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

DATE: May 08, 2008

TO: Office of Commission Clerk (Cole)

FROM: Division of Economic Regulation (Gardner, Bulecza-Banks, Farley, Marsh, Slemkewicz) JS
Office of the General Counsel (Brown) MCB JS

RE: Docket No. 080145-EI – Petition for approval of depreciation rates for new plant subaccounts by Progress Energy Florida, Inc.

AGENDA: 05/20/08 – Regular Agenda – Proposed Agency Action-Interested Persons May Participate

COMMISSIONERS ASSIGNED: All Commissioners

PREHEARING OFFICER: Administrative

CRITICAL DATES: None

SPECIAL INSTRUCTIONS: None

FILE NAME AND LOCATION: S:\PSC\ECR\WP\080145.RCM.DOC

Case Background

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., which refers to the Federal Energy Regulatory Commission (FERC) Uniform System of Accounts. Rule 25-6.0436(3)(b), F.A.C., further provides that “[u]pon establishing a new account or subaccount classification, each utility shall request Commission approval of a depreciation rate for the new plant category.” Progress Energy Florida, Inc. (PEF or company) established new subaccount classifications within FERC Accounts 340 through 346, Other Production, to record its investment in Hines Unit 4, a 517MW (megawatt) combined cycle unit in Polk County, Florida. This combined cycle unit was placed

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in-service or became commercially operational on December 1, 2007. On March 10, 2008, PEF filed its petition to establish depreciation rates for Hines Unit 4.

Staff has completed its review and presents its recommendations 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 the Commission approve the depreciation rates for Hines Unit 4?

Recommendation: Yes. Staff recommends approval of PEF's request for a 30 year average service life, a 10 percent negative net salvage, and a resulting depreciation rate of 3.86 percent for Hines Unit 4. (Gardner)

Staff Analysis: PEF proposes a 30-year average service life, 10 percent negative net salvage, and a resulting depreciation rate of 3.86 percent for the newly established subaccounts for Hines Unit 4, a combined cycle generating unit. These life parameters are currently approved for FERC Accounts 340 through 346 for Hines Unit 3, as established in PEF's 2005 rate case and depreciation study Stipulation and Settlement Agreement¹ (Stipulation).

PEF's Hines Unit 4 combined cycle generator in-service date was December 1, 2007. Staff reviewed the company's supporting data used to develop the proposed average service life, net salvage value, and depreciation rate for the Hines Unit 4 subaccounts. The company has increased its knowledge and experience with combined cycle generating units since the inception of Tiger Bay, and Hines Units 1, 2, and 3. Currently, PEF's Hines Unit 3 average service life, net salvage, and depreciation rate is 30 years life, negative 10 percent, and 3.86 percent, respectively. In Florida, the average service lives, net salvage, and depreciation rates for each combined cycle subaccount vary among investor-owned electric utilities. However, for the company's previous combined cycle plants, the identical depreciation rate was approved for each subaccount. PEF's proposed depreciation rate continues to be within the range of depreciation rates for combined cycle units previously approved by the Commission for Florida's regulated electric utilities. Florida's combined cycle units have net salvage values ranging from 0 to a negative 4 percent by subaccount and a negative 10 percent by plant unit. Florida's historical data supports PEF's 10 percent negative net salvage for Hines Unit 4 subaccounts taken as a whole or by plant unit. Also, the industry's subaccounts' average service lives range from 9.4 to 31 years.

Additionally, PEF has filed this petition pursuant to Paragraph 11 and 12 of the rate case Stipulation.¹ Page 3 of Order No. PSC-05-0945-S-EI includes the following statements concerning paragraphs 11 and 12 of the Stipulation:

PEF will continue to suspend accruals to its reserve for nuclear decommissioning and fossil dismantlement, and shall apply the depreciation rates consistent with those in PEF's Depreciation Study, as modified by Exhibit 2, attached to the Stipulation. (Paragraph 11)

Beginning on the commercial in-service date of Hines Unit 4, PEF will further increase its base rates to recover the full revenue requirements of the installed cost of Hines Unit 4 and the unit's non-fuel operating expenses (Paragraph 12)

¹ Order No. PSC-05-0945-S-EI, issued September 28, 2005, in Docket No. 050078-EI, In re: Petition for rate increase by Progress Energy Florida, Inc.

The Stipulation further provides clarification to paragraph 12, as found on page 5, as follows:

Paragraph 12 addresses base rates and clause recovery for costs associated with PEF's Hines 2 and Hines 4 units. With respect to Hines Unit 4, the parties clarified that the calculation of the costs that would be included in base rates would be based upon the first 12 months of revenue requirements and would include half a year of depreciation.

The life parameters of Hines Unit 4, are consistent with Hines Unit 3 and its resulting depreciation rate approved by PEF's 2005 Stipulation. Staff recommends acceptance of PEF's proposed life parameters, and resulting depreciation rate for Hines Unit 4 FERC subaccounts 340 through 346, until the next scheduled Depreciation Study, to be filed April 2009.

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Issue 2: What should be the effective date of the implementation for the new depreciation rate for Hines Unit 4?

Recommendation: Staff recommends December 1, 2007, as the implementation date for PEF's Hines Unit 4 depreciation rate. (Gardner)

Staff Analysis: The depreciation rate for the new Hines Unit 4 accounts or subaccounts should be implemented when the installation or plant becomes commercially operational or is placed in service. Accordingly, PEF has requested that a depreciation rate for the new unit be effective on December 1, 2007, 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: 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 issuance of a consummating order. (Brown)

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 the order, this docket should be closed upon the issuance of a consummating order.