

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

In re: Petition for approval of depreciation rates for new plant subaccounts by Progress Energy Florida, Inc. | DOCKET NO. 080145-EI  
| ORDER NO. PSC-08-0341-PAA-EI  
| ISSUED: May 28, 2008

The following Commissioners participated in the disposition of this matter:

MATTHEW M. CARTER II, Chairman  
LISA POLAK EDGAR  
KATRINA J. McMURRIAN  
NANCY ARGENZIANO  
NATHAN A. SKOP

NOTICE OF PROPOSED AGENCY ACTION  
ORDER APPROVING DEPRECIATION RATES

BY THE COMMISSION:

NOTICE is hereby given by the Florida Public Service Commission that the action discussed herein is preliminary in nature and will become final unless a person whose interests are substantially affected files a petition for a formal proceeding, pursuant to Rule 25-22.029, Florida Administrative Code (F.A.C.).

BACKGROUND

Pursuant to Rule 25-6.0436(3)(a), 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. Hines Unit 4 became commercially operational on December 1, 2007. On March 10, 2008, PEF filed its petition to establish depreciation rates for Hines Unit 4.

We have jurisdiction in this matter pursuant to Sections 366.04, 366.05, and 366.06, Florida Statutes (F.S.).

DOCUMENT NUMBER-DATE

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FPSC-COMMISSION CLERK

DECISION

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. 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 Agreement<sup>1</sup> (Stipulation).

PEF's Hines Unit 4 combined cycle generator in-service date was December 1, 2007. We 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 installation 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, but PEF's proposed depreciation rate continues to be within the range of depreciation rates for combined cycle units that we have previously approved 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 its rate case Stipulation.<sup>1</sup> 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.

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.

Page 5 of Order No. PSC-05-0945-S-EI clarifies paragraph 12 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.

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<sup>1</sup> 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 life parameters of Hines Unit 4 are consistent with Hines Unit 3 and its resulting depreciation rate approved by PEF's 2005 Stipulation. Thus we accept 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.

The depreciation rate for the new Hines Unit 4 accounts or subaccounts shall be implemented when the 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. We approve that effective date.

Based on the foregoing, it is

ORDERED by the Florida Public Service Commission that Progress Energy Florida, Inc.'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 shall be approved. It is further

ORDERED that the effective date for the new depreciation rate shall be effective on December 1, 2007. It is further

ORDERED that the provisions of this Order, issued as proposed agency action, shall become final and effective upon the issuance of a Consummating Order unless an appropriate petition, in the form provided by Rule 28-106.201, Florida Administrative Code, is received by the Commission Clerk, 2540 Shumard Oak Boulevard, Tallahassee, Florida 32399-0850, by the close of business on the date set forth in the "Notice of Further Proceedings" attached hereto. It is further

ORDERED that in the event this Order becomes final, this docket shall be closed.

By ORDER of the Florida Public Service Commission this 28th day of May, 2008.



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ANN COLE  
Commission Clerk

( S E A L )

MCB

NOTICE OF FURTHER PROCEEDINGS OR JUDICIAL REVIEW

The Florida Public Service Commission is required by Section 120.569(1), Florida Statutes, to notify parties of any administrative hearing that is available under Section 120.57, Florida Statutes, as well as the procedures and time limits that apply. This notice should not be construed to mean all requests for an administrative hearing will be granted or result in the relief sought.

Mediation may be available on a case-by-case basis. If mediation is conducted, it does not affect a substantially interested person's right to a hearing.

The action proposed herein is preliminary in nature. Any person whose substantial interests are affected by the action proposed by this order may file a petition for a formal proceeding, in the form provided by Rule 28-106.201, Florida Administrative Code. This petition must be received by the Office of Commission Clerk, 2540 Shumard Oak Boulevard, Tallahassee, Florida 32399-0850, by the close of business on June 18, 2008.

In the absence of such a petition, this order shall become final and effective upon the issuance of a Consummating Order.

Any objection or protest filed in this/these docket(s) before the issuance date of this order is considered abandoned unless it satisfies the foregoing conditions and is renewed within the specified protest period.