State of Florida

Public Service Commission

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

DATE: NOVEMBER 7, 2001

TO: DIRECTOR, DIVISION OF THE COMMISSION CLERK & ADMINISTRATIVE SERVICES (BAYÓ)

FROM: DIVISION OF ECONOMIC REGULATION (P. LEE, D. DRAPER, LESTER)
DIVISION OF LEGAL SERVICES (ELIAS)
DIVISION OF SAFETY & ELECTRIC RELIABILITY (COLSON)

RE: DOCKET NO. 010031-EI - 2000 FOSSIL DISMANTLEMENT COST STUDY BY FLORIDA POWER CORPORATION.

AGENDA: 11/19/01 - REGULAR AGENDA - PROPOSED AGENCY ACTION - INTERESTED PERSONS MAY PARTICIPATE

CRITICAL DATES: NONE

SPECIAL INSTRUCTIONS: NONE

FILE NAME AND LOCATION: S:\PSC\ECR\WP\010031.RCM

CASE BACKGROUND

By Order No. 24741, issued July 1, 1991, in Docket No. 890186-EI, the Commission established the methodology for accruing the costs of dismantlement for fossil fueled production plants. The methodology is dependent on three factors: estimated base costs for dismantlement, projected inflation, and a contingency factor. Also, the Order required electric companies to file site specific dismantlement studies at least once every four years in connection with their comprehensive depreciation studies.

The last fossil dismantlement provision established for Florida Power Corporation (FPC or company) was by Order No. PSC-94-1331-FOF-EI, issued October 27, 1994, in Docket No. 931142-EI. Subsequently, by Order No. PSC-97-0840-S-EI, issued July 14, 1997, in Docket No. 970261-EI, the Commission approved a Stipulation between Florida Power Corporation (FPC or company), the Office of

Public Counsel, the Florida Industrial Power Users Group, the Office of the Attorney General, Senator Charlie Crist, the Florida Consumers Action Network, the Lake Dora Harbour Homeowners Association, Inc., and the American Association of Retired Persons regarding the nuclear outage at Crystal River Unit No. 3 (CR3). As part of the terms and conditions set forth in the Stipulation, FPC's annual fossil dismantlement provision of $17 million, approved by Order No. PSC-94-1331-FOF-EI, was suspended for the four year period of the Stipulation (July 1997 - June 2001). In return, the amount of the suspended dismantlement accruals were to be applied toward the amortization of the regulatory asset established for the unrecovered replacement fuel costs associated with the extended outage at CR3. In the event the regulatory asset was fully amortized before the end of the four year period, the suspended fossil dismantlement accrual amounts were to be applied toward the amortization of the Tiger Bay Regulatory Asset established in Docket No. 970096-EQ.

The Stipulation further deferred FPC's next fossil dismantlement study from November 1997, until the end of the amortization period and base rate freeze. In order for a new accrual to be approved for implementation on July 1, 2001, the Commission directed FPC to file its dismantlement study by January 1, 2001.

Also, the Stipulation prohibited any reserve deficiency attributed to the estimated $68 million dismantlement accrual suspension from being included in any future base rate proceeding initiated by FPC, while permitting the inclusion for surveillance purposes. The mechanics to be used in determining the existence of any reserve deficiency would be addressed in the company's next filed dismantlement study in 2001.

In accordance with the above referenced order, FPC filed its fossil dismantlement study on January 2, 2001. Staff has completed its review and presents its recommendation herein.

DISCUSSION OF ISSUES

ISSUE 1: Should FPC's currently approved annual dismantlement provision be revised?

RECOMMENDATION: Yes. This dismantlement study indicates a need to revise the annual dismantlement provision to recognize updated base cost estimates of dismantlement, inflation, and contingency. Staff recommends that FPC's annual dismantlement accruals be revised, effective July 1, 2001. (P. LEE)

STAFF ANALYSIS: In accordance with the Stipulation approved by Order No. PSC-97-0840-S-EI, FPC's annual dismantlement provision was suspended for a four year period ending June 30, 2001. This current study represents an update of base cost estimates, inflation, and contingency and indicates a need to revise the annual accruals. A July 1, 2001, date represents the earliest practical date the dismantlement provision can be revised, in line with the requirements of the Stipulation.

ISSUE 2: Should any reserve allocations be made?

