

STATE OF FLORIDA

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**Public Service Commission**

March 19, 1998

Mr. James A. McGee  
Senior Counsel  
Florida Power Corporation  
P.O. Box 14042  
St. Petersburg, FL 33733-4042

Dear Mr. McGee:

RE: Docket No. 971570-EI

We are in the process of reviewing the depreciation study for Florida Power Corporation filed in the above referenced docket. As a result, questions and the need for additional information have arisen and are covered on the attached.

Please provide your written responses by April 24, 1998. Should you any questions, please contact me at 850-413-6453 either myself or Lucy Swain.

Sincerely,

Patricia S. Lee  
USC/Eng. Supervisor

- ACK \_\_\_\_\_
- AFA \_\_\_\_\_
- APP \_\_\_\_\_ Attachment
- CAF \_\_\_\_\_ PSL:Its
- CMU \_\_\_\_\_
- CTR \_\_\_\_\_ cc: John Scardino, Florida Power Corp.
- EAG \_\_\_\_\_ Don Seibert, Florida Power Corp.
- LEG \_\_\_\_\_  Division of Records and Reporting
- LIN \_\_\_\_\_ Division of Electric and Gas
- OPC \_\_\_\_\_ Division of Legal Services
- RCH \_\_\_\_\_ Division of Auditing and Financial Analysis
- SEC \_\_\_\_\_ Office of Public Counsel
- WAS \_\_\_\_\_
- OTH \_\_\_\_\_

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**INITIAL REVIEW  
FLORIDA POWER CORPORATION  
DOCKET NO. 971570-EI**

**GENERAL QUESTION/COMMENT**

1. Multiple dates appear in the filing for the transition from actual to projected data. Page 1 mentions "seven month of actuals for 1996". Page 13 states "The historical data was gathered from our continuing property records through December, 1996". Please explain where actuals for year end 1996, and estimates for year end 1996 were used in your study.
2. The plant investment balances for end of year 1996, shown on pages 24-26 of the study do not match the end of year balances provided on pages 91-318 of the study or the annual status report titled "Summary of Plant Transactions - Accounts 101 and 106" for the period ending December 31, 1996. Is this variance representative of using seven months of actual balances for 1996 as indicated on page 1 of the study?
3. The plant reserve 1996 balances, shown on pages 27-29 of the study, do not match the end of year balances provided on the annual status report titled "Summary of Reserve Transactions - Retail Methodology" for the period ending December 31, 1996. Is this variance representative of using seven months of actual balances for 1996 as indicated on page 1 of the study?
4. In the Boiler Plant Equipment Account 312, in both the Crystal River Steam Plants 1 and 2, on page 93 of the study, and Plants 4 and 5, on page 99 of the study, the plant balances for the years 1993, 1994, and 1996 do not match the annual status report. The depreciation reserve balances, for these same locations, for the years 1993 - 1996 do not match the status report except for 1993 at Plants 1 and 2. The difference in each case appears to be the inclusion of the Initial Coal Pile Amortization. Further, the "Annual Depreciation Reserve Transactions" for these two locations, pages 216 and 223, do not appear to include coal amortization. Please explain the inclusion in the study in some areas and not in others.
5. In the Turbo generator Unit Account 314 for Crystal River Steam Plants 1 and 2, on page 94 of the study, the depreciation reserve balance for 1993 does not match the status report. Please explain the variance.
6. For the Bartow-Anclote Pipeline, a plant balance for the end of year 1996 in the amount of \$16,201,922 is shown on page 115. That balance agrees with the amount shown on the annual status report for 1996. However, the 1996 balance used on page 24 of the study is \$13,525,809. To this amount an addition of

