

State of Florida



Public Service Commission
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TALLAHASSEE, FLORIDA 32399-0850

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COMMISSION CLERK

DATE: JULY 11, 2002

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

FROM: DIVISION OF ECONOMIC REGULATION (MEEKS, P. LEE) *PK*
OFFICE OF THE GENERAL COUNSEL (Vining) *AEV* *WAK*

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JDT

RE: DOCKET NO. 020332-EI - REQUEST FOR APPROVAL TO BEGIN DEPRECIATING SANFORD UNIT NO. 5, USING WHOLE LIFE DEPRECIATION RATES CURRENTLY APPROVED FOR MARTIN POWER PLANT, UNIT NO. 4 AND COMMON, AND EXPAND FT. MYERS DEPRECIATION RATES TO INCLUDE THE HEAT RECOVERY STEAM GENERATORS (HRSGs), EFFECTIVE WITH IN-SERVICE DATE OF UNIT, BY FLORIDA POWER & LIGHT COMPANY.

AGENDA: 07/23/02 - REGULAR AGENDA - PROPOSED AGENCY ACTION - INTERESTED PERSONS MAY PARTICIPATE

CRITICAL DATES: NONE

SPECIAL INSTRUCTIONS: NONE

FILE NAME AND LOCATION: S:\PSC\ECR\WP\020332.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. Subsequently, Order Nos. PSC-00-2434-PAA-EI and PSC-01-1337-PAA-EI, issued December 19, 2000, and June 19, 2001, in Docket Nos. 001437-EI and 010107-EI, addressed depreciation rates for the new Ft. Myers and Martin Simple Cycle units, respectively.

On March 14, 2002, the parties of Docket No. 001148-EI, In Re: Review of the Retail Rates of Florida Power & Light Company, filed a Joint Motion for Approval of Stipulation and Settlement together

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with the Stipulation and Settlement (Stipulation). By Order No. PSC-02-0501-AS-EI, issued April 11, 2002, the Stipulation was approved. Pursuant to paragraph 10 of the Stipulation, the depreciation rates addressed in Order Nos. PSC-99-0073-FOF-EI, PSC-00-2434-PAA-EI and PSC-01-1337-PAA-EI will not be changed for the term of the Stipulation period, which will end December 31, 2005.

On April 12, 2002, FPL filed a request for approval to begin depreciating its Sanford Combined Cycle Unit No. 5 using the whole life depreciation rates currently approved for the Martin Plant Combined Cycle Unit No. 4 and Common, effective with the in-service date of June 15, 2002. Additionally, FPL requests to expand the depreciation rates currently approved for the Ft. Myers combustion turbine (CT) units to encompass the heat recovery steam generators (HRSGs). The in-service date for the HRSGs is May 31, 2002.

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 Sanford Combined Cycle Unit No. 5?

RECOMMENDATION: Yes, the whole life depreciation rates shown on Attachment A, page 9, should be approved for the combined cycle units being installed at Sanford Unit No. 5 until a comprehensive study is made. These rates reflect those underlying the currently prescribed remaining life rates for Martin Common and Martin Combined Cycle Unit No. 4. (MEEKS)

STAFF ANALYSIS: Sanford Unit No. 5 is a repowered unit involving the installation of four combustion turbines and related HRSGs to supply steam to the existing steam turbine. The new combined cycle unit utilizes the latest technology and adds approximately 567 megawatts of generation at the site.

According to FPL, the Sanford Combined Cycle Unit No. 5 is similar to the Martin Combined Cycle Unit No. 4 in that both installations consist of combustion turbines fired by natural gas with the related HRSGs. The turbines at both sites are manufactured by General Electric. Therefore, FPL is requesting that the underlying whole life rates approved for the Martin Common and Combined Cycle Unit No. 4 be approved for the Sanford Common and Combined Cycle Unit No. 5. The depreciation rates for the Martin Common and Combined Cycle Unit No. 4 were approved by the Commission in Order No. PSC-99-0073-FOF-EI. The Sanford Combined Cycle Unit No. 5 became operational on June 15, 2002.

With the completion of the repowering at Sanford, the combined cycle facility is considered Other Production. Currently there are no prescribed depreciation rates that apply to these new facilities. Staff believes that FPL's request to use the underlying whole life rates prescribed for the Martin Common and Combined Cycle Unit No. 4 does not violate the Stipulation approved by Order No. PSC-02-0501-AS-EI, which states:

...depreciation rates as addressed in Order Nos. PSC-99-0073-FOF-EI, PSC 00-2434-PAA-EI and PSC 01-1337-PAA-EI will not be changed for the term of this Stipulation and Settlement.

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The rates approved in FPL's last depreciation study by Order No. PSC-99-0073-FOF-EI, addressed depreciation rates for the existing Sanford facility, not for the new combined cycle unit. Staff believes that approval of FPL's request for the Sanford Combined Cycle Unit No. 5 does not change those depreciation rates prescribed in 1999 since this is essentially a new unit. Staff, therefore, recommends approval of FPL's request to implement the underlying whole life depreciation rates currently approved for the Martin Common and Combined Cycle Unit No. 4 for the Sanford Combined Cycle Unit No. 5.

