following issues and statements of positions thereon:

ISSUE 1: What is "dismantlement"? (Stipulated)

FPL: Dismantlement is the activities necessary, after the end of a fossil generating unit's useful life, to remove and dispose of the components of a fossil generating unit and to restore the site to a marketable or useable condition after removal. (Gower, Davis)

FPC: Dismantlement is the process of removing and disposing of a power station after operations are discontinued. (Gower, Scardino, Courtney)

TECO: Dismantlement is the final removal and disposal of any electric plant structures and improvements, equipment, and restoration of the site to a marketable or useable condition. The cost of dismantlement includes the cost of removal, disposal, and restoration less any salvage recovered from the sale of equipment or scrap. (Gower, Lefler)

GULF: "Dismantlement" is defined in Gulf's study as: the final dismantling and disposal of all buildings, structures, equipment, tanks and stacks at the site and restoration of the site to a usable condition. (Gower, Pugh)

STAFF: The concept of dismantlement relates to the ultimate physical demolition/removal from service of the generating unit. This will occur at a point in time that is dependent on a number of factors, including major overhauls that will extend the expected life and point of time of ultimate physical removal from service of the unit. This docket addresses the provision for the future costs of that action as represented by the costs of

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ultimate physical demolition/removal of the unit, offset by any attendant salvage from the removed assets.

ISSUE 2: How are the costs associated with dismantlement of fossil-fueled plants currently being accounted for on the books and records of each company and what is the current annual expense amount for 1990 associated with dismantlement? (Stipulated)

FPL: Dismantlement expense accrual is included in FPL's depreciation expense accrual. The accumulated reserve for fossil unit dismantlement costs is, therefore, included as part of the Accumulated Provision for Depreciation of Electric Utility Plant. Detail is maintained by unit for the accumulated costs. When dismantlement occurs, the costs will be charged to the accumulated reserve for fossil dismantlement costs.

The expense accrual for the year 1990 associated with dismantlement was \$13,765,151. (Davis, Farinelli)

FPC: The accrual of dismantlement expense is debited to Account 403 - Depreciation Expense and credited to Account 108 - Accumulated Provision for Depreciation of Utility Plant as part of the depreciation computation. The accrual for 1990, which was only for the month of December, was \$1,343,301.67. (Scardino)

TECO: Debited to Account 403 - Depreciation Expenses and credited to Account 108 - Accumulated Provision for Depreciation in the amount of \$807,000 annually. Subaccount records reflect the depreciation expense and other components of the accumulated provision for depreciation by generating unit, but does not reflect a separate accumulated provision for depreciation for dismantlement. At the time dismantlement occurs, the net cost would be charged to Account 108 - Accumulated Provision for Depreciation. (Lefler)

GULF: Costs associated with dismantlement of fossil-fueled plants are accounted for as negative salvage as part of the depreciation rate, with a debit to Account 403 (Depreciation Expense) and a credit to Account 108 (Accumulated Provision for Depreciation). The current annual expense amount for 1990 is \$3,866,448. (Pugh)

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STAFF: Currently the provision for dismantlement costs is included in the basic depreciation rates for Gulf and for TECO. There is a separate rate for provision for dismantlement costs of the sites or units of FPC and FPL. The current annual expense for 1990 of each company is as follows:

FPL	\$13,765,151
FPC	\$ 1,343,302
TECO	\$ 807,000
GULF	\$ 3,866,448

ISSUE 3: What is the amount accumulated as of December 31, 1990 in the reserve associated with dismantlement? (Stipulated)

FPL: \$72,921,918. (Farinelli)

FPC: The Accumulated Reserve for Fossil Dismantlement at December 31, 1990 was \$1,343,301.67. (Scardino)

TECO: \$11,018,000. (Lefler)

GULF: The Accumulated Provision for Depreciation associated with dismantlement of \$24,977,422 at December 31, 1990. (Pugh)

<u>STAFF:</u>	FPL	\$72,921,918
	FPC	\$ 1,343,302
	TECO	\$11,018,000
	GULF	\$24,977,422

ISSUE 4: Do risks exist for the dismantlement of fossil-fueled generating plants, e.g., public health and safety risks, cash flow requirements, and timing of dismantlement activities?

