

State of Florida



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# Public Service Commission

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COMMISSION  
CLERK

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

**DATE:** March 4, 2004

**TO:** Director, Division of the Commission Clerk & Administrative Services (Bayó)

**FROM:** Division of Economic Regulation (Gardner, Colson)  
Office of the General Counsel (Jaeger)

*Handwritten initials and signatures: BK, JS, 1/18, and a signature.*

**RE:** Docket No. 040008-EI – Petition for approval of depreciation rate applicable to new plant subaccounts for Hines Unit 2 by Progress Energy Florida, Inc.

**AGENDA:** 03/16/04 – Regular Agenda – Interested Persons May Participate

**CRITICAL DATES:** None

**SPECIAL INSTRUCTIONS:** None

**FILE NAME AND LOCATION:** S:\PSC\ECR\WP\040008.RCM.DOC

### Case Background

On January 5, 2004, Progress Energy Florida, Inc. (PEF), filed a petition with the Commission requesting the preliminary approval of life and salvage parameters, and the resulting depreciation rate for newly established Hines Unit 2, a combined cycle generating unit.

Pursuant to Rule 25-6.0436 (3)(a), Florida Administrative Code (F. A. C.), electric utilities are required to maintain depreciation rates and accumulated depreciation reserves in accounts or subaccounts as prescribed in Rule 25-6.014(1), F.A.C. ( i.e., the FERC Uniform Systems Of Accounts). Rule 25-6.0436 (3)(b), F.A.C., further provides that “Upon establishing a new account or subaccount classification, each utility shall request Commission approval of a depreciation rate for the new plant category.”

PEF has established new sub account classifications within FERC accounts 340 through 346, to record the investment of Hines Unit 2. This is a 530 megawatts combined cycle generating unit located at Hines Energy Complex in Polk County Florida. The unit was placed in service December 4, 2003.

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**Discussion of Issues**

**Issue 1:** Should the Commission approve Progress Energy's petition for approval of depreciation rate for newly established Hines Unit 2 plant subaccounts on a preliminary basis?

**Recommendation:** Yes. For Hines Unit 2, PEF proposes a 30-year average service life, a negative net salvage value of 10%, and a depreciation rate of 3.7%. This should be approved on a preliminary basis. The depreciation expenses should be trued-up when final action, expected to occur during May 2004, is taken by the Commission in this docket. (Gardner)

**Staff Analysis:** Progress Energy has requested, in accordance with the Commission's depreciation rules, that it be allowed to implement, on a preliminary basis, its proposed depreciation rate for the newly established Hines Unit 2 subaccounts.

Preliminary implementation does not mean that, upon completion of the review of the company's filed request, staff will be in full agreement with the company's proposal. Staff is only recommending preliminary implementation of the proposed depreciation rate because it is appropriate that the process of recovery begin as the assets become operational.

Staff's review of the Company's request will include an analysis of all data used to develop the proposed average service life, net salvage value, and depreciation rate for Hines Unit 2. Also, all accruals to the reserves for nuclear decommissioning and fossil dismantlement are suspended beginning with the implementation date of Hines Unit 2 (December 4, 2003) through December 31, 2005, in accordance with the Commission approved Stipulation and Settlement in Order No. PSC-02-0655-AS-EI; issued May 14, 2002, in Docket No. 000824-EI, "In re: Review of Florida Power Corporation's earnings, including effects of proposed acquisition of Florida Power Corporation by Carolina Power and Light" Section 10.

**Issue 2:** What should be the effective date of the implementation for the new depreciation rate for Hines Unit 2?

**Recommendation:** Staff recommends December 4, 2003 as an implementation date for Progress Energy's proposed depreciation rate on a preliminary basis. (Gardner, Colson)

**Staff Analysis:** The depreciation rate for Hines Unit 2 new accounts or subaccounts should be implemented when the installation or plant becomes commercially operational or placed in service. Accordingly, Progress Energy has requested that a depreciation rate for the new unit be effective on December 4, 2003, the commercially operational or in-service date of the combined cycle generating unit.

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**Issue 3:** Should this docket be closed?

**Recommendation:** No. This docket should remain open, pending final Commission action on Progress Energy's proposed depreciation rate. (Jaeger)

**Staff Analysis:** This recommendation addresses the preliminary booking of the depreciation rate beginning December 4, 2003, with the provision for a true-up of the resulting expenses for the new subaccounts when final Commission action is taken. The issue regarding the appropriate depreciation rate, life and salvage parameters can not be resolved until staff has thoroughly reviewed and analyzed the company's request. Staff expects to bring a recommendation to the Commission for final action on this request in May 2004. The order resulting from staff's recommendation on a final depreciation rate will be issued as Proposed Agency Action affording a point of entry for substantially affected persons.