

State of Florida



# Public Service Commission

CAPITAL CIRCLE OFFICE CENTER • 2540 SHUMARD OAK BOULEVARD  
TALLAHASSEE, FLORIDA 32399-0850

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

**DATE:** July 19, 2007

**TO:** Office of Commission Clerk (Cole)

**FROM:** Division of Economic Regulation (Gardner, Bulecza-Banks) *BB JS*  
Office of the General Counsel (Brown) *MCB S.M.C.*

**RE:** Docket No. 070378-EI – Petition for approval of revised fossil dismantlement accrual by Florida Power & Light Company. *(M) 102*

**AGENDA:** 07/31/07 – Regular Agenda – Interested Persons May Participate

**COMMISSIONERS ASSIGNED:** All Commissioners

**PREHEARING OFFICER:** ~~None~~ *Step*

**CRITICAL DATES:** None

**SPECIAL INSTRUCTIONS:** None

**FILE NAME AND LOCATION:** S:\PSC\ECR\WP\070378.RCM.DOC

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### 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. Subsequently, the methodology and dismantlement study procedures were codified in Rule 25-6.04364, Florida Administrative Code (F.A.C.), by Order No. PSC-03-1393-FOF-EI, issued December 11, 2003, in Docket No. 030714-EI, In re: Proposed adoption of Rule 25-6.04364, F.A.C., Electric Utilities Dismantlement Studies. The methodology is dependent on three factors: estimated base costs for dismantlement, projected inflation, and a contingency factor. The Rule requires electric companies to file site specific dismantlement studies at least once every four years from the submission date of the previous study unless otherwise required by Commission order. The Commission approved FPL's current fossil dismantlement accruals by Order No. PSC-04-0203-CO-EI, issued February 23, 2004, in Docket No. 030558-EI. The

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annual accruals were effective January 1, 2003. On June 21, 2007, Florida Power & Light Company (FPL or company) filed its revised fossil dismantlement site-specific cost studies. FPL requests preliminary implementation of its proposed revised annual dismantlement accruals, effective January 1, 2007.

On March 22, 2005, the parties in Docket No. 050045-EI, In Re: Petition for rate increase by Florida Power and Light Company; and in Docket 050188-EI, In Re: 2005 comprehensive depreciation study by Florida Power and Light Company, filed a Stipulation and Settlement (Stipulation) that extended FPL's existing revenue sharing plan through the end of 2009. The Commission approved the Stipulation by Order No. PSC-05-0902-S-EI, issued September 14, 2005. 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's recommendation addresses the company's request for preliminary implementation. 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 Commission approve FPL's proposed annual dismantlement accruals on a preliminary basis?

**Recommendation:** Yes. FPL's proposed annual dismantlement accruals as shown on Attachment A and B should be approved on a preliminary basis. The effect of this proposal would decrease dismantlement expenses by an estimated \$3,323,514 for 2007 and \$3,124,256 from 2008 through 2010. On May 1, 2007, Turkey Point Unit 5 was placed in service, and the company is requesting a half year's dismantlement accrual for 2007. The expenses are subject to true-up when the Commission takes final action in December 2007. (Gardner)

**Staff Analysis:** FPL requests that it be allowed to implement its proposed provision for dismantlement on a preliminary basis. The expenses should be true-up when final Commission action is taken in December 2007. According to FPL, the annual accrual net decrease is attributable to a change in Global Insight's<sup>1</sup> methodology in establishing the current inflation factors, from the methodology used in the last fossil dismantlement study. Also, included in this study is the company's request to use a half year's dismantlement accrual for Turkey Point Unit 5 for 2007 and full year's dismantlement accrual beginning 2008 through 2010, as shown on Attachment A and B, respectively.

Preliminary implementation does not imply that, upon completion of the review of the company's filed study, staff will be in full agreement with the company's proposals. Staff is only recommending preliminary implementation of the proposed dismantlement provisions shown on Attachments A and B, because it is likely to result in more appropriate expenses than the current dismantlement accruals. The dismantlement accruals are subject to true-up upon final Commission action in this docket.

Since FPL's 2003 dismantlement study, base cost estimates for the various dismantlement activities have changed as shown below:

FOSSIL DISMANTLEMENT BASE COST ESTIMATES		
	2003 Study	2007 Study
	(\$)	(\$)
Cape Canaveral	12,698,822	12,953,491
Cutler	7,890,950	8,035,610
Fort Lauderdale	21,013,706	18,956,572
Ft. Myers	19,659,288	22,877,762
Manatee	38,735,568	53,698,856

<sup>1</sup> Global Insight is a provider of forecasted information and software to monitor and interpret economic, energy, survey, financial, industry and sector data used in analysis of various markets, industries, securities and strategic consulting.