FPL: Yes. However, the risks to the health and safety of the public when a fossil unit is dismantled should be minimal provided the dismantlement is conducted according to applicable environmental and worker safety regulations which are designed to mitigate those risks.

Cash flow requirements for the dismantlement of fossil generating plants are relatively small when compared to projected capital expenditures; therefore, there is



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little risk of not being able to raise the required capital exists as long as the financial integrity of the company is maintained. (Farinelli, Hoffman)

FPC: There would not be any greater risks to the health and safety of the public than for any comparable sized dismantlement project conducted in accordance with current regulations.

Since the actual dismantlement is expected to be spread over 30 to 35 years, the Company expects no increased risk or severe cash flow problem as a result of having to dismantle its plants. The single highest cost for dismantlement in a given year is \$25.6 million (in 1990 dollars), while the current five year construction forecast is estimated at \$2.1 billion. (Scardino, Courtney)

TECO: General year to year compliance with current environmental and occupational safety and health regulations combined with adequate fencing and security force for controlled access will minimize risks to public health and safety. The money required at the estimated time of dismantlement is not large enough in any particular year to force the company into a severe cash flow problem or into a downgrading of the credit rating. The largest estimated cash flow in any future period represents only 2.66% of the current five year construction budget (stated in 1990 present value dollars net of tax). (Lefler)

GULF: As long as dismantlement of a fossil power plant is conducted so that all EPA, OSHA, and state regulations are followed closely, there should be little public health and/or safety risk associated with the dismantlement operation. This entails strict adherence to all federal, state, and local regulations, including, but not limited to, the Resource Conservation and Recovery Act, the Toxic Substances Control Act, and EPA/OSHA regulations. Again, assuming the site is thoroughly evaluated for all possible environmental risks, and the regulations are followed closely, the possible effect on public health from the dismantlement of a fossil plant should be minimal.

The cash flow requirements for fossil dismantlement (\$65 per MW average) are significantly less than for nuclear

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decommissioning (\$250 per MW average). The cash flow risks are not significant. (Williamson, Fowler)

STAFF: At this time, there appears to be no more public health and safety risks associated with dismantlement of fossil-fueled generating stations than with the dismantling of other large industrial facilities.

Risks associated with cash flow requirements vary depending upon the magnitude of the dismantlement costs, market conditions at the time of dismantlement, and the period of time over which the dismantlement costs are spread.

ISSUE 5: If the Company is a partial owner of any plant, in state or out of state, what are the contractual obligations regarding dismantlement? (Stipulated)

FPL: Contractually, FPL is responsible for its ownership share of all dismantlement costs of those fossil plants of which it is a co-owner. (Davis)

FPC: The Company is not a partial owner of any fossil fueled stations.

TECO: Tampa Electric is not a partial owner of any fossil-fueled stations. (Lefler)

GULF: Each co-owner would be responsible for dismantlement cost in proportion to its ownership ratio. (Pugh)

STAFF: It appears that each partial owner is contractually responsible for its ownership share of dismantlement costs.

ISSUE 6: What will be the major activities of dismantlement as filed in the companies' cost studies? (Stipulated)

FPL: Removal and disposal of heavy concrete structures, removal of boiler plant equipment, and removal and disposal of hazardous materials. The major activities are set out in detail in Docket No. 1 of A.P. Farinelli's prefiled direct testimony. (Farinelli)

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FPC: This information is set out in the dismantlement study filed with the FPSC. (Courtney)

TECO: The major cost components of dismantling are the removal of concrete foundations, slabs, and support; removal of building structural and miscellaneous steel; removal of boilers and precipitators; removal of insulation (asbestos and other insulation); and the restoration of ponds and coalyards. (Lefler)

GULF: As indicated in our response to Issue 1, dismantlement will entail the complete removal of the entire generating facility. This includes asbestos and contamination removal, dismantlement and disposal of all site structures, buildings, and equipment, removal of structures linked directly to waterways, reclamation of ponds and coal piles and site restoration. (Williamson)

STAFF: Major activities will vary by plant site and by company. It appears, however, that such will include dismantlement of structures, boiler plant equipment, removal of asbestos, if applicable, ponds, site restoration and fuel storage and handling facilities.