RECOMMENDATION: Yes. The staff recommended reserve allocations are shown on Attachment A, page 7. These allocations are reflective of FPC's recommended allocation method to correct identified reserve imbalances based on current dismantlement estimates updated to reflect the latest Data Resources, Inc. (DRI) inflation forecasts. (P. LEE)

STAFF ANALYSIS: Based on current dismantlement cost estimates, FPC has identified certain plants with apparent reserve surpluses. Accordingly, FPC has recommended these surpluses be transferred to plants with shorter remaining periods of service in which to accumulate the dismantlement provision. The reserve for Avon Park represents the amount remaining after the 1996 completion of the dismantlement and demolition activities at Units 1 and 2 and the common facilities. This surplus can be used to offset dismantlement cost estimates at other plants. Staff finds the company's recommended approach acceptable but has used the most current inflation indices in its allocation shown on Attachment A.

ISSUE 3: What is the appropriate annual provision for dismantlement?

RECOMMENDATION: The appropriate annual accrual is $8,813,128 and represents a decrease of about $8.2 million from the 1994 approved annual accrual. Attachment B, page 8, shows the staff recommended dismantlement accruals. These accruals reflect current estimates of dismantlement costs on a site-specific basis using the latest DRI inflation forecasts and a 15% contingency factor. (D. DRAPER, LESTER, P. LEE)

STAFF ANALYSIS: FPC's last dismantlement study was filed in 1993, in which an annual accrual of $17,023,202 million was approved by Order No. PSC-94-1331-FOF-EI. Subsequently, by Order No. PSC-97-0840-S-EI, FPC's annual dismantlement accruals were suspended during the period July 1997 - June 2001.

In this current study, FPC has proposed a levelized annual fossil dismantlement accrual from 2001-2005 of $7,702,804. The accrual is based on FPC's current estimates of dismantlement costs, escalated to future costs through the time of dismantlement. The future costs less amounts recovered to date have been discounted in a manner that accrues the costs over the remaining life span of each plant. The calculation of the accrual is based on the methodology for dismantlement established by Order No. 24741, issued on July 1, 1991, in Docket No. 890186-EI. The inflation factors FPC used were based on the Winter 2000 issue of The U.S. Economy published by Standard & Poor's DRI.

FPC's site-specific studies reflect updated base cost dismantlement estimates of $151.1 million, representing a decrease of about 23% from the 1993 estimates of $196.8 million. The major factors contributing to the reduction in cost estimates are: 1) a reduction of labor hours/productivity by about 25%; 2) a reduction of indirect costs associated with dismantlement as a result of productivity increases; 3) a reduction in the time duration required for the dismantlement process based on the company's experience at Avon Park; 4) a reduction in the contingency from 20% to 15%; 5) a change in the dismantlement scope to include new plants and facilities (3 Combustion Turbines at Intercession City, Hines Unit 1 and Unit 2, and Tiger Bay) and to eliminate those plants where the demolition and dismantlement has been completed (Avon Park Units 1 and 2, and Turner Units 3 and 4; and, 6) changes in inflation rates and capital recovery dates.

The updated base cost estimates reflect productivity increases that recognize FPC's demolition experience at Avon Park Steam site. Such increases translate into decreases in labor costs as well as decreases in the overall duration of the dismantlement process. The company believes these reductions are appropriate since they recognize company specific experience rather than simply relying on productivity rates based on a consultant's experience that may or may not be relevant. Another reduction in the base cost estimates is due to the assumed steel scrap value to reflect recent market conditions in Florida.

FPC's current approved dismantlement accruals are based on cost estimates assuming a 20% contingency factor to cover uncertainty in the dismantlement cost estimates. In this current study, FPC proposes use of a 15% contingency factor consisting of a 5% pricing contingency and a 10% scope omission contingency. The pricing contingency provides a level of confidence that the estimates will not overrun due to a pricing error. The scope omission contingency gives consideration to the conceptual nature of the base cost estimates and the difficulty in obtaining quantity and weight records. This factor also includes a recognition of hazardous waste environmental assessments that can only be performed at the time of dismantlement. FPC's 15% contingency factor is in line with contingency factors underlying currently approved annual dismantlement provisions for other electric companies in the State.

FPC's study assumes dismantlement will begin approximately five years after the plant is retired. This allows the company to research alternative power sources or repowering options utilizing existing plant equipment, existing plant site, or some combination of both while taking advantage of already approved site permitting. Notwithstanding this, it must be mentioned that the Turner steam units were retired and ceased operation in 1994. There are no current dismantlement activities underway at the site and the company states there are no near term plans to begin dismantlement. However, the amount necessary to dismantle the plant has been accrued and therefore no additional recovery is needed.

