

BRICKFIELD
BURCHETTE
RITTS, PC

ORIGINAL

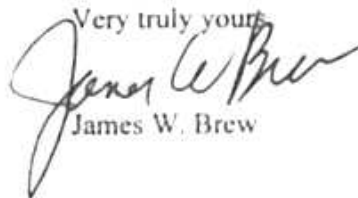
November 7, 1997

Ms. Blanca S. Bayo, Director
Division of Records and Reporting
Florida Public Service Commission
4075 Esplanade Way, Room 110
Tallahassee, FL 32399

Re: Docket No. 970410-EI

Dear Ms. Bayo:

Enclosed please find an original and 15 copies of AmeriSteel's Prehearing Statement pursuant to the Order Establishing Procedure in this docket. Enclosed is a diskette containing the Prehearing Statement in WordPerfect format. A copy of AmeriSteel's Prehearing Statement also has been provided to Staff counsel on diskette in WordPerfect format. The Prehearing Statements of the parties are being filed on November 10 pursuant to an agreement reached among the active parties and approved by the Prehearing Officer.

Very truly yours,

James W. Brew

Enclosures

ACK _____ cc: All parties of record

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FPSC/RR DIVISION OF RECORDS AND REPORTING

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

IN RE: Proposal to Extend Plan) Docket No. 970410-EI
For Recording of Certain) Filed: November 10, 1997
Expenses for Years 1998 and 1999)
for Florida Power & Light Company)

ORIGINAL

AMERISTEEL CORPORATION'S
PREHEARING STATEMENT

Pursuant to Order No. PSC-95-1395-PCO-EI, issued August 28, 1997, establishing the procedures in this docket, AmeriSteel Corporation ("AmeriSteel") hereby submits its Prehearing Statement.

APPEARANCES

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A. WITNESSES

WITNESS

SUBJECT MATTER

Mark A. Cicchetti (Direct) Describes why an extension of the Plan authorizing FPL to take as added expenses the Company's growth in revenues above its 1996 base rate revenue forecast is unreasonable and contrary to public interest; why the Plan produces severe intergenerational equity; why the deviations from the Commission's normal accounting practice for ratemaking purposes are not justified; and why, absent an extension of the Plan, FPL will experience substantial excess earnings which the Commission should investigate.

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FPSC-RECORDS/REPORTING

WITNESS

SUBJECT MATTER

Mark A. Cicchetti
(Rebuttal)

Rebuts testimony of FPL witness H.A. Gower by describing how the proposed Plan exacerbates intergenerational equity concerns; why there is no basis for approving an extension of the Plan to correct prior under-recoveries of depreciation; why accelerated recovery of regulatory assets is not justified; and why one-time recovery of a perceived deficiency of nuclear decommissioning accruals and fossil dismantlement costs is not justified and not in the public interest.

Rebuts Mr. Gower's claim that the accelerated recovery proposed in the Plan is comparable to prior Commission actions remedying under-recovery of known and verified costs; and why, contrary to Mr. Gower's claims, the accounting directives contained in the PAA represent a clear departure from the Commission's normal exercise of its rate-making authority.

Thomas DeWard (Rebuttal)

Rebuts Mr. Gower's testimony with respect to the appropriate ratemaking for nuclear decommissioning accruals and with regard to the proper ratemaking and accounting with regard to premiums paid and costs incurred to reacquire and refinance debt.

B. EXHIBITS

<u>EXHIBITS</u>	<u>WITNESS</u>	<u>DESCRIPTION</u>
(MAC-1)	M.A. Cicchetti (Direct)	FPL's 1997 base rate forecast and FPL's listing of accruals to date through July, 1997
(MAC-2)	M.A. Cicchetti (Direct)	FPL write-off activity summary.
(MAC-3)	M.A. Cicchetti (Direct)	FPL charts of the book value of fossil and nuclear units and regulatory assets.
(MAC-4)	M.A. Cicchetti (Direct)	Standard & Poor financial benchmarks for a AA rating.

C. STATEMENT OF BASIC POSITION

During the period 1995-97 pursuant to the Original Plan approved in Docket No. 950359-EI, all of the depreciation related under-recoveries and most of the regulatory assets identified in the original plan have been written off. There is no basis for extending the Plan for the years 1998 and 1999 as proposed in the PAA because there is no identified need to "catch up" on any of the expense items addressed in the Original Plan.