ISSUE 7: How much of the estimated cost of dismantlement is associated with the removal of asbestos? (Stipulated)

FPL: \$2,879,900. (Farinelli)

FPC: \$56,783,500. (Courtney)

TECO: Our study had a current dollar total of \$82,439,169 as presented. Of this total \$19,187,880 was related to the removal and disposal of asbestos. This is approximately 23.3% of the total estimate. (Lefler)

GULF: The estimated cost of removing and disposing of asbestos, in January 1988 dollars, is \$6,201,000. (Williamson)

<u>STAFF</u> :	FPL	\$ 2,879,900
	FPC	\$56,783,500
	TECO	\$19,187,880
	GULF	\$ 6,201,000

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ISSUE 8: What is the appropriate cash outflow for dismantlement for each year for your existing fossil units in 1990 dollars and in future dollars?

FPL: FPL's total estimate for dismantlement costs in 1990 dollars is \$134,940,992 (Doc. No. 4 to A.P. Farinelli's prefiled direct testimony); in future dollars, the total is \$490,613,000 (Doc. No. 2 to E.L. Hoffman's prefiled direct testimony). Annual cash outflows are projected to occur during the period 1992 through 2030. (Farinelli, Hoffman)

FPC: Based on a study done by Southern Services for FPC, total dismantling cost in January 1, 1989 dollars is \$245,996,000. Total cost in 1990 dollars is \$266,273,000 and in future dollars is \$1,156,646,874.

The time frames for dismantlement expenditures were assumed to be three years for the three largest steam plants, two years for other steam plants and one year for peaking units. Costs in 1990 dollars were spread evenly over the years of expenditures then escalated to future dollars based on cost escalation rates of 5.10% for steam plants and 5.08% for peakers. (Scardino, Courtney)

TECO: \$87 million in 1990 dollars and \$1,136 million in future dollars. Dismantling over a 3 year period. (Lefler)

GULF: Gulf's current estimates for dismantlement are based on January 1, 1988, dollars. Gulf's total estimate in 1990 dollars is \$126,666,000; in future dollars \$451,039,000. Annual cash outflows are projected to occur during the period 2004 through 2030. (Williamson, Fowler)

STAFF: Although Staff has no specific criticism of the projected outflows for each utility, Staff notes that the escalation rates among the four utilities vary. It may be appropriate to escalate the costs at a uniform, industry-wide escalation rate.

The escalation rates used for the companies estimates are based on a projected 1990 rate. Now that 1990 rates are actual, the dismantlement costs for each company should be updated to reflect this change.

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ISSUE 9: Should the Commission require funding of accruals for dismantlement?

FPL: No. The Commission should not require funding of dismantlement costs since a funded reserve results in the higher cost alternative for FPL's ratepayers. (Gower, Hoffman)

FPC: The Commission should not require funding of accruals for dismantlement. Use of an unfunded reserve is the most cost-effective option for customers on a revenue requirements basis. (Gower, Scardino)

TECO: No. As previously discussed in Issue No. 4, the cost of dismantlement would be of minimal impact to the company's budget at the time of actual dismantlement. Funding of the accruals is more costly to the customer in the form of higher revenue. The capital requirements provided by unfunded accruals would have to be replaced at a higher cost of capital than would be anticipated to be the earnings on secure investments of funded accruals. Unfunded accruals provide the lowest cost to the customer with relatively little risk of funds not being available at the point of dismantlement. (Gower, Lefler)

GULF: No. The Commission should not require funding. (Gower, Fowler)

STAFF: Based upon reasonable assumptions, Staff believes that not funding is the least costly alternative. However, funding provides greater assurance that funds will be available at the time of dismantlement.

ISSUE 10: Should investment guidelines or a minimum earnings rate for fund investments be established and, if so, what guidelines or rate is appropriate?

FPL: If the Commission requires funding, a minimum earnings rate should not be established. A general guideline of preserving the purchasing power of the fund, like the one set for FPL's nuclear decommissioning fund, may be appropriate. The Commission may want to periodically review the investment performance in conjunction with the filing of dismantlement studies.



