



Public Service Commission

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COMMISSION
CLERK

DATE: DECEMBER 23, 2003

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

FROM: DIVISION OF ECONOMIC REGULATION (GARDNER, HAFF, LESTER)
DIVISION OF COMPETITIVE MARKETS AND ENFORCEMENT (LEE)
OFFICE OF THE GENERAL COUNSEL (M. BROWN)

BB JS MDA

JDJ ALM 12/23

MCB MAH

RE: DOCKET NO. 030558-EI - REQUEST FOR APPROVAL OF REVISED
FOSSIL DISMANTLEMENT STUDIES BY FLORIDA POWER & LIGHT
COMPANY.

AGENDA: 01/06/04 - REGULAR AGENDA - PROPOSED AGENCY ACTION -
INTERESTED PERSONS MAY PARTICIPATE

CRITICAL DATES: NONE

SPECIAL INSTRUCTIONS: NONE

FILE NAME AND LOCATION: S:\PSC\ECR\WP\030558.RCM

CASE BACKGROUND

By Order No. 24741, issued July 1, 1991, in Docket No. 890186-EI, In Re: Investigation of the Ratemaking and Accounting Treatment for the Dismantlement of Fossil-Fueled Generating Stations, the Commission established the methodology for accruing the costs of dismantlement for fossil-fueled production plants. The methodology, codified in Rule 25-6.04364, Florida Administrative Code, is dependent on three factors: estimated base costs for dismantlement, projected inflation, and a contingency factor. Electric companies are required to file site-specific dismantlement studies at least once every four years in connection with their comprehensive depreciation studies. On June 20, 2003, Florida Power & Light Company (FPL or company) filed its revised fossil dismantlement site-specific cost studies. The company requested and was granted preliminary implementation of accruals by Order No. PSC-03-0872-FOF-EI, issued in this docket on July 29, 2003.

DOCUMENT NUMBER-DATE

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FPSC-COMMISSION CLERK

On March 14, 2002, the parties in Docket No. 001148-EI, In Re: Review of the Retail Rates of Florida Power & Light Company, filed a Stipulation and Settlement (Stipulation) that extended FPL's existing revenue sharing plan through the end of 2005. The Commission approved the Stipulation by Order No. PSC-02-0501-AS-EI, issued April 11, 2002. The Stipulation precludes the revision of FPL's depreciation rates for the term of the Stipulation, but does not preclude the revision of FPL's dismantlement accruals.

Staff has reviewed FPL's dismantlement studies 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 the preliminary provision for dismantlement for FPL be changed?

RECOMMENDATION: Yes. Staff recommends that the annual dismantlement accruals approved on a preliminary basis by Order No. PSC-03-0872-FOF-EI, issued July 29, 2003, be increased \$2.2 million as shown on Attachment A. These accruals reflect current estimates of dismantlement costs on a site-specific basis using the latest inflation forecasts and a 16% contingency factor. FPL should true-up the 2003 dismantlement expenses upon final action in this docket by the Commission. (P. LEE, GARDNER, LESTER)

STAFF ANALYSIS: Since FPL's 1998 dismantlement study, base cost estimates for the various dismantlement activities have changed as shown below:

FOSSIL DISMANTLEMENT BASE COST ESTIMATES		
	1998 Study	2003 Study
	(\$)	(\$)
Cape Canaveral	11,310,465	12,698,822
Cutler	7,204,220	7,890,950
Fort Lauderdale	16,234,272	21,013,706
Ft. Myers	23,015,656	19,659,288
Manatee	30,454,351	38,735,568
Martin	48,610,494	57,422,630
Port Everglades	29,028,327	36,502,177
Putnam	7,821,728	7,774,579
Riviera	15,323,103	17,066,500
Sanford	27,583,232	27,356,897
Scherer	19,144,381	25,868,542
St. Johns River Power Park	16,136,613	17,652,261
Turkey Point	22,577,038	24,277,678
Total	274,443,880	313,919,598

Current dismantlement cost estimates are based on site-specific studies and reflect an increase of about 14% from the 1998 cost estimates. The major factors contributing to the changes in cost estimates are: (1) estimates of the removal and disposal of asbestos remaining at the time of dismantlement; (2) changes in labor rates; (3) revised recovery periods of certain units to recognize repowering; (4) the addition of the simple cycle Martin Unit 8, and (5) an increase in burial costs at Manatee, Fort Lauderdale, and Port Everglades.

FPL'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 sites, or some combination of both while taking advantage of already approved site permitting.