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- \$2,681,113 is shown, bringing the 1997 balance to \$16,206,922. Please explain the apparent discrepancy in these entries.
7. The Turner Peakers plant balance for 1993, page 137 of the study, does not match the annual status report. Please explain the variance.
  8. The Intercession City (New) plant balances for 1995, page 138, does not match the annual status report. Please explain the variance.
  9. The Intercession City, Gas Conversion, page 141 of the study, shows a \$0 plant balance for 1995. The annual status report shows \$2,178,580. The Summary of Reserve Transactions portion of the annual status report shows an amount of \$96,856.17; however, the study identifies Depreciation Reserve as \$0 for 1995. Please explain the variance.
  10. The following accounts show Plant and Reserve balances on the annual status report and pages 26 and 29 of the study, but do not appear to be included in the study data on pages 294-306 or pages 810-832:
    - 391 Office Equipment
    - 393 Stores Equipment
    - 394 Tools, Shop and Garage Equipment
    - 395 Laboratory Equipment
    - 398 Miscellaneous Equipment
  11. The Distribution Energy Conservation Account 370.1, page 189 of the study, shows a depreciation reserve balance of \$1,088,031 for 1993. This does not agree with the annual status report for December 31, 1994; however, page 317 of the study reflects the same reserve balance and transactions as the status report. The December 31, 1995 reserve balance shown on the December 31, 1995 status report does not match the December 31, 1995 reserve balance shown on the December 31, 1996 status report. There appears to be a discrepancy in the 1996 depreciation accruals between the status report and page 317 of the study which then brings the December 31, 1996 reserve balances in agreement. Please explain these differences.

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12. The Summary of Plant Transactions - Accounts 101 and 106 for the following accounts as of December 31, 1995 do not track from the annual status report for December 31, 1995 to the annual status report for December 31, 1996:

| <u>Account</u> | <u>Description</u>    | <u>1995 Report</u> | <u>1996 Report</u> | <u>Difference</u> |
|----------------|-----------------------|--------------------|--------------------|-------------------|
| 391.1          | Office Equipment      | \$ 901,341         | \$ 393,178         | (\$508,171)       |
| 391.3          | Computer Equipment    | 70,874,019         | 71,368,227         | 494,208           |
| 391.5          | Duplicating Equipment | <u>2,422,014</u>   | <u>2,435,977</u>   | <u>13,963</u>     |
|                | Total                 | \$74,197,382       | \$74,197,382       | \$ -0-            |

The study appears to use the December 31, 1995 balances from the December 31, 1996 status report. Please provide the appropriate additions, retirements, transfers, and adjustments supporting these figures.

13. The reserve balance for account 391.1 General Energy Conservation, for 12/31/95 does not track from the December 31, 1995 annual status report to the December 31, 1996 annual status report. The study on page 318 appears to use the December 31, 1995 balance from the 1995 status report and the December 31, 1996 balance from the 1996 status report. The difference appears to be in the 1996 depreciation accruals. Please explain this difference.
14. Your salvage study indicates a breakdown of gross salvage between abnormal salvage and normal salvage. Please provide a discussion of what is meant by abnormal salvage and normal salvage and what type of activities are included in each. Specifically, we would like to know if reuse salvage is considered abnormal or normal salvage and why. Further, how are reimbursements, relocations, reconditioning, and terminal salvage considered?

### STEAM PRODUCTION

15. FPC proposes a recovery schedule for the Suwannee River Steam Production units over four years, beginning January 1, 1998. A scheduled retirement date of December 1998 is shown on page 35 of the study.
- a. Please describe the changes in plans for the Suwannee site, since the last study, that now mandate retirement by year end 1998. In conjunction with this information, when was the last instance when these units were dispatched to supply power to the grid?

- b. Please provide support for the company's conclusion that four years is the appropriate period over which to recover the remaining net investment for these retiring units.
  - c. For any equipment installed at the Suwannee site that is jointly used with other steam producing plants or peaking plants, please provide the associated investment and reserves as of January 1, 1998, by account.
  - d. Does your proposed recovery schedule for the retiring Suwannee site include the retirement of any jointly used equipment?
  - e. Please provide the investment and reserve, by account, for any jointly used equipment not planned for retirement with the Suwannee site. To which sites and accounts will these investments and reserves be transferred?
16. With regard to Higgins and Turner Oil fired Steam Plants, Order No. PSC-94-1331-FOF-EI recognized the recovery schedule addressing the assets not considered viable for reuse during the repowering of Higgins and Turner. The order stated, "If the situation changes and substantially more plant will be retired in connection with repowering or more plant will be reused, the Company shall advise the Commission so appropriate recovery revisions can be made." The annual status report summary of plant transactions - Accounts 101 and 106 for the period ending December 31, 1994 shows transfers and adjustments reducing the plant balance to \$0 for both Higgins and Turner. The annual status report summary of reserve transactions - Retail Methodology for the same period shows a December 31, 1994 balance of \$12,252,175.43 for Higgins and \$8,017,356.56 for Turner. Through December 31, 1995 period the plant balances remain at \$0 while the reserve balances show \$12,200,789.22 for Higgins and \$9,246,462.75 for Turner. For the period ending December 31, 1996 the Higgins plant balance reflects a negative addition leaving it with a plant balance of (\$6,221) while Turner remains at \$0. The reserve balance is brought to \$0 for both locations primarily through retirements. Staff is unable to follow the logic of these transactions. Please explain.
17. As part of the last depreciation represcription, a recovery period of one year, beginning January, 1995, was provided for the Avon Park generating facility, which had been in extended cold storage. The plant was to be completely dismantled by year end, 1995. Please update staff as to the completion of this work, and bring the annual plant and reserve activity forward to December, 1996.