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If a funded reserve for dismantlement of fossil plants is required, the sponsoring utility should be responsible for establishing its investment guidelines to define the quality and diversification criteria for such a portfolio of securities. (Gower, Hoffman)

FPC: General investment guidelines should be discussed if funding is required. If investment guidelines are complied with, no minimum earnings rate should be mandated. (Gower, Scardino)

TECO: As stated previously in the response to Issue No. 9, TECO recommends that funding not be required. If funding is required, general guidelines identifying high grade fixed income securities as the appropriate type of investment to fulfill the primary aim of funding, the safety and security of funds, would be appropriate. (Gower, Lefler)

GULF: If funding is required, nothing more than investment guidelines should be established. (Gower)

STAFF: Investment decisions should be under management's discretion; however, the purchasing power of the fund should be maintained.

ISSUE 11: If funding is required, should one fund be maintained with records being kept separately for each unit? If not, how should records be maintained? (Stipulated)

FPL: Yes. If funding is required, only one fund should be established covering all plants while maintaining separate records for each unit. (Gower, Hoffman, Davis)

FPC: In order to achieve investment economies of scale, one fund should be maintained with records kept separately for each plant. Records by unit would only be kept if estimated retirement dates were different. (Gower, Scardino)

TECO: Yes. (Gower, Lefler)

GULF: Yes. One fund should be maintained, and all gains (or losses) in the dismantlement fund would be allocated to each plant based on actual funding. (Gower)

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STAFF: One fund should be maintained with records kept separately for each unit for monitoring purposes.

ISSUE 12: If funding is required, should it be internal or external?

FPL: If funding is required, the fund should be an internal fund. An internal fund has lower cost to FPL's ratepayers since an external fund would require legal costs and maintenance fees charged by the trustee. (Hoffman)

FPC: Initially the fund should be externally managed because the investment management fees would be less than what it would cost FPC to establish an in-house investment management function. FPC estimates that until the fund exceeds \$100 million it would not be cost-effective to manage internally. (Scardino)

TECO: Internal. (Lefler)

GULF: Internal. (Fowler)

STAFF: Internal funding appears to be the least costly method, however external funding will provide greater assurance that the funds will be available.

ISSUE 13: If external funding is required, who should manage the fund, keep the records, and make the investment decisions?

FPL: If external funding is required, FPL should be allowed to manage the fund, keep the records, and make the investment decisions. (Hoffman)

FPC: One option would be to use Company employees to manage the fund, keep the records and make the investment decisions. Another option would be to use an outside investment management firm to manage the investments subject to guidelines established by the Company. The second approach would likely be the most cost-effective for smaller funds, since the outside firm could spread its fixed costs over many clients' funds. (Scardino)

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- TECO: Company would manage it and make investment decisions; record keeping would be shared between external party and the company. (Lefler)
- GULF: See Issue 12. There are any number of ways to structure the external fund. From the standpoint of consistency, the FPSC may find it appropriate to use guidelines similar to those required for the external fund for the NRC's minimum nuclear decommissioning costs. (Fowler)
- STAFF: The utility is ultimately responsible for these functions. If they are achieved in a cost-effective, prudent manner, Staff is indifferent as to who actually performs the functions. At least one set of records should be maintained by the utility.
- ISSUE 14: If funding is required, should the dismantlement reserve accumulated through the date of the Order in this proceeding be funded, and if so, how?
- FPL: No. The dismantlement reserve accumulated through the date of the Order should not be funded. If funding is required, however, it should be accomplished gradually to avoid the possibility of raising the needed capital under unfavorable financial market conditions. (Hoffman)
- FPC: The dismantlement reserve accumulated through the date of the Order in this proceeding should not be funded. If funding is required, companies should be permitted a period of at least five years to eliminate any unfunded reserves. (Scardino)
- TECO: Although TECO believes that funding should not be required, if funding is required the accumulation of accruals for dismantling should be funded on a prospective basis over the remaining life of the generating units. (Lefler)
- GULF: No. If funding is required, it should be prospective in nature. (Fowler)
- STAFF: Yes, the accumulation should be funded over a four year period.

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ISSUE 15: If funding is not required, should dismantlement rates be based on current or future dollars?

