

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

In Re: Petition for approval of) DOCKET NO. 950270-EI
accounting treatment for funds) ORDER NO. PSC-95-1230-FOF-EI
expended on Lake Tarpon-Kathleen) ISSUED: October 3, 1995
transmission line by Florida)
Power Corporation.)
_____)

The following Commissioners participated in the disposition of this matter:

SUSAN F. CLARK, Chairman
J. TERRY DEASON
JOE GARCIA
JULIA L. JOHNSON
DIANE K. KIESLING

NOTICE OF PROPOSED AGENCY ACTION
ORDER APPROVING ACCOUNTING TREATMENT
FOR FUNDS EXPENDED ON LAKE TARPON-KATHLEEN
TRANSMISSION LINE

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.

CASE BACKGROUND

In 1984, Florida Power Corporation (FPC) petitioned the Commission for a determination of need for a proposed 500 kV transmission line from its Lake Tarpon substation to its Kathleen substation (LTK). This project originated in order to correct a potential weakness in FPC's transmission system south of the Crystal River Energy Complex. The Commission subsequently issued Order No. 13676 that determined the need for the LTK 500 kV transmission line. At that time, the estimated cost for the project was \$30.5 million and was to be in service by December, 1987.

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FPSC-RECORDS/REPORTING

During the process of certifying the corridor for the LTK line, FPC experienced increased costs and delays in its completion of the project. These increased costs and delays were due to various legal challenges concerning the appropriateness of the corridor for the transmission line.

The current estimate to complete the LTK transmission line is over \$85 million. FPC argues that the LTK transmission line project is no longer viable because there are less costly alternatives that will avoid forced blackouts. Due to the increased cost estimates, the project was indefinitely deferred in October 1994.

FPC maintains that it can replace the LTK transmission line and continue system reliability with an alternative plan. This plan includes a fast automatic load shedding system (FALS), reactivation of the 115 kV Higgins-Griffin transmission line, and dispatching generating units out of strict economic order.

In its petition, FPC requested approval to defer approximately \$23 million in costs associated with the cancellation of its LTK 500 kV transmission line project and to amortize the deferred amount over a four year period.

DECISION

We find that FPC's decision to defer construction of the LTK transmission line was reasonable given FPC's expected costs and reasonable alternative plans.

FPC stated that the \$23 million deferral is subject to escalation by an unspecified amount, and represents approximately 94 basis points on a regulatory return on equity (ROE). FPC will amortize the \$23 million over a four year period. FPC, however, will have the flexibility to record additional amortization of the deferred costs above the one fourth annual amount. The four year amortization period is reasonable given its annual effect on ROE of approximately 24 basis points. As of May 1995, FPC's reported achieved ROE is 12.22%. Per the Forecasted Earnings Surveillance Report submitted for 1995, the projected ROE for 1995 is 12.20%. It appears that FPC's 1995 earnings will be sufficient to absorb the entire \$23 million in costs and still allow FPC to earn within its authorized ROE range of 11.00% to 13.00%.

FPC indicated that additional costs may be incurred before the litigation concerning the LTK transmission line is concluded. FPC will submit a detailed report regarding the additional cost with

its December 1995 Earnings Surveillance Report. We will review these additional costs and determine whether they should be amortized over the remainder of the four-year period.

FPC also proposed that its annual amortization expense be limited to the annual 11% ROE. The amount of the annual amortization expense would be reduced to maintain a minimum annual achieved ROE of 11%. Any unamortized balance remaining after four years would be amortized over the next 12 month period. Due to the relatively minor impact on FPC's annual earnings resulting from a four year amortization period, we do not agree that an 11% ROE limitation is necessary. Setting an ROE limitation on the annual amortization expense implies that the amortization is the sole cause of any earnings below the minimum threshold.

In addition, FPC requested that the amortization expense and the unrecovered balance of the deferred costs be included in cost of service for earnings surveillance purposes. Since the cancellation of the LTK transmission line project appears to be reasonable, it is appropriate to include the costs in rate base and net operating income for all regulatory purposes, including the Earnings Surveillance Report.

FPC requested that the amortization of the costs associated with the LTK transmission line be written off the first month after the issuance of the Commission's order approving the proposed accounting treatment. FPC stated that the decision to indefinitely defer the LTK project was made in October 1994. We believe that the commencement of the amortization period should closely follow the timing of FPC's decision to cancel the project. The amortization period shall, therefore, begin January 1, 1995.

Based on the foregoing, it is, therefore,

ORDERED by the Florida Public Service Commission that Florida Power Corporation may defer approximately \$23 million of costs associated with the cancelled Lake Tarpon-Kathleen 500 kV transmission line project. It is further

ORDERED that Florida Power Corporation may amortize the \$23 million over a four year period or less. It is further

ORDERED that Florida Power Corporation's request for an 11% Return On Equity limitation on the annual amount of the amortization expense is not approved. It is further

ORDERED that the unamortized balance and the amortization expense of the deferred Lake Tarpon-Kathleen transmission line

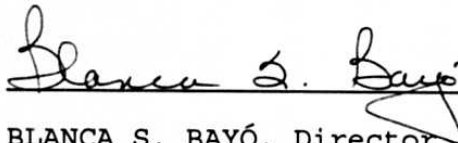
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cancellation cost will be included in rate base and net operating income for all regulatory purposes. It is further

ORDERED that Florida Power Corporation will begin the amortization of the deferred Lake Tarpon-Kathleen transmission line cancellation costs on January 1, 1995. It is further

ORDERED that this Order shall become final and effective and this docket shall be closed unless an appropriate petition for formal proceedings is received by the Division of Records and Reporting, 2540 Shumard Oak Boulevard, Tallahassee, Florida 32399-0850, by the close of business on the date indicated in the Notice of Further Proceedings or Judicial Review.

By ORDER of the Florida Public Service Commission, this 3rd day of October, 1995.



BLANCA S. BAYÓ, Director
Division of Records and Reporting

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NOTICE OF FURTHER PROCEEDINGS OR JUDICIAL REVIEW

The Florida Public Service Commission is required by Section 120.59(4), Florida Statutes, to notify parties of any administrative hearing or judicial review of Commission orders that is available under Sections 120.57 or 120.68, 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 or judicial review will be granted or result in the relief sought.

The action proposed herein is preliminary in nature and will not become effective or final, except as provided by Rule 25-22.029, Florida Administrative Code. Any person whose

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substantial interests are affected by the action proposed by this order may file a petition for a formal proceeding, as provided by Rule 25-22.029(4), Florida Administrative Code, in the form provided by Rule 25-22.036(7)(a) and (f), Florida Administrative Code. This petition must be received by the Director, Division of Records and Reporting, 2540 Shumard Oak Boulevard, Tallahassee, Florida 32399-0850, by the close of business on October 24, 1995.

In the absence of such a petition, this order shall become effective on the day subsequent to the above date as provided by Rule 25-22.029(6), Florida Administrative Code.

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

If this order becomes final and effective on the date described above, any party substantially affected may request judicial review by the Florida Supreme Court in the case of an electric, gas or telephone utility or by the First District Court of Appeal in the case of a water or wastewater utility by filing a notice of appeal with the Director, Division of Records and Reporting and filing a copy of the notice of appeal and the filing fee with the appropriate court. This filing must be completed within thirty (30) days of the effective date of this order, pursuant to Rule 9.110, Florida Rules of Appellate Procedure. The notice of appeal must be in the form specified in Rule 9.900(a), Florida Rules of Appellate Procedure.