National industry experience with the dismantlement of fossil fueled generating plants is limited. Experience with estimating the base costs is even more limited. With the passage of time, estimating the costs of dismantlement likely will become more accurate. This represents only the second round of reviews for FPC due to its Stipulation. Notwithstanding, as reviews progress,

staff and the companies continue to refine the elements that go into the calculation of the base cost estimates of dismantlement and the calculation of the annual accrual level.

FPC's originally filed dismantlement study indicated revised annual dismantlement accruals based on inflation factors based on the Winter 2000 issue of The U.S. Economy published by Standard & Poor's DRI. Staff updated the inflation factors to reflect the latest available data from the Summer 2001 issue of The U.S. Economy. The resulting recommended levelized annual accrual based on FPC's site-specific dismantlement study cost estimates, a 15% contingency, the most recent available DRI forecasts, and the restated dismantlement reserve position recommended in Issue 2, is $8,813,128.

ISSUE 4: Should this docket be closed?

RECOMMENDATION: 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. (ELIAS)

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.

Attachment A

Plant	Accumulated Reserve ($)	Future Dollars To Dismantle ($)	Recommended Transfer ($)	Restated Reserve ($)
Turner Steam	8,555,625	7,374,949	(1,180,976)	7,374,649
Higgins Steam	11,372,579	5,493,240	(5,879,339)	5,493,240
Port St. Joe Gas Turbine	312,387	249,535	(62,852)	249,535
Avon Park Steam	4,121,717	0	(4,121,717)	0
Suwannee River Steam	9,584,023	13,945,261	4,361,238	13,945,261
Higgins Gas Turbine	553,539	1,071,115	517,576	1,071,115
Rio Pinar Gas Turbine	384,339	722,413	338,074	722,413
Turner Gas Turbine 1&2	0	214,055	214,055	214,055
Avon Park Gas Turbine	287,419	684,278	396,859	684,278
Bartow Gas	621,977	2,224,172	1,602,195	2,224,172
Bartow Steam	16,055,262	31,325,264	3,814,887	19,870,149
Total	51,848,867	63,304,282	0	51,848,867

Attachment B

COMPARISON OF DISMANTLEMENT ANNUAL PROVISION

Plant	1993 Approved Annual Accrual ($)	Company Proposed Annual Provision ($)	Staff Recommended Annual Provision ($)	Change in Annual Dismantlement Provision ($)
Crystal River 1&2	3,293,082	1,991,908	2,297,071	(996,011)
Crystal River Cooling Pond	268,369	297,942	315,522	47,153
Crystal River Fish Hatchery	95,227	102,744	108,763	13,536
Crystal River 4&5	2,010,715	1,209,656	1,397,432	(613,283)
Crystal River Common	587,834	495,968	541,395	(46,439)
Anclote Steam	1,182,758	725,907	816,300	(366,458)
Bartow Steam	2,712,786	997,713	1,277,949	(1,434,837)
Bartow Gas Turbine	100,556	0	0	(100,556)
Pipeline	653,047	468,832	504,183	(148,864)
Hines Unit 1	0	148,766	158,423	158,423
Avon Park Steam	659,365	0	0	(659,365)
Avon Park Gas Turbine	32,517	0	0	(32,517)
Turner Steam	733,430	0	0	(733,430)
Tiger Bay	0	106,045	114,463	114,463
Turner Repowering	148,181	0	0	(148,181)
Turner Gas Turbine 1&2	23,022	0	0	(23,022)
Turner Gas Turbine 3&4	71,912	59,025	64,658	(7,254)
Higgins Steam	504,607	0	0	(504,607)
Intercession City P11	0	12,077	13,155	13,155
Higgins Repowering	485,647	0	0	(485,647)
Higgins Gas Turbine	61,898	0	0	(61,898)
Suwannee Steam	1,589,874	0	0	(1,589,874)
Suwannee Gas Turbine	38,041	37,369	42,462	4,421
Bayboro Gas Turbine	322,977	81,798	89,630	(233,347)
Debary Gas Turbine 1-6	42,396	32,335	37,966	(4,430)
Debary Gas Turbine 7-10	489,543	313,257	347,466	(142,077)
Intercession City Gas Turine 1-6	65,368	37,743	42,234	(23,134)
Intercession City Gas Turbine 7-	385,993	84,298	95,977	(290,016)
St. Joe Gas Turbine	128,770	0	0	(128,770)
Rio Pinar Gas	132,655	0	0	(132,655)
University of Florida Gas	200,639	106,031	114,959	(85,680)
Intercession City P12-14	0	205,635	230,514	230,514
Hines Unit 2	0	187,755	202,606	202,606
Total Annual Dismantlement	17,023,202	7,702,804	8,813,128	(8,208,081)