FPL: The monthly accrual for dismantlement costs should result in the accumulation of the future cost of dismantlement over the estimated remaining lives of the fossil units. The accrual amount should change as updated studies are approved to reflect changes in the underlying assumptions and changes in the purchasing power of the dollar available to the respective generations of ratepayers. (Gower, Davis)

FPC: Dismantlement rates or fixed dollar accruals should be based on current dollars, since customers must pay these costs out of their current purchasing power. Dismantlement accruals based on future dollars would place a disproportionate share of total dismantlement costs on current customers. (Gower, Scardino)

TECO: Dismantlement rates or accruals should be based on current dollars. Periodic reviews of the dismantling cost allow for true-ups to reflect the effect of inflation and other changes in cost. (Gower, Lefler)

GULF: Gulf recommends current dollars, as future inflation is not recognized currently in any other expense category on the financial statements. Current dollars will be adjusted as necessary perhaps every four years at the time of the Company's depreciation study. (Gower)

STAFF: The dismantlement rate should be based on future dollars recovered over the remaining life span of the plant unit. Future dollars are the amount that will be required and expended at the time of physical removal.

ISSUE 16: Should the annual dismantlement accrual be based on a separate dismantlement rate or should it be a fixed dollar amount?

FPL: The annual fossil dismantlement expense accrual should be a fixed dollar amount. (Gower, Davis)

FPC: The annual dismantlement accrual should be a fixed dollar amount, levelized for inflation anticipated over the period until the next scheduled review and adjustment of dismantlement costs. (Gower, Scardino)

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- TECO: A fixed dollar amount adjusted periodically for changes in inflation or other changes such as changes in quantity or changes in technology is a more accurate recovery of dismantling cost. Using an accrual dollar amount rather than a rate simplifies the accounting for these accruals and avoids costly system changes to calculate monthly dismantling accruals based on changing plant balances. The dismantling cost bears no direct relationship to plant costs, but does bear a direct relationship to site specific factors such as size of the plant. Using a dismantling rate assumes any change in plant cost should directly impact the dismantling cost. (Gower, Lefler)
- GULF: Gulf recommends fixed dollar amount, the present Gulf methodology. (Gower, Pugh)
- STAFF: Either, as long as the amount to be recovered is based on estimated future dismantlement dollars spread over the remaining life span of the plant unit. An annual fixed dollar amount would levelize expenses between review periods; a rate would be applied to gross investment to determine expenses. In any case, the fixed annual amount or separate rate should be reviewed and revised, as necessary, at least once every four years.
- ISSUE 17: Based on the decisions in this docket, what, if any, changes in the accounting treatment of dismantlement costs are necessary and when should they be implemented?
- FPL: The focus of this docket should be to explore the issues of dismantlement and to change any accounting policies that are necessary as a result of the Commission's findings. All changes in accounting record keeping requirements associated with the findings should be implemented immediately and should be reflective of Commission policies and future requirements. Changes in accounting treatment that are unrelated to record keeping and that affect the level of accruals should be implemented when the Company's base rates are next set. (Davis)
- FPC: Any changes in accounting for fossil dismantlement as a result of this docket should be addressed in the next scheduled fossil dismantlement cost estimate filed with the Commission. (Scardino)



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- TECO: Addressed in the next depreciation study. (Lefler)
- GULF: As a matter of routine, changes in the accounting treatment of dismantlement costs would be implemented at the time of the next depreciation study. Changes of a large magnitude, however, should be addressed in the next rate case. (Pugh)
- STAFF: If funding is required, the fund for each company should be established by year-end 1991. If funding is not required, no accounting changes are necessary.
- ISSUE 18: Based on the decisions in this docket, should dismantlement rates be revised and, if so, when and how should they be implemented?
- FPL: The focus of this docket should be to explore the issues of dismantlement and to change any accounting policies that are necessary as a result of the Commission's findings. Changes in accounting treatment that affect the level of accruals should be implemented when the Company's base rates are net set. (Davis)
- FPC: Dismantlement rates should be revised concurrent with the next depreciation study and implemented in accordance with current rules. If significant dollar adjustments are required as a result of decisions in this docket, new accrual amounts should not be implemented until the Company has a change in rates. (Scardino)
- TECO: Based on the decisions in this docket, changes in accruals for dismantlement should be addressed in the company's next depreciation study to be filed by June 15, 1991. Dismantlement costs represent only one of many elements in a depreciation study, including the review of lives, interim salvage, reserve adequacy tests, to name a few elements. Changes in depreciation accruals should reflect a review of all aspects of depreciation to assure the most appropriate capital recovery. Implementation of the booking and recovery of significant expenses should be addressed at the time of the company's next rate proceeding. (Lefler)

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GULF: Dismantlement rates should be reviewed and adjusted as necessary every four years, as part of Gulf's periodic review of depreciation expense. (Pugh)

STAFF: For FPC, implementation should be made effective with the Order in this proceeding. For FPL, implementation should be effective January 1, 1991 with new prescribed depreciation rates currently under review in Docket No. 910081-EI. For Gulf and TECO, implementation should be made effective January 1, 1992 with their proposed implementation of revised depreciation rates.

