

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-04-1224-PCO-EI
ISSUED: December 10, 2004

The following Commissioners participated in the disposition of this matter:

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

ORDER GRANTING PRELIMINARY APPROVAL TO
IMPLEMENT DEPRECIATION RATES

BY THE COMMISSION:

Introduction

Rule 25-6.0436, Florida Administrative Code, requires investor-owned utilities to file comprehensive depreciation studies at least once every four years. We authorized the approval of new depreciation rates for Tampa Electric Company (TECO or company) effective January 1, 2004, by Order No. PSC-04-0815-PAA-EI, in Docket No. 030409-EI, issued August 20, 2004. That order approved a new recovery schedule for Big Bend Combustion Turbine Units 2 and 3 to begin January 1, 2003 and end December 31, 2004, matching recovery of the remaining net investment to the remaining service period of the investment. On September 24, 2004, Tampa Electric Company 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. The request is based upon the refurbishment of the Big Bend Combustion Turbines units necessitated by the lack of response to TECO's Request for Proposals (RFP) for purchased power, as well as the completion of account subcategorization for Polk Units 2 and 3. We have jurisdiction over these matters pursuant to Sections 366.04, 366.05, and 366.06, Florida Statutes.

Decision

We approve implementation of TECO's proposed depreciation rates, provision for dismantlement, and account subcategorization for Big Bend Combustion Turbine Units 2 and 3, and Polk Units 2 and 3 on a preliminary basis, pending our full review of the proposed rates. The additional \$4.1 million of plant investment to refurbish Big Bend Combustion Turbines 2 and 3 will permit the continued use of these units for approximately 10 years, and the depreciation rates, recovery schedules, and provision for dismantlement should be adjusted to reflect the units' life expectancy. In addition, property records are now complete for Polk Units 2 and 3 to allow plant account specific depreciation rates, per Rule 25-6.0436(5)(c), Florida

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resolves the problem Tampa Electric would face if the 2-year recovery schedule proceeded to its December 31, 2004, end date and it became necessary for the company to absorb the additional \$4.1 million refurbishment expense for the Big Bend CT units. In any case, expenses will be true-up upon final Commission action in this docket.

The proposed changes in depreciation rates, dismantling accruals and recovery schedules, the implementation date of which we preliminarily approve as January 1, 2004, indicate the following functional changes in annual depreciation.

Functional Change in Annual Depreciation	
Production Plant	(\$746,186) (See Attachment B)
Dismantling	(1,637) (See Attachment C)
Total Depreciation and Dismantling Cost	(\$747,823)

Rule 25-6.0436, Florida Administrative Code, requires that submitted plant and reserve balances, or company planning involving estimates, match the effective date of the proposed rates. The Commission approved recovery schedule for the combustion turbines reflects the recovery of the company's investment prior to the change in planning because of the lack of response to its purchased power RFP. To comply with Rule 25-6.0436, Tampa Electric's petition addresses the unusual plant activity occurring at Big Bend CTs 2 and 3. This activity requires a recalculation of the depreciation rate components and remaining life of the surviving investments. This will ensure that Tampa Electric's Ten Year Site Plan and the company's books and records accurately reflect operating conditions and generation planning.

Conclusion

For the reasons explained above, we approve TECO's revised depreciation rates, recovery schedules, dismantlement provision, and account subcategorization, beginning January 1, 2004, on a preliminary basis. Our final decision in this docket will provide for a true-up of expenses, and will be issued as Proposed Agency Action, thereby affording a point of entry for substantially affected persons into the process.

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 granted on a preliminary basis, with a preliminary effective date of January 1, 2004, as set forth in the body of this Order, pending full Commission review. It is further

ORDERED that Attachments A - C to this order are incorporated herein. It is further

ORDERED that this docket shall remain open.

Administrative Code. Our preliminary approval of TECO's proposal will decrease expenses, as shown on Attachments B and C to this Order, by an estimated \$748,000 for 2004. The resulting expenses should be trued-up when we take final action in this docket, which we expect to occur in January 2005.

