**FLORIDA PUBLIC SERVICE COMMISSION**

 **Fletcher Building**

 **101 East Gaines Street**

 **Tallahassee, Florida 32399‑0850**

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

 **November 12, 1992**

**TO: DIRECTOR OF RECORDS AND REPORTING**

**FROM: DIVISION OF AUDITING AND FINANCIAL ANALYSIS (LEE, BRAND, HICKS, NEIL)**

 **DIVISION OF ELECTRIC AND GAS (TAYLOR)**

 **DIVISION OF LEGAL SERVICES (BROWN)**

**RE: DOCKET NO. 920389‑EI ‑ FLORIDA POWER & LIGHT COMPANY ‑ DEPRECIATION AND DECOMMISSIONING STUDY FOR SCHERER UNIT 4**

**AGENDA: NOVEMBER 24, 1992**

**CRITICAL DATES: NONE**

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**ISSUE 1:** Should Florida Power and Light Company (FPL or Company) be prescribed depreciation rates and provision for decommissioning for use at Scherer Unit 4 production station and related common facilities at this time?

**RECOMMENDATION:** Yes. The Company began the purchase of this station from Georgia Power Company in July 1991. The purchase is to be made in four installments, to be completed June, 1995. The filing under discussion is for depreciation rates and provision for decommissioning for use at this new (to FPL) station. (LEE)

**STAFF ANALYSIS:** The acquisition of a station for which this Commission has not previously ordered depreciation rates and provision for decommissioning calls for a request for prescribing such rates. This petition is such a request. It is appropriate that provision be made for depreciation of the assets belonging to the Florida‑based Company.

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**ISSUE 2:** What should be the implementation date for any new depreciation rates?

**RECOMMENDATION:** July 11, 1991. (LEE)

**STAFF ANALYSIS:** This is the date of the first installment of the purchase of FPL's interest in this Unit and its related facilities. The Company has requested implementation as of this date, and it is proper that depreciation rates should be applied as of the time the unit came into service for FPL.

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**ISSUE 3:** Should there be any reserve reallocations or transfers?

**RECOMMENDATION:** Yes. The Company has appropriately allocated the overall reserve among the components as shown on Attachment 1, page 7. (LEE)

**STAFF ANALYSIS:** The Company allocation was made using a theoretical reserve approach and staff is in agreement.

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**ISSUE 4:** What depreciation rates should be prescribed for Scherer Unit 4 and associated common facilities?

**RECOMMENDATION:** The Company‑proposed (which are also the Staff recommended) rates are shown on Attachment 3, page 9. While these rates are considered appropriate for 1991 and 1992, FPL should address the status of this plant site as part of its 1992 study required by the Commission's decision in Docket Nos. 900794-EI, 901001-EI, and 910081-EI. (LEE)

**STAFF ANALYSIS:** While Staff has some mechanical differences with the Company's calculations, the rates proposed by the Company are acceptable for this particular situation. We have a case where investment and reserve will be transferred from the books of Georgia Power (seller) to FPL over the period 7‑11‑91 through June 1, 1995. The rates will be applied to a pattern of increasing investments, and rates generally appropriate for the period of acquisition are more practicable than rates designed to conform to the shifting plant and reserve balances.

 Expenses will increase with the purchase installments in 1993, 1994 and 1995, due to the increasing investments. The annual expenses relating to the investment associated with the initial installment are $4.8 million. The Company's estimate of annual expenses at the June 1995 conclusion of the purchase, and using these same rates, is approximately $20.8 million.

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**ISSUE 5:** What provision for dismantlement should be prescribed for Scherer Unit 4?

**RECOMMENDATION:** The Staff recommended provision is $680,935 annually, as shown on Attachment 2, page 8. (NEIL)

**STAFF ANALYSIS:** Staff proposed three changes to the fossil fuel dismantlement study as originally filed by Florida Power and Light:

 First, the inflation indices should be referenced from the most current edition of the DRI Long‑Range Focus available. The Company, in its Response to the Staff Report, agrees with staff.

 Second, it was determined in FPC's rate case (Docket No. 910890‑EI) that the Metals and Metal Products index was more appropriate than the Intermediate Materials, Supplies and Components index for estimating salvage value. To be consistent, staff recommends using the former index to measure salvage value in Plant Scherer's dismantlement study. The Company again agrees with staff in FPL's Response to the Staff's Report.