ISSUE 19: How often should the Commission review dismantlement studies for each unit of each fossil-fueled steam generating station, including those units presently in operational status, those units in extended cold stand-by status and those units that have been removed from the ratemaking structure but which will require ultimate dismantlement? (Stipulated)

FPL: The Commission should review the dismantlement studies for each fossil unit every four years, regardless of its status, until the unit is dismantled. Moreover, dismantlement studies for all fossil units should be reviewed at the same time and not necessarily in conjunction with the applicable depreciation studies. (Gower, Davis)

FPC: Revised cost estimates should be filed concurrent with an application for a change in rates or at least every four years if an application for a change in rates has not been filed. Site specific dismantlement engineering analysis should be filed no more often than once every ten years unless significant changes are known to have occurred. (Gower, Scardino)

TECO: Every four years as part of a depreciation study. (Lefler)

GULF: The Commission should review dismantlement cost estimates periodically perhaps every four years, at the time of Gulf's depreciation study. It is not necessary to re-engineer the specific studies at each update, but only

when changes have occurred in the interim that warrant re-engineering. The depreciation study process entails revisiting previous dismantlement cost estimates and assumptions. (Gower, Williamson, Pugh)

STAFF: At least once every four years in connection with each company's depreciation study.

ISSUE 20: When should the dismantlement reserve be used?

FPL: The accumulated reserve for fossil dismantlement costs should only be charged for costs incurred for the dismantling activities after the time of shutdown ending the life of the fossil unit. (Gower, Davis)

FPC: The dismantlement reserve should be used after the power station stops operations and the assets of the power station have been removed from Electric Plant in Service. (Gower, Scardino)

TECO: The dismantlement reserve, whether funded or non-funded, should be used for the final removal of any plant site or portion thereof. It should not be used for any other purpose. (Gower, Lefler)

GULF: The dismantlement reserve should be used when the plant is removed from service and dismantled. Interim retirements should not be charged to the dismantlement reserve, as they are not considered in the development of the annual accrual for dismantlement expense. (Gower, Pugh)

STAFF: The concept of dismantlement relates to the ultimate demolition/removal from service of the generating unit. (See Issue 1) This will occur at a point in time that is dependent on a number of factors, including major overhauls that will extend the expected life of the unit. The dismantlement reserve under discussion is primarily intended to cover the costs of physical demolition/removal of the unit, offset by any attendant salvage from the removed assets. Any action which extends the life, and therefore, the point of expected ultimate removal from service, of the unit should also draw from the dismantlement fund for its "net salvage" costs only. The fund should not be used to cover the addition of any new assets.

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STIPULATED ISSUES

Known stipulated issues are identified in the issue.

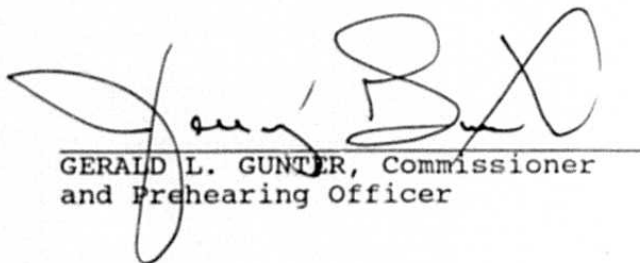
MOTIONS

There are no motions pending at this time.

Based on the foregoing, it is

ORDERED by the Florida Public Service Commission that these proceedings shall be governed by this order unless modified by the Commission.

By ORDER of Commissioner Gerald L. Gunter, as Prehearing Officer, this 29th day of MARCH, 1991.



GERALD L. GUNTER, Commissioner  
and Prehearing Officer

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