During the fall of 2003, TECO issued a Request for Proposals to procure peaking capacity beginning in the fall of 2005. By the summer of 2004, TECO recognized that a reliable and economical source of power was not available to meet its capacity need. As shown in TECO's Ten-Year Site Plan, Big Bend Combustion Turbine (CT) 2 is currently in long-term shutdown status, and the output of Big Bend CT 3 was reduced to a summer capacity of 60 MW (70 MW winter). Initially, these two units were to be returned to service by May 1, 2006. When TECO realized that its RFP process would not provide sufficient capacity resources to meet its need, TECO determined that the most cost-effective and timely alternative was to accelerate planned refurbishment of the Big Bend CT units. Work began on July 19, 2004 and October 5, 2004, on Big Bend CT Units 2 and 3, respectively. TECO is replacing damaged turbine blades, restoring the units to original design, and completing other refurbishment activities. Work is scheduled to be completed on November 11, 2004 and December 23, 2004, for Units 2 and 3, respectively. The proposed total cost for the work is \$4.1 million, of which \$2.1 million is for Big Bend CT Unit 2 and \$2.0 million is for Big Bend CT Unit 3. Big Bend CT Unit 2 will be restored to its original summer capacity of 66 MW (80 MW winter), while Big Bend Big Bend CT Unit 3 will be restored to its original summer capacity of 70 MW (76 MW winter). The additional plant investment and refurbishment activities require revised life analysis and depreciation rates for Big Bend CT Units 2 and 3.

Also, Rule 25-6.04361(5)(c), Florida Administrative Code, requires that Accounts 341 through 346 be maintained, at a minimum, on a plant site basis, but stratification within the accounts for use in determining depreciation rates must be established in accord with the potential life patterns and usage by the specific company. In its 2003 comprehensive depreciation study, the company provided the life analysis of Polk Units 2 and 3 at the site level pending completion of its property records and subcategorizations of the individual units.¹ Polk Unit 2 was placed in service in July 2000, and expenditures were complete in July 2001. Polk Unit 3 was placed in service in April 2002, and expenditures were completed in February 2003. The property records and subcategorizations for the units were completed in July 2004. The 2003 comprehensive depreciation study final order was issued in August 2004. Preliminary implementation of proposed depreciation rates provides the necessary stratification of the assets into various categories expected to live in different patterns, which includes recalculation of salvage values, remaining life, and retirement.

Preliminary implementation does not mean that upon completion of the review of the company's petition we will completely agree with the company's life, reserve, and salvage proposals. It only means that preliminary implementation of the rates and dismantlement provisions shown on Attachments A and C is likely to result in more appropriate expenses than retention of the currently effective depreciation rates and dismantlement accruals. Also, it

¹ as authorized by Order No. PSC-00-0603-PAA-EI, issued March 29, 2000, in Docket No. 990529-EI, In Re: Petition for 1999 depreciation study by Tampa Electric Company.

By ORDER of the Florida Public Service Commission this 10th day of December, 2004.

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

By: Marcia Sharma
Marcia Sharma, Assistant Director
Division of the Commission Clerk
and Administrative Services

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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 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.

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.

Any party adversely affected by this order, which is preliminary, procedural or intermediate in nature, may request: (1) reconsideration within 10 days pursuant to Rule 25-22.0376, Florida Administrative Code; or (2) judicial review by the Florida Supreme Court, in the case of an electric, gas or telephone utility, or the First District Court of Appeal, in the case of a water or wastewater utility. A motion for reconsideration shall be filed with the Director, Division of the Commission Clerk and Administrative Services, in the form prescribed by Rule 25-22.060, Florida Administrative Code. Judicial review of a preliminary, procedural or intermediate ruling or order is available if review of the final action will not provide an adequate remedy. Such review may be requested from the appropriate court, as described above, pursuant to Rule 9.100, Florida Rules of Appellate Procedure.