<b>FOSSIL DISMANTLEMENT BASE COST ESTIMATES</b>		
	2003 Study	2007 Study
	(\$)	(\$)
Martin	57,422,630	57,337,705
Port Everglades	36,502,177	52,594,168
Putnam	7,774,579	9,403,254
Riviera	17,066,500	13,583,544
Sanford	27,356,897	28,650,916
Scherer	25,868,542	37,391,063
St. Johns River Power Park	17,652,261	19,548,345
Turkey Point	24,277,678	18,323,729
<b>Total</b>	<b>313,919,598</b>	<b>353,355,015</b>

Both the 2003 cost estimates and the resulting 2007 study cost estimates include a 16% contingency factor. The company states that the contingency percentage covers costs associated with delays occurring after dismantlement begins due to such causes as equipment failure and weather delays. Also, the net increase in cost estimates is attributable to an increase in labor rates, value of scrap metals, disposal costs, and the impact of extension of the recovery periods.

Staff expects to complete its review and bring the final recommendation addressing FPL's fossil dismantlement study to Agenda in December 2007. Staff recommends that FPL be allowed to implement its proposed revised dismantlement accruals shown on Attachment A on a preliminary basis.

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**Issue 2:** What should be the implementation date for the preliminary annual dismantlement accruals?

**Recommendation:** Staff recommends a January 1, 2007, implementation date for FPL's preliminary implementation of its proposed dismantlement provision. (Gardner)

**Staff Analysis:** FPL requests a January 1, 2007, implementation date for its revised annual dismantlement accruals. All data and calculations support this date. Staff recommends acceptance of FPL's requested January 1, 2007, implementation date as the earliest practicable date for utilizing the revised dismantlement accruals.

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

**Recommendation:** No. This docket should remain open, pending final Commission action on FPL's proposed annual dismantlement accruals. (Brown)

**Staff Analysis:** The recommendation addresses the preliminary booking of FPL's proposed dismantlement accruals beginning January 1, 2007, with a provision subject to true-up of the resulting expenses when final Commission action is taken. The issue regarding the appropriate dismantlement provision cannot be resolved until staff has thoroughly reviewed and analyzed the company's filed study. Staff expects to bring a recommendation to the Commission for final action on this request in December 2007. The Order reflecting the Commission's decision on the final dismantlement provision will be issued as Proposed Agency Action, affording a point of entry for substantially affected persons.

FLORIDA POWER AND LIGHT COMPANY  
 PRELIMINARY IMPLEMENTATION  
 DISMANTLEMENT ACCRUAL FOR 2007

Plant Site	Current Annual Accrual	Proposed Annual Accrual	Change in Annual Accrual
	(\$)	(\$)	(\$)
Cape Canaveral	695,862	520,131	(175,731)
Cutler	300,103	286,673	(13,430)
Fort Lauderdale	1,566,221	1,082,262	(483,959)
Fort Myers	1,071,886	1,141,833	69,947
Manatee	2,777,116	2,357,769	(419,347)
Martin	3,642,936	2,607,319	(1,035,617)
Port Everglades	2,342,270	1,938,010	(404,260)
Putnam	392,208	382,623	(9,585)
Riviera	703,713	476,263	(227,450)
Sanford	1,427,946	1,428,622	676
Scherer	1,523,894	1,637,679	113,785
St. Johns River Power Park	960,630	835,972	(124,658)
Turkey Point*	1,269,610	655,725	(613,885)
Total Dismantlement Provision	18,674,395	15,350,881	(3,323,514)

\*Annual Accrual for Turkey Point Unit 5 is based upon the company's request for a half year's dismantlement accrual for 2007. Turkey Point Unit 5 went into service May 1, 2007.

FLORIDA POWER AND LIGHT COMPANY  
 PRELIMINARY IMPLEMENTATION  
 DISMANTLEMENT ACCRUAL FOR 2008 THROUGH 2010

Plant Site	Current Annual Accrual	Proposed Annual Accrual	Change in Annual Accrual
	(\$)	(\$)	(\$)
Cape Canaveral	695,862	520,131	(175,731)
Cutler	300,103	286,673	(13,430)
Fort Lauderdale	1,566,221	1,082,262	(483,959)
Fort Myers	1,071,886	1,141,833	69,947
Manatee	2,777,116	2,357,769	(419,347)
Martin	3,642,936	2,607,319	(1,035,617)
Port Everglades	2,342,270	1,938,010	(404,260)
Putnam	392,208	382,623	(9,585)
Riviera	703,713	476,263	(227,450)
Sanford	1,427,946	1,428,622	676
Scherer	1,523,894	1,637,679	113,785
St. Johns River Power Park	960,630	835,972	(124,658)
Turkey Point*	1,269,610	854,983	(414,627)
Total Dismantlement Provision	18,674,395	15,550,139	(3,124,256)

\* Annual Accrual for Turkey Point Unit 5 established on a full year basis beginning January 1, 2008 through 2010.