 The Company does not agree with staff's third adjustment. Staff recommends using a 20% contingency factor in the dismantlement study rather than a 25% factor, as proposed by FPL, to be consistent with what was ordered in Docket No. 910890‑EI. While FPL explains in the Response to the Staff's Report that it does not know how FPC's contingency factor was developed, it states that FPL's 25% factor is not simply a contingency factor. The 25% factor is made up of 10% for uncertainty inherent in any estimate, 5% for such items as site gradings, mulching and seeding, and 10% for overhead items such as project management, site security, and FPL support labor. Although FPL's contingency factor may be made up of different components than FPC's factor, staff does not have enough evidence to compare and contrast the two contingencies. Staff therefore recommends reducing the factor to 20% so that the companies and ratepayers in Florida can be treated in a more consistent manner.

 Given the changes recommended by staff, the appropriate annual accrual for Plant Scherer Unit 4 based on inception in July 1991 is $340,468 for 1991 and $680,935 for 1992. The two year average annual accrual of $680,935 will be reviewed and readdressed in the updated depreciation study FPL is required to submit in 1993.

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**ISSUE 6:** Should this docket be closed?

**RECOMMENDATION:** Yes, assuming no objections to the Proposed Agency Action Order are filed within 21 days of that Order. (LEE)

**STAFF ANALYSIS:** In staff's opinion, no further action in this docket is required if no objections to the PAA Order are filed.

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DOCKET NO. 920389‑EI Attachment 1

NOVEMBER 12, 1992

 **FLORIDA POWER AND LIGHT CO.**

 **SCHERER UNIT 4**

 **DEPRECIATION RESERVE AS OF 7‑11‑91**

 **RECOMMENDED**

 **(COMPANY ALLOCATION)**

**ACCOUNT RESERVE**

 $

Site Common:

 311 Structures 803,630

 312 Boiler Plt.Eq. 758,286

 314 Turbogen. 110,494

 315 Access.Plt.Eq. 35,029

 316 Misc.Pwr.Plt. 754,449

Units 3 & 4 Common:

 311 Structures 68,197

 312 Boiler Plt.Eq. 400,146

 314 Turbogen. 10,117

 315 Access.Plt.Eq. 7,892

 316 Misc.Pwr.Plt. # 0

Unit 4:

 311 Structures 832,775

 312 Boiler Plt.Eq. 4,409,285

 314 Turbogen. 1,978,633

 315 Access.Plt.Eq. 391,746

 316 Misc.Pwr.Plt. 96,134

 # No assets.

Docket No. 920389‑EI Attachment 2

November 24, 1992

 FLORIDA POWER AND LIGHT

 Computation of Annual Accrual

 Plant...................................... Scherer

 Year of last Study......................... 1991

 Capital Recovery Year...................... 2029

 Cost @ Study............................... 11,082,708

 Future $ 1st Yr Exp........................ 23,174,261

 Future $ 2nd Yr Exp........................ 57,226,221

 Amount To Accrue........................... 80,400,482

 PV of Amount to Accrue..................... 11,082,708

 Capital Recovery Years..................... 39.0

 Compounded Inflation....................... 5.21%

 Ending Bal of Reserve...................... (0)

 Accum Reserve 12/31/90..................... 0

 1991 663,709

 1992 698,160

 TOTAL 1991 ‑ 1992 1,361,869

 2 YEAR AVERAGE

 ANNUAL ACCRUAL 680,935

DOCKET NO. 920389‑EI Attachment 3

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 **FLORIDA POWER AND LIGHT CO.**

 **SCHERER UNIT 4**

 **DEPRECIATION RATES AS OF 7‑11‑91**

 RECOMMENDED

 REM. NET DEPR.

ACCOUNT LIFE SALV. RES. RATE

 yr.s % % %

Site Common:

 311 Structures 34.0 (5) 10.7 2.8

 312 Boiler Plt.Eq. 31.0 (20) 13.0 3.5

 314 Turbogen. 27.0 (4) 11.4 3.4

 315 Access.Plt.Eq. 27.0 (3) 11.9 3.4

 316 Misc.Pwr.Plt. 8.0 (1) 25.6 9.4

Units 3 & 4 Common:

 311 Structures 27.0 (5) 11.0 3.5

 312 Boiler Plt.Eq. 35.0 (20) 10.4 3.1

 314 Turbogen. 26.0 (4) 11.7 3.6

 315 Access.Plt.Eq. 25.0 (3) 12.1 3.6

 316 Misc.Pwr.Plt. # 0.0 (0) 0 0.0

Unit 4:

 311 Structures 33.0 (5) 5.5 3.0

 312 Boiler Plt.Eq. 29.0 (20) 6.9 3.9

 314 Turbogen. 27.0 (4) 7.0 3.6

 315 Access.Plt.Eq. 25.0 (3) 7.1 3.8

 316 Misc.Pwr.Plt. 17.8 (1) 9.4 5.1

 # No assets.