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. Staff and the electric utilities continue to refine the elements that go into the calculation of the base cost estimates of dismantlement and the calculation of the annual accrual levels.

The recommended dismantlement accruals shown on Attachment A are based on FPL's current cost estimates, escalated to future costs through the time of dismantlement. The future costs, less amounts recovered to date, have been discounted over the remaining life span of each plant. The calculation of the annual accrual for each site is based on the methodology for dismantlement established by Order No. 24741.

The inflation factors FPL used in its original filing were based on the Winter 2003 issue of "The U.S. Economy" by Global Insight (formerly WEBA DRI). Staff updated the inflation factors to reflect the latest available data from the Summer 2003 issue of "The U.S. Economy". The resulting recommended levelized annual accrual based on FPL's site-specific dismantlement study cost estimates, a 16% contingency, and the most recent available inflation forecasts is \$18,674,395, as shown on Attachment A.

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ISSUE 2: What should be the implementation date for the revised annual dismantlement accruals?

RECOMMENDATION: Staff recommends a January 1, 2003, implementation date for FPL's proposed dismantlement provision. (P. LEE, GARDNER)

STAFF ANALYSIS: FPL requests a January 1, 2003, implementation date for its revised annual dismantlement accruals. All data and calculations about this date. Staff recommends acceptance of FPL's requested January 1, 2003, implementation date as the earliest practicable date for utilizing the revised dismantlement accruals.

ISSUE 3: Should any reserve allocations be made?

RECOMMENDATION: Yes. Staff recommends that the residual dismantlement reserves for the Ft. Myers and Sanford steam units be transferred to the respective repowered units. (P. LEE, GARDNER)

STAFF ANALYSIS: As of December 31, 2002, the residual dismantlement reserve balance at Ft. Myers and the Sanford steam Units 4 and 5 were \$12,831,282, \$8,708,139, and \$4,348,260, respectively. The Ft. Myers steam units were repowered in 2002 and now consist of 6 combustion turbines, 6 heat recovery steam generators, and two steam turbines. The Boca Grande Fuel Oil Terminal has been dismantled. All equipment related to the Ft. Myers steam supply systems for the original steam Units 1 and 2 have been retired and dismantled.

The Sanford steam Units 4 and 5 were converted to combined cycle operation in 2003. The Unit 4 combustion turbines went into commercial operation in March 2003; the combined cycle steam turbine went into operation August 2003. The Unit 5 combustion turbines went into operation May 2002; the steam turbine in June 2003. As with the Ft. Myers steam units, all equipment related to the Sanford steam supply systems for the original steam units 4 and 5 has been retired and dismantled.

FPL requests that the residual dismantlement reserves relating to the Ft. Myers and Sanford steam units be transferred to the repowered units. Staff finds this request acceptable and recommends its approval.

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ISSUE 4: Should this docket be closed?

RECOMMENDATION: Yes. If no person whose substantial interests are affected by the Commission's 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
 FOSSIL DISMANTLEMENT PROVISION**

Plant Site	Preliminary Implementation Annual Accrual*	Staff Recommended Annual Accrual	Change in Annual Accrual
Steam Production	(\$)	(\$)	(\$)
Cape Canaveral	606,925	695,862	88,937
Cutler	269,549	300,103	30,554
Ft. Myers Units 1 & 2	0	0	0
Manatee	2,543,323	2,777,116	233,793
Martin Units 1 & 2	2,359,945	2,654,652	294,707
Port Everglades	2,129,323	2,321,727	192,404
Riviera	629,946	703,713	73,767
Sanford	195,558	213,484	17,926
Scherer	1,276,972	1,523,894	246,922
St. Johns River Power Park	776,659	960,630	183,971
Turkey Point	1,106,183	1,269,610	163,427
Total Steam Production	11,894,383	13,420,791	1,526,408
Other Production			
Fort Lauderdale	1,386,450	1,529,853	143,403
Putnam	349,433	392,208	(93,101)
Martin CC Units 3, 4, & 8	902,683	988,284	85,601
Ft. Myers CC Unit 2	787,337	951,946	164,609
Sanford CC Units 4 & 5	1,004,179	1,214,462	210,283
Port Everglades GTs	19,564	20,543	979
Ft. Lauderdale GTs	34,554	36,368	1,814
Ft. Myers GTs	112,952	119,940	6,988
Total Other Production	4,597,152	5,253,604	656,452
Total Dismantlement Provision	16,491,535	18,674,395	2,182,860

* Approved by Order No. PSC-03-0872-FOF-EI.