



Public Service Commission

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COMMISSION CLERK

DATE: APRIL 24, 2003

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

FROM: DIVISION OF ECONOMIC REGULATION (P. LEE, BREMAN) *PSY*
OFFICE OF THE GENERAL COUNSEL (M. BROWN) *MCB* *JS* *am* *WBM* *TJD*

RE: DOCKET NO. 030139-EI - REQUEST FOR APPROVAL TO BEGIN DEPRECIATING SANFORD UNIT NO. 4 USING WHOLE LIFE DEPRECIATION RATES CURRENTLY APPROVED FOR MARTIN POWER PLANT, UNIT NO. 4, BY FLORIDA POWER & LIGHT COMPANY.

AGENDA: 05/06/03 - REGULAR AGENDA - PROPOSED AGENCY ACTION - INTERESTED PERSONS MAY PARTICIPATE

CRITICAL DATES: NONE

SPECIAL INSTRUCTIONS: NONE

FILE NAME AND LOCATION: S:\PSC\ECR\WP\030139.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 recognized the company's future repowering plans for the Ft. Myers and Sanford sites.

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 1). By Order No. PSC-99-0519-AS-EI, issued March 17, 1999, the Stipulation was approved. Pursuant to paragraph 8 of Stipulation 1, the depreciation rates addressed in

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Order No. PSC-99-0073-FOF-EI were not to be increased for the term of the Stipulation period, which ended April 15, 2002.

By Order No. PSC-00-2434-PAA-EI, issued December 19, 2000, in Docket No. 001437-EI, depreciation rates were approved for the repowered Ft. Myers simple cycle generating facilities. Also, Order No. PSC-01-1337-PAA-EI, issued February 19, 2001, in Docket No. 010107-EI, approved depreciation rates for FPL's Martin simple cycle expansion project.

Subsequently, 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 with a Stipulation and Settlement (Stipulation 2). Stipulation 2 extended FPL's existing revenue sharing plan through the end of 2005. By Order No. PSC-02-0501-AS-EI, issued April 11, 2002, Stipulation 2 was approved. Pursuant to paragraph 10 of Stipulation 2, the depreciation rates addressed in Order Nos. PSC-99-0073-FOF-EI, PSC-00-2434-PAA-EI, and PSC-01-1337-PAA-EI are not to be revised for the term of the Stipulation and Settlement.

FPL is now requesting approval to begin depreciating its repowered Sanford Unit 4. The request was filed February 7, 2003. FPL has asked to use the whole life depreciation rates that have already been approved for the Martin Plant, Unit 4 and Common, to be effective with the in-service date of the Sanford 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, 366.06, and 366.07 Florida Statutes.

DISCUSSION OF ISSUES

ISSUE 1: Should new depreciation rates be approved for Florida Power and Light's Sanford Unit No. 4?

RECOMMENDATION: Yes, the whole life depreciation rates shown on Attachment A should be approved for the repowered Sanford Unit No. 4, pending a comprehensive study in 2005 pursuant to Order No. PSC-02-1103-PAA-EI issued August 12, 2002, in Docket No. 020332-EI. The rates reflect those underlying the currently prescribed remaining life rates for Martin Common and Unit No. 4. (P. Lee, Breman)

STAFF ANALYSIS: Sanford Unit No. 4 is a repowered unit involving the installation of four combustion turbines (CTs) and related heat recovery steam generators (HRSGs) to supply steam to the existing steam turbine. The new unit utilizes the latest technology and adds approximately 576 megawatts of generation at the existing site. The Sanford Unit began operating in simple cycle beginning March 1, 2003, and is expected to begin combined cycle operation in May 2003.

FPL asserts that the repowered Combined Cycle Sanford Unit No. 4 is similar to the repowered Sanford Unit No. 5 and Martin Unit No. 4, in that FPL is using the latest combustion system design, with higher firing temperatures and lower heat rates, resulting in improved performance. All three installations consist of combustion turbines fired by natural gas with related HRSGs.

Until a specific depreciation and dismantlement study is prepared for the Combined Cycle Sanford Unit No. 4, FPL is requesting that the underlying whole life rates approved for the Martin Common and Combined Cycle Unit No. 4 be implemented. These rates are the same as approved by Order No. PSC-02-1103-PAA-EI, for the Sanford 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.

As part of FPL's last comprehensive depreciation study in Docket No. 971660-EI, the embedded steam assets expected to retire as a result of repowering Sanford Units 3 and 4 were identified and placed on a recovery schedule by Order No. PSC-99-0073-FOF-EI. The recovery schedule was designed to provide full recovery of the effected assets by the time repowering would be completed. The

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depreciation rates approved for the remaining steam assets reflected their continued viability in a repowered environment.

The Combined Cycle Sanford Unit No. 4 is considered Other Production for which there are currently no prescribed depreciation rates. 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 current 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.

The rates approved in FPL's last depreciation study by Order No. PSC-99-0073-FOF-EI, addressed depreciation rates for the Sanford steam facility not for the new combined cycle unit. Approval of FPL's request for the repowered Sanford unit 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 Unit No. 4.

By Order PSC-02-1103-PAA-EI, FPL is required to file its next comprehensive depreciation study by October 30, 2005, with an implementation date of January 1, 2006, for new depreciation rates. It is anticipated that site specific studies for both Sanford combined cycle units (Unit Nos. 4 and 5) will be included in the 2005 filing.

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ISSUE 2: What should be the implementation date for depreciation rates for Sanford Unit 4?

RECOMMENDATION: Depreciation rates should be implemented March 1, 2003, effective with the in-service date of the unit, as FPL has proposed. (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 repowered Sanford unit be effective with its in-service date, March 1, 2003. Staff recommends acceptance of FPL's proposal.

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ISSUE 3: 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. (M. Brown)

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
 Sanford Combined Cycle Unit No. 4**

**COMPANY PROPOSED/STAFF RECOMMENDED
 DEPRECIATION RATES**

Accounts	Average Service Life	Net Salvage	Whole Life Depreciation Rate
Common	(Yrs.)	(%)	(%)
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