

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

In re: 2000 Fossil Dismantlement
Cost Study by Florida Power
Corporation.

DOCKET NO. 010031-EI
ORDER NO. PSC-01-2386-PAA-EI
ISSUED: December 10, 2001

The following Commissioners participated in the disposition of this matter:

E. LEON JACOBS, JR., Chairman
J. TERRY DEASON
LILA A. JABER
BRAULIO L. BAEZ
MICHAEL A. PALECKI

NOTICE OF PROPOSED AGENCY ACTION
ORDER REVISING PROVISION FOR
FOSSIL FUEL DISMANTLEMENT

BY THE COMMISSION:

NOTICE is hereby given by the Florida Public Service Commission that the action discussed herein is preliminary in nature and will become final unless a person whose interests are substantially affected files a petition for a formal proceeding, pursuant to Rule 25-22.029, Florida Administrative Code.

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.

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FPSC-COMMISSION CLERK

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 accord with Order No. PSC-97-0840-S-EI, the company filed its fossil dismantlement study on January 2, 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. Therefore, we find that the effective date for FPC's annual dismantlement accruals is July 1, 2001.

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. We find the company's suggested approach acceptable, but have used the most current inflation indices in its allocation shown on Attachment A. Attachment A is reflective of FPC's suggested allocation method to correct identified reserve imbalances based on current dismantlement estimates, updated to reflect the latest Data Resources, Inc. (DRI) inflation forecasts. Accordingly, we approve the reserve allocations shown on Attachment A, which is incorporated by reference herein.

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, FPC's annual dismantlement accruals were suspended for the period July 1997 - June 2001 by Order No. PSC-97-0840-S-EI.

In this current study, FPC has proposed a levelized annual fossil dismantlement accrual for 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, 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 reflecting 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 the reviews progress, the elements that go into the calculation of the base cost estimates of dismantlement and the calculation of the annual accrual level will continue to be refined.

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. Inflation factors have been updated to reflect the latest available data from the Summer 2001 issue of The U.S. Economy. These updated figures are detailed in Attachment B. The resulting 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 allocations outlined in Attachment A, is \$8,813,128. Therefore, we find that the appropriate annual provision for dismantlement is \$8,813,128, as outlined in Attachment B, which is incorporated by reference herein.

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Based on the foregoing, it is

ORDERED by the Florida Public Service Commission that the reserve allocations detailed in Attachment A, which is by reference incorporated herein, are hereby approved. It is further

ORDERED that the annual fossil fuel dismantlement allocations detailed in Attachment B, which is by reference incorporated herein, are hereby approved. It is further

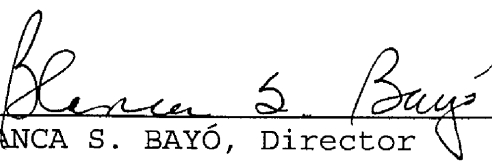
ORDERED that the fossil fuel dismantlement allocations, detailed in Attachment B, shall be implemented as of July 1, 2001. It is further

ORDERED that the provisions of this Order, issued as proposed agency action, shall become final and effective upon the issuance of a Consummating Order unless an appropriate petition, in the form provided by Rule 28-106.201, Florida Administrative Code, is received by the Director, Division of the Commission Clerk and Administrative Services, 2540 Shumard Oak Boulevard, Tallahassee, Florida 32399-0850, by the close of business on the date set forth in the "Notice of Further Proceedings" attached hereto. It is further

ORDERED that in the event this Order becomes final, this docket shall be closed.

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By ORDER of the Florida Public Service Commission this 10th
day of December, 2001.



BLANCA S. BAYÓ, Director
Division of the Commission Clerk
and Administrative Services

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NOTICE OF FURTHER PROCEEDINGS OR JUDICIAL REVIEW

The Florida Public Service Commission is required by Section 120.569(1), Florida Statutes, to notify parties of any administrative hearing that is available under Section 120.57, Florida Statutes, as well as the procedures and time limits that apply. This notice should not be construed to mean all requests for an administrative hearing will be granted or result in the relief sought.

Mediation may be available on a case-by-case basis. If mediation is conducted, it does not affect a substantially interested person's right to a hearing.

The action proposed herein is preliminary in nature. Any person whose substantial interests are affected by the action proposed by this order may file a petition for a formal proceeding,

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in the form provided by Rule 28-106.201, Florida Administrative Code. This petition must be received by the Director, Division of the Commission Clerk and Administrative Services, 2540 Shumard Oak Boulevard, Tallahassee, Florida 32399-0850, by the close of business on December 31, 2001.

In the absence of such a petition, this order shall become final and effective upon the issuance of a Consummating Order.

Any objection or protest filed in this docket before the issuance date of this order is considered abandoned unless it satisfies the foregoing conditions and is renewed within the specified protest period.

Attachment A

Plant	Accumulated Reserve (\$)	Future Dollars To Dismantle (\$)	Com'n Approved 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

COMPARISON OF DISMANTLEMENT ANNUAL PROVISION

Plant	1993 Approved Annual Accrual (\$)	Company Proposed Annual Provision (\$)	Commission Approved 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 Turbine 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)