As Staff readily acknowledged in its August recommendation memorandum to the Commission, absent a continuation of the Plan, FPL's revenue growth above the 1996 base rate revenue forecast will place FPL in a significant excess earnings situation. This circumstance is further complicated, again as Staff has observed, by the unusual fact that FPL has not requested the accounting directives proposed in PAA but has simply acquiesced in the Plan extension for 1998 and 1999 it negotiated with Staff. Thus, there is neither a need for the Plan extension nor an offer by the utility to supply a reason for it.

Because there are no remaining under-recoveries of known and verified costs, the modifications to the Plan proposed for 1998 and 1999 turn to accelerated recovery of regulatory assets and correction of perceived deficiencies in the reserves for nuclear decommissioning and fossil dismantlement. Any decommissioning or dismantlement will not actually occur for fifteen years or more from now in most cases. These accelerated recoveries actions fly in the face of established ratemaking practice long observed by the Florida PSC and other regulatory bodies. There is no policy or factual justification for those accelerated write-downs. The Plan extension cannot be justified on the basis of the reasons cited in the PAA or by reference to the expense items identified in attachment A to the PAA.

- a. The Commission has not begun to address competitiveness issues in the electric industry and there is no record support either to explain what is meant by "...establishing a level accounting playing field between FPL and possible non-regulated competition" or to justify the Plan based upon that vaguely described notion.
- b. The proposal to "correct" perceived deficiencies in the reserve for future decommissioning activities is unreasonable. In its 1995 order approving significant changes in FPL's annual accruals, the Commission provided for full recovery of nuclear decommissioning costs over the remaining lives of the units. There is no reasoned basis for a huge one-time charge to add to the decommissioning reserve.

Reduced to its basics, the Plan serves to postpone needed rate reductions for two years. There is no consumer benefit in this in the short term because, as Staff noted in its August recommendation memo to the Commission, absent approval of the Plan, the Commission would need to take other actions (e.g., temporary rates, a reverse make whole proceeding) to safeguard ratepayer interests against excess earnings. Since FPL's financial parameters disclose no need for a rate increase in the foreseeable future, the "long term benefits" claimed by FPL are far too remote and speculative to justify approval of the Plan.

D. STATEMENT OF FACTUAL ISSUES AND POSITIONS

Issues 1-6 were specified in the Order Establishing Procedure

1. Should the Plan be extended for 1998 and 1999 as set forth in Order No. PSC-97-0499-FOF-EI?

No, the magnitude of the added expense authorized by the Plan, up to \$842 million over the two years, far exceeds any prior Commission approval of accelerated recovery. This dramatically illustrates the enormity of the intergenerational inequity of the Plan and the excessive cost burden that would be imposed on FPL ratepayers in 1998 and 1999. That amount also indicates the severity of FPL's excess earnings situation in those years.

The Plan constitutes a change from the prior ratemaking treatment for each of the expense items listed in the PAA that have not been rendered moot by write-offs in preceding years. The existing treatment of these costs follows the Uniform System of Accounts and the Commission's rules and established practice, and appropriately matches the recovery of costs with the benefits provided to consumers over time. The accounting directives in the Plan extension significantly deviate from that accepted practice and have not been justified by FPL and are not justified. The Plan should not be approved because its proponents have failed to demonstrate that it is in the public interest.

Single issue ratemaking is not in the public interest. There is a short term detriment to current ratepayers in the avoidance of an excess earnings review that should lead to rate reductions. The alleged long term cost reduction benefits are remote and speculative because FPL is not likely to seek a base rate increase in the foreseeable future whether the Plan is approved or denied.

- a. There is no reason to extend the Plan because all depreciation related reserve deficiencies have already been corrected.
- b. Accelerated recovery of regulatory assets is inappropriate accounting for ratemaking purposes because it creates intergenerational equity concerns. It is premature to authorize such accelerated recovery for competitive reasons because the Commission has not established rules or policy regarding competition in the electric industry.

- c. One time recovery through the Plan of perceived deficiencies in nuclear decommissioning and fossil dismantlement reserves is inappropriate. Changes in any of the major inputs into decommissioning and fossil dismantlement cost estimates could radically alter, or eliminate altogether, the perceived deficiency claimed in this docket. Because estimation methods and inputs are subject to future revision, particularly as the industry gains more experience in such matters, a one-time write-down of a perceived deficiency at any given time represents an ill-considered regulatory policy. The appropriate approach is the Commission's historic practice: i.e., to adjust annual accruals, if justified by new comprehensive studies, in order to adequately recover future expense over the lives of the generating units.

The current accounting of the expenses addressed in the Plan reflects a fair balancing of ratepayer and investor interests. The proposed Plan unreasonably changes that treatment to a system that benefits investors at the expense of consumers.