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18. Crystal River 1 and 2, Account 314, page 410, of the study shows a negative addition of \$24,064,751 for 1994. Please explain.
19. The Bartow Anclote Pipeline Account 315, page 438 of the study, shows a plant balance of \$0 for the years 1995 and 1996. This is not in agreement with the annual status report and does not appear to be supported by retirements or transfers and adjustments. Please explain.
20. If any major overhaul or repowering is planned during the next five years (1998-2001), please provide a description of the overhaul or repowering including the work planned to be performed, any retirement units expected to be replaced as a direct result, and in what year(s) each overhaul or repowering is planned to take place. Please provide the January 1, 1998 estimated investment and reserve associated with the equipment currently planned for replacement during each overhaul or repowering.

#### OTHER PRODUCTION

21. Bartow Peakers, page 455 of the study, indicates a negative retirement of \$154,739 for 1994. Please explain.

#### TRANSMISSION:

22. Account 353.2, Energy Control Center:
  - a. On page 510, Volume II, activity for this account is shown for 1980-1996. In fact, the addition made in 1980 marked the beginning of the investment in this account. On page 519, however, the distribution shows survivors from the 1978 and 1979 vintages. How is this possible when the initial placement vintage was 1980?
  - b. About 68% of the account's investment was placed in 1991 with very few retirements occurring in the 1991-1996 period. Recognizing that the 1991 additions represent the new control center installation, please provide a description of the \$8.9 million investment added during the 1992-1996 period.

#### DISTRIBUTION:

23. Account 362, Station Equipment: The narrative for this account states that the company expects to realize 25% to 30% gross salvage from the reuse of retiring station equipment. While the study data indicates that FPC has realized about 40% salvage from reuse in the past, we note that this type of reuse pattern is not

common to other Florida electric companies. In order to gain a better understanding of FPC's salvage practices, please provide a description of what particular equipment is subject to reuse and a discussion of your reuse practices.

24. Account 364, Poles, Towers, and Fixtures:

- a. The account narrative states that the company expects a 20% reuse upon retirement of this equipment. Please provide a discussion of the items subject to reuse.
- b. An average service life of 28 years is being proposed resulting from use of the SPR model. The selection of curves using SPR is based upon the closeness of the match between actual and simulated annual amounts (Index of Variation). The Index of Variation measure is based upon the sum of squared differences between simulated and actual annual amounts. The highest ranked curves are those with the lowest IVS. A low IV indicates that the simulated balances are, on the whole, close to the actual balances. Bauhan stated that the IV should be no more than 20 in order for a life determination to be considered entirely satisfactory. Generally, the Index of Variation of the various SPR runs for this account shows a poor to fair fit. This is indicative that the assumptions of the SPR model are not being met and therefore the model should not be used for this account.

25. Account 365, Overhead Conductors and Devices:

- a. The narrative states that SPR was used to determine the life characteristics for this account and the results lend support to a 25 year to a 32 year average service life. Based on the SPR runs submitted, please explain how FPC arrived at its R1, 27 year life proposal as being the most appropriate.
- b. The SPR run showing the best Index of Variation is the run with 10 test points shown on page 649. As clarification, does this equate to a test band of 1986 to 1996?
- c. In the salvage analysis for this account, staff notes that there has been a substantial increase in removal costs during the period 1994-1996. There has also been a substantial increase in abnormal salvage in 1995 and 1996. What has been the causes for these increases in removal costs and abnormal salvage?
- d. The account narrative states that future reuse is expected to range between 35% to 40% with reimbursements expected to average 20% to 25%. What

specific plant items are subject to being reused once retired and taken down? Additionally, what are the sources of the expected reimbursements and why does FPC expect these reimbursements will exist in the future?