ATTACHMENT A

TAMPA ELECTRIC COMPANY
2004 DEPRECIATION RATE CHANGE
BIG BEND CTs 2 & 3 and POLK UNITS 2 & 3

COMMISSION APPROVED
PRELIMINARY IMPLEMENTATION

ACCOUNT	AVERAGE REMAINING LIFE	NET SALVAGE	01/01/04 RESERVE	REMAINING LIFE RATE
OTHER PRODUCTION	(YRS)	(%)	(%)	(%)
BIG BEND STATION				
341420 Combustion Turbine No 2 & 3	9.3	0	98.81	0.1
342420 Combustion Turbine No. 2 & 3	8.7	(1)	69.66	3.6
344420 Combustion Turbine No. 2 & 3	8.8	(3)	75.21	3.2
345420 Combustion Turbine No. 2 & 3	8.1	(3)	97.24	0.7
346420 Combustion Turbine No. 2 & 3	10.2	0	100.0	0.0
			0	
POLK POWER STATION				
341820 Unit No. 2	34.0	(1)	9.20	2.7
342820 Unit No. 2	31.0	(3)	10.29	3.0
343820 Unit No. 2	17.4	(10)	17.85	5.3
345820 Unit No. 2	32.0	(2)	9.94	2.9
346820 Unit No. 2	33.0	(2)	9.59	2.8
341830 Unit No. 3	38.0	(1)	4.47	2.5
342830 Unit NO. 3	33.0	(3)	5.16	3.0
343830 Unit No. 3	19.8	(10)	8.92	5.1
345830 Unit No. 3	32.0	(3)	5.38	3.1
346830 Unit No. 3	36.0	(2)	4.81	2.7

ATTACHMENT B

TAMPA ELECTRIC COMPANY
2004 DEPRECIATION RATE CHANGE
BIG BEND CTs 2 & 3 and POLK UNITS 2 & 3

ACCOUNT	01/01/04 INVESTMENT	01/01/04 RESERVE	COMMISSION APPROVED PRELIMINARY IMPLEMENTATION			
			RATE	EXPENSES	CHANGE IN EXPENSES	
	(\$)	(\$)	(%)	(\$)	(\$)	
BIG BEND STATION						
341420	Combustion Turbine No 2 & 3	1,611,601	1,592,347	0.1	1,612	(17,642)
342420	Combustion Turbine No. 2 & 3	1,814,488	1,263,928	3.6	65,322	(485,238)
344420	Combustion Turbine No. 2 & 3	20,499,383	15,417,991	3.2	655,980	(325,412)
345420	Combustion Turbine No. 2 & 3	2,584,914	2,513,610	0.7	18,094	(53,029)
346420	Combustion Turbine No. 2 & 3	27,718	27,718	0	0	0
	Total BB CT 2 & 3	26,538,104	20,815,594		741,008	(881,502)
POLK POWER STATION						
341820	Unit No. 2	2,088,136	192,147	2.7	56,380	(29,234)
342820	Unit No. 2	986,713	101,507	3.0	29,601	(10,854)
343820	Unit No. 2	28,983,894	5,172,806	5.3	1,536,146	347,806
345820	Unit No. 2	16,535,362	1,643,947	2.9	479,525	(198,425)
346820	Unit No. 2	173,210	16,605	2.8	4,850	(2,252)
	Total Polk 2	48,767,314	7,127,013		2,106,502	107,041
341830	Unit No. 3	10,337,092	461,678	2.5	258,427	(165,394)
342830	Unit NO. 3	1,162,800	60,003	3.0	34,884	(12,791)
343830	Unit No. 3	30,316,638	2,702,987	5.1	1,546,149	303,167
345830	Unit No. 3	9,064,703	487,717	3.1	281,006	(90,647)
346830	Unit No. 3	432,910	20,805	2.7	11,689	(6,060)
	Total Polk 3	51,314,142	3,733,189		2,132,155	28,275
	Total BB CT 2 & 3 and Polk 2 & 3	126,619,560	31,675,796		4,979,665	(746,186)

ATTACHMENT C

TAMPA ELECTRIC COMPANY
2004 REVISED DISMANTLING ACCRUAL

COMMISSION APPROVED
PRELIMINARY IMPLEMENTATION
01/01/2004

Big Bend Common	396,163
Big Bend Unit 1	247,815
Big Bend Unit 2	391,667
Big Bend Unit 3	444,968
Big Bend Unit 4	299,958
Big Bend FGD Systems	387,538
Surviving Turbine Assets	
Gannon Common	71,854
Gannon Unit 3	25,844
Gannon Unit 4	40,723
Gannon Unit 5	172,992
Gannon Unit 6	97,196
Bayside Common	
Bayside Unit 1	199,295
Bayside Unit 2	273,648
Big Bend CT 1,2&3	
Phillips Station	8,486
Phillips Station	
Phillips Station	74,865
Polk Common & Gasifier	
Polk Unit 1	532,151
Polk Unit 2	62,584
Polk Unit 3	9,881
Polk Unit 3	10,721
City of Tampa	20,666
Total	<u>3,872,935</u>