There is no reason to accelerate the funding of nuclear decommissioning through a \$484 million added charge under the Plan – in addition to the \$84 million annual accrual authorized in the above noted 1995 order – to correct for lower recovery levels in prior years. (Cicchetti, DeWard)

2. **Should the Commission defer a decision to allow any additional decommissioning or dismantlement expense until there has been a full examination of FPL's nuclear decommissioning and fossil plant dismantlement studies.**

See Statement No. 1, above.

The Commission has provided adequate annual accruals for nuclear decommissioning. In its 1995 Order in Docket No. 94-1350-EI, the Commission established revised annual accruals for nuclear decommissioning designed to provide for full recovery of then estimated decommissioning costs over the remaining lives of FPL's nuclear units.

The expense proposed in the Plan places a hugely disproportionate burden on ratepayers served by FPL in 1998 and 1999. Given the uncertainties regarding decommissioning technologies, estimation methods, and the inherent difficulties of projecting costs many years into the future, the proposed treatment in the Plan is fundamentally flawed and unfair. It also represents inappropriate accounting from a regulatory perspective and is contrary to prior practice. The Commission should defer a decision regarding additional decommissioning and dismantlement

expenses until there has been a full review of the next comprehensive studies.
(Cicchetti, DeWard)

3. **Should the Commission consider whether FPL has reserve depreciation surplus balances for any of its plant accounts to offset depreciation reserve deficiencies?**

Yes. Single issue ratemaking is not in the public interest. Before authorizing additional charges against excess earnings, the Commission should consider offsetting over-collections in prior periods resulting in reserve surpluses and cost reductions in other areas that have not been reflected in base rates. (Cicchetti)

4. **Should FPL be authorized to accelerate the write-off of unamortized loss on reacquired debt?**

No. Accelerated recovery of unamortized premiums and other costs to FPL of reacquiring and refinancing debt is not related to depreciation reserve deficiencies. The accepted ratemaking treatment of these costs is to amortize them over the original life of the retired debt or the life of new debt issued if it is a refinancing. There is no basis for accelerated recovery of such regulatory assets from a traditional ratemaking perspective and the Commission has not articulated a policy or conducted a proceeding to address whether accelerated write-downs are justified based on competitiveness concerns. Recovery of over \$280 million of such unamortized costs over a two year period (1997 and 1998) is unwarranted, unfair to ratepayers, and exacerbates the already serious intergenerational inequity of the Plan. (Cicchetti, DeWard)

5. **Should FPL be authorized to record, in an unspecified depreciation reserve, an expense amount greater than the amounts to correct any depreciation reserve deficiency, write-off the unamortized loss on reacquired debt, correct any fossil dismantlement reserve deficiency, and correct any nuclear decommissioning reserve deficiency?**

No. Because there are no remaining identified depreciation reserve deficiencies, there is no basis for adding additional expense to an unspecified depreciation reserve. To the extent that the Commission authorizes additional expense for known and verified costs, any additional amounts above that level should be refunded to ratepayers rather than charged as an additional unspecified expense. (Cicchetti, DeWard)

6. What is the appropriate revenue forecast to be used to determine the level of additional expenses allocated to this Plan?

Additional expenses should be based on verified costs and a demonstrated need for recovery rather than an authorized "pool" of added expense dollars designed to offset revenue growth. (Cicchetti)

E. Statement of Local Issues and Positions

AmeriSteel has not identified any questions of law at this time.

F. Statement of Policy Issues and Positions

The issues addressed above reflect mixed questions of policy and fact. For convenience they are not restated here.

G. Stipulated Issues

No issues have been stipulated to by the parties.

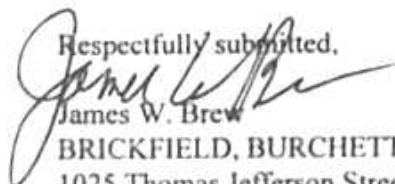
H. Pending Motions

There are no pending motions or other matters in this docket that AmeriSteel seeks action upon at this time.

I. STATEMENT OF COMPLIANCE WITH ORDER ESTABLISHING PROCEDURE

There are no requirements set forth in the Order Establishing procedure with which AmeriSteel cannot comply.

Respectfully submitted,



James W. Brew

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CERTIFICATE OF SERVICE
DOCKET NO. 970410-EI

I HEREBY CERTIFY that a true and correct copy of AmeriSteel Corporation's Prehearing Statement has been furnished via Overnight Mail and U.S. Mail this 7th day of November 1997, to the following:

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