



Public Service Commission

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DATE: MAY 17, 2001

TO: DIRECTOR, DIVISION OF RECORDS AND REPORTING (BAYO)

FROM: DIVISION OF ECONOMIC REGULATION (P. LEE, GARDNER) DM
DIVISION OF LEGAL SERVICES (HART) RVE
DIVISION OF SAFETY AND ELECTRIC RELIABILITY (FUTRELL) JMF JBS

RE: DOCKET NO. 010107-EI - REQUEST FOR APPROVAL TO BEGIN DEPRECIATING MARTIN SIMPLE CYCLE EXPANSION PROJECT BY USE OF WHOLE LIFE DEPRECIATION RATES CURRENTLY APPROVED FOR MARTIN POWER PLANT, UNIT NO. 4 AND COMMON EFFECTIVE WITH IN-SERVICE DATES OF UNITS, BY FLORIDA POWER & LIGHT COMPANY.

AGENDA: 05/29/01 - REGULAR AGENDA - PROPOSED AGENCY ACTION - INTERESTED PERSONS MAY PARTICIPATE

CRITICAL DATES: NONE

SPECIAL INSTRUCTIONS: NONE

FILE NAME AND LOCATION: S:\PSC\ECR\WP\010107.RCM

CASE BACKGROUND

By Order Nos. PSC-99-0073-FOF-EI and PSC-99-0958-FOF-EI, issued January 8, 1999 and May 11, 1999, respectively, in Docket No. 971660-EI, the depreciation rates and capital recovery schedules for Florida Power & Light Company (FPL or the company) were revised. The rates and recovery schedules approved for the Sanford units recognized the company's re-powering plans for the Ft. Myers site.

On March 10, 1999, the parties of Docket No. 990067-EI, In Re: Petition for a Full Revenue Requirements Rate Case for Florida Power & Light Company, filed a Joint Motion for Approval of Stipulation and Settlement together with the Stipulation and Settlement (Stipulation). By Order No. PSC-99-0519-AS-EI, issued

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#PSC-RECORDS/REPORTING

March 17, 1999, the Stipulation was approved. Pursuant to paragraph 8 of the Stipulation, the depreciation rates addressed in Order No. PSC-99-0073-FOF-EI will not be increased for the term of the Stipulation period, which will end April 15, 2002.

On January 24, 2001, FPL filed a request for approval to begin depreciating its Martin Simple Cycle Expansion Project using the whole life depreciation rates currently approved for the Martin Plant, Unit No. 4 and Common, effective with the in-service date of the unit.

Staff has completed its review and presents its recommendation herein. The Commission has jurisdiction in this matter pursuant to Sections 366.04, 366.05, and 366.06, Florida Statutes.

DISCUSSION OF ISSUES

ISSUE 1: Should new depreciation rates be approved for Florida Power and Light's Martin Simple Cycle Expansion Project?

RECOMMENDATION: Yes, the whole life depreciation rates shown on Attachment A, page 5, should be approved for the combustion turbines being installed at the Martin site, pending a comprehensive study in 2002. The rates reflect those underlying the currently prescribed remaining life rates for Martin Common and Unit No. 4. (P. LEE)

STAFF ANALYSIS: By Order No. PSC-99-2507-S-EU, issued December 22, 1999, in Docket No. 981890-EU, FPL agreed to a minimum reserve margin planning criterion of twenty percent reserve beginning with the Summer of 2004. However, in an effort to achieve this goal by the Summer of 2001, FPL plans to install two combustion turbines (CTs) at the Martin Site in June, 2001. These units will initially operate in a stand-alone peaking mode with planned conversion to natural gas-fired, combined-cycle generators in the 2005-2006 time period to meet FPL's expected increased customer growth and usage.

According to FPL, the Martin CTs will be similar to those installed at Martin Unit No. 4, but notes they will have a higher firing temperature, resulting in improved performance, and will have the latest combustion system design. Until a specific depreciation and dismantlement study is prepared for the simple

cycle units, FPL is requesting that the underlying whole life rates approved for Martin Unit No. 4, be implemented. The study is projected to be submitted after the units become operational and the costs are unitized, with an effective date for new depreciation/dismantlement rates on January 1, 2002.

The two Martin CTs will be installed and will initially operate as individual simple cycle generating facilities. There are no currently prescribed depreciation rates that apply to these new facilities. The rates approved in FPL's last depreciation study by Order Nos. PSC-99-0073-FOF-EI and PSC-99-0958-FOF-EI addressed depreciation rates for the existing Martin combined cycle units, not for new peaking units. Staff believes that approval for applying the whole life rates currently prescribed for Martin Unit No. 4 does not exceed those depreciation rates prescribed in 1999 and therefore does not violate the Stipulation approved by Order No. PSC-99-0519-AS-EI. Accordingly, staff recommends approval of FPL's request to implement the underlying whole life depreciation rates currently approved for Martin Unit No. 4 until a comprehensive study is made in 2002.

ISSUE 2: What should be the implementation date for depreciation rates for the Martin Simple Cycle Unit?

RECOMMENDATION: Staff recommends approval of FPL's proposal that depreciation rates be implemented effective with the in-service date of June 1, 2001. (P. LEE)

STAFF ANALYSIS: Depreciation rates for new installations should be implemented when the installations become commercially operational. Accordingly, FPL has requested that depreciation rates for the new CTs be effective with the unit in-service date of June 1, 2001. Staff recommends acceptance of FPL's proposal.

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ISSUE 3: Should this docket be closed?

RECOMMENDATION: Yes. If no person whose substantial interests are affected by the proposed agency action files a protest within 21 days of the issuance of the order, this docket should be closed upon the issuance of a consummating order. (HART)

STAFF ANALYSIS: At the conclusion of the protest period, if no protest is filed, this docket should be closed upon the issuance of a consummating order.

FLORIDA POWER AND LIGHT COMPANY
 Martin Simple Cycle Expansion Project
 Docket No. 010107-EI

COMPANY PROPOSED/
 STAFF RECOMMENDED

Common

	Average Service Life (YRS.)	Net Salvage (%)	Whole Life Depreciation Rate (%)
341 Structures & Improvements	21.0	(4.0)	5.0
342 Fuel Holders, Producers, and Accessories	22.0	0.0	4.5
343 Prime Movers	9.4	(2.0)	10.9
345 Accessory Electric Equipment	25.0	(1.0)	4.0
346 Miscellaneous Equipment	12.0	0.0	8.3

Combustion Turbines

341 Structures & Improvements	25.0	(4.0)	4.2
342 Fuel Holders, Producers, and Accessories	21.0	0.0	4.8
343 Prime Movers	18.5	(2.0)	5.5
344 Generators	25.0	0.0	4.0
345 Accessory Electric Equipment	14.5	(1.0)	7.0
346 Miscellaneous Equipment	15.0	0.0	6.7