24. Account 369.2, Underground Services:
- a. The company proposes an R2.5, 40 year life for this account based on SPR results. While the SPR results indicates the company proposal to be a relatively good fit, the narrative states that retirements are priced using FIFO which tends to overstate the average service life. This being the case, are there any other reasons why the company believes an R2.5, 40 year life is appropriate?
  - b. The narrative states that the majority of salvage to this account is due to reimbursements due to the relocation or conversion of service at the customer's request and public accidents. Further, many of the relocations of service are a result of swimming pool construction where the cable is not abandoned.
    - (1) When a service is relocated at the customer's request, who pays for the relocation?
    - (2) What all is involved with relocating a service?
    - (3) In a relocation, is the service retired and then reused?
    - (4) What percent of relocations is the result of swimming pool construction?
25. Account 370, Meter Equipment:
- a. Please explain the nature and cause for the abnormal gross salvage realized in 1994.
  - b. In FPC's last study, the company stated that a research and development project to investigate the possibility of using fiber optics electronic meter reading was in its early stages. The project was anticipated to be completed by year end 1995 and, if the technology was proven feasible and economically sound, the life of existing meters could be impacted. When was this project completed and what were the results?
26. Account 371, Installations on Customers Premises: Based on a review of all the SPR outputs, how did you arrive at an S2, 22 year life as being the most



appropriate for this account? It would appear as though the S2, 21 year life would be a good fit also. Further, recognizing that the use of FIFO in pricing retirements has the effect of overstating the service life, it would appear that a life less than 21 years would be appropriate.

27. Account 373, Street Light and Signal Systems: Based on a review of the SPR outputs provided, please explain how you determined that an R1, 14 year life is the most appropriate for this account.

### GENERAL PLANT

28. Account 390, Structures and Improvements:

a. FPC states that a review of the salvage and cost of removal history produces a negative 18% net salvage for this account. However, when staff reviewed the net salvage history provided on page 393, we found a historical net salvage of positive 18%. A closer look at the data indicates that the 1976-1996 positive salvage is primarily driven by the unusually large salvages realized in 1995 and 1996. Please provide information regarding the specific causes for these salvages and why they are considered "normal"?

b. According to the study narrative, this account was studied using actuarial techniques analyzing retirement history. Please help us understand how your computer model helped you select an R2, 37 year life as being the most appropriate for this account.

29. Account 392.5, Trailers: Staff noticed the unusually high salvage realized in the 1993-1996 period. Please explain the nature and cause for these salvage values and why FPC believes this activity is indicative of the future.

30. Account 392.7, Flight Equipment (New):

a. What is FPC's proposed curve shape for this investment?

b. Please provide supporting calculations for your proposed remaining life.

c. Staff calculates a 6.4 year average age for this investment as of January 1, 1998. If FPC has no plans in the near term for retiring this aircraft, it would appear that a longer service life should be considered.

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- d. On page 20 of the study, plant activity is shown for 1996. For this account, additions of \$27,526 are shown. However, on page 91, 1996 additions of \$116,994 for this account are shown. Please reconcile.
31. FPC is proposing to combine the amortizable and depreciable portions of accounts 393, 394, 395, and 397 and amortize the combined investments of each account.
    - a. Please describe how the monthly depreciation expense will be calculated when accounts 393.1 and 393.2 are combined.
    - b. Please describe how retirements, salvage, or cost of removal will be handled.
    - c. What type of equipment are included in the new communication equipment account?
    - d. For the non-fiber portion of the communication equipment account, please provide the January 1, 1998 reserve and explain how this reserve amount was determined.
    - e. The total investment for Account 397.1 is shown on page 71, Volume I, as \$52,259,421, whereas on page 26, it is shown as \$51,314,459. Please reconcile.
  32. Account 397.2, Communication Fiber (Fiber): Please provide a calculation of the January 1, 1998 average age of the surviving investment in this account.