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ISSUE 2: Should the currently prescribed depreciation rates for the Ft. Myers Site be expanded to include the six heat recovery steam generators (HRSGs), the steam turbines and the steam assets that will be transferred for use with the combined cycle unit?

RECOMMENDATION: Yes. Staff recommends that the depreciation rates approved in Order No. PSC-00-2434-PAA-EI, be utilized for the Ft. Myers Combined Cycle assets. (Attachment B, page 10) (MEEKS, P. LEE)

STAFF ANALYSIS: The Ft. Myers repowering project involves the installation of six new combustion turbines (CTs) and six heat recovery steam generators (HRSGs) to supply steam to the existing steam turbines at Units 1 and 2. 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 beginning with the Summer of 2004. To achieve this goal in a more timely fashion, FPL installed six CTs at Ft. Myers in 2000 and 2001, initially operating in a stand-alone mode. This provided immediate capacity increases to the FPL system. With the recent addition of the six HRSGs, Ft. Myers became a combined cycle operating facility on May 31, 2002.

By Order No. PSC-00-2434-PAA-EI, depreciation rates were approved for the Ft. Myers Simple Cycle units. FPL now requests permission to apply these rates to all the Ft. Myers combined cycle investment. Staff believes this request does not violate the Stipulation approved by Order No. PSC-02-0501-AS-EI. Depreciation rates are not being revised; rather, the company simply requests that existing rates be applied to the additional investment that transforms the individual simple cycle units into one combined cycle facility. With this in mind, staff recommends that the depreciation rates approved in Order No. PSC-00-2434-PAA-EI be utilized for the Ft. Myers Combined Cycle assets.

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ISSUE 3: What should be the implementation date for depreciation rates for the Sanford Unit No. 5 and Ft. Myers Combined Cycle units?

RECOMMENDATION: Staff recommends approval of FPL's proposal that depreciation rates be implemented effective with the in-service date of each unit. (MEEKS)

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 units be effective with the in-service dates for each unit. The in-service date for Sanford Unit No. 5 is June 15, 2002. The in-service date for the Ft. Myers Combined Cycle facility is May 31, 2002. Staff recommends acceptance of FPL's proposal.

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ISSUE 4: When should FPL's depreciation rates be reviewed?

RECOMMENDATION: Staff recommends that FPL submit its next comprehensive depreciation study no later than October 31, 2005, with an implementation date of January 1, 2006, for new depreciation rates. (P. LEE, MEEKS)

STAFF ANALYSIS: Rule 25-6.0436(8) (a), Florida Administrative Code, requires electric utilities to file a depreciation study every four years unless otherwise required by the Commission. FPL was required to file its next study on December 26, 2001, but was granted a waiver to extend the filing date to April 30, 2002, by Order No. PSC-01-1144-PAA-EI. The Commission granted FPL an additional extension of time to April 30, 2003, to file its study by Order No. PSC-01-2376-PAA-EI. During the discussion concerning FPL's Settlement Agreement, the company agreed that it would file its next study by October 31, 2002, even though the Stipulation approved by Order No. PSC-02-0501-AS-EI provides that depreciation rates shall not be changed until the end of the Stipulation period, which is December 31, 2005. Commission staff will use the information in the October 2002 study to monitor the company's capital recovery position.

Under the Stipulation approved by Order No. PSC-02-0501-AS-EI, issued April 11, 2002, in Docket No. 001148-EI, the earliest possible effective date for a change in the depreciation rates is January 1, 2006. Therefore, staff believes that the Commission has good cause to require FPL to file another study less than four years from the study it should file in October of this year. Staff recommends that FPL be required to file its next depreciation study by October 30, 2005, with an implementation date of January 1, 2006, for new depreciation rates.

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ISSUE 5: 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. (VINING)

STAFF ANALYSIS: 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.

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Attachment A

FLORIDA POWER AND LIGHT COMPANY

Sanford Combined Cycle Unit No. 5

**COMPANY PROPOSED/STAFF RECOMMENDED
DEPRECIATION RATES**

<u>Accounts</u> Common	Average Service <u>Life</u> (Yrs.)	Net <u>Salvage</u> (%)	Whole Life Depreciation <u>Rate</u> (%)
341 Structures & Improvements	21.0	(4.0)	5.0
342 Fuel Holders, Producers and Accessories	22.0	0.0	4.5
343 Prime Movers	8.8	(2.0)	11.6
345 Accessory Elec. Eqpt.	25.0	(1.0)	4.0
346 Misc. Eqpt.	12.6	0.0	7.9
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 Elec. Eqpt.	14.5	(1.0)	7.0
346 Misc. Eqpt.	15.0	0.0	6.7

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Attachment B

FLORIDA POWER AND LIGHT COMPANY

Ft. Myers Combined Cycle Unit

**COMPANY PROPOSED/STAFF RECOMMENDED
 DEPRECIATION RATES**

<u>Accounts</u> Common	Average Service <u>Life</u> (Yrs.)	Net <u>Salvage</u> (%)	Whole Life Depreciation <u>Rate</u> (%)
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 Elec. Eqpt.	25.0	(1.0)	4.0
346 Misc. Eqpt.	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 Elec. Eqpt.	14.5	(1.0)	7.0
346 Misc. Eqpt.	15.0	0.0	6.7