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COMMISSION
CLERK

(Writer's Direct Dial No. 727-820-5587)

R. ALEXANDER GLENN
General Counsel

February 1, 2012

Ms. Ann Cole
Commission Clerk
Florida Public Service Commission
2540 Shumard Oak Blvd.
Tallahassee, FL 32399

Re: Docket No. 120022-EI - Petition for limited proceeding to approve stipulation and settlement agreement by Progress Energy Florida, Inc.

PEF's Response to Staff's First Data Request Nos. 1-47

Dear Ms. Cole:

This response is to Mr. Keino Young's January 25, 2012 letter, providing Staff's First Data Request in the above-referenced docket.

1. Please provide the adjustments for removing CR3 from rate base.

Response: Effective 1/1/2013 PEF will remove the Plant-in-Service balances, the Accumulated Depreciation, the Fuel Inventory, the Materials and Supplies inventory, and the non-AFUDC CWIP balance from rate base.

2. Please state whether the CR3 costs that will be removed from rate base will be done in a uniform percentage consistent with how the costs will be added back in once the unit returns to service.

COM _____
APA _____
ECR 3
GCL 1
RAD 1
SRC _____
ADM _____
OPC _____
CLK _____

Response: Yes. The removal of CR3 from base rates is encompassed in the overall \$150 million increase provided for in paragraph 13 of the January 20, 2012 Stipulation and Settlement Agreement (the "Agreement"), therefore, it was removed using a uniform percentage consistent with how CR3 will be included when it returns to service.

Progress Energy Florida, Inc.
P.O. Box 14042
St. Petersburg, FL 33733

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3. Please provide a list of the 2010 and 2011 dollar amounts with accrued balances, of the CR3-related expense and depreciation accruals that will be suspended.

Response:

	<i>amounts in millions</i>			
	2011 Balance	2010 Balance	2011 Annual Expense	2010 Annual Expense
Last Core Nuclear Fuel	\$ 12.3	\$ 11.1	\$ 1.2	\$ 1.2
EOL M&S Accrual	15.7	14.6	\$ 1.1	\$ 1.1
Nuclear Refueling Outage #16	2.0	2.0	\$ -	\$ -
Nuclear Refueling Outage #17	18.0	12.7	\$ 5.3	\$ 10.5
	48.0	40.4	7.6	12.8
CR3 Annual Depreciation expense	NA	NA	17.6	17.6

4. If not included in the answer to the previous question, please explain why the following CR3 accruals are not being suspended:

- (a) Last Core Nuclear Fuel (Acct. 228.4021)
- (b) EOL Nuclear M&S (Acct. 228.4022)
- (c) Nuclear Refueling Outage (Acct. 228.4024-5)

Response: See Response to #3.

5. Please provide a list of the 2010 and 2011 dollar amounts of the CR3 expenses (such as O&M and property taxes) that will not be included in NOI for earnings surveillance purposes.

Response: No amounts will be excluded for purposes of calculating NOI for 2010 and 2011.

6. How, if at all, does the proposed Stipulation and Settlement Agreement address the true-up of 2011 and 2012 LNP NCRC costs?

Response: The true-up of 2011 and 2012 LNP NCRC costs will be incorporated into the tracking of the projected \$350M.

7. For the period 2012 through 2016, will PEF file petitions that identify and track (including true-ups) of LNP costs (by types and amounts) and the recovery of such costs as part of its annual NCRC filings?

Response: Yes, however, PEF expects that PEF, the Parties, and Staff will discuss which schedules will be necessary going forward during the term of this Agreement.

8. Does the Stipulation and Settlement Agreement change any of the carrying cost rates (with the exception of those applied to costs that are to be moved to base rate recovery) which can be or are applied to costs within the NCRC? If yes, please identify which rates are affected.

Response: No.

9. Does the proposed Stipulation and Settlement Agreement envision that the LNP "final true-up filing" will be considered as part of an annual NCRC filing or handled as a separate proceeding?

Response: The Agreement contemplates the final true-up as part of an annual NCRC filing.

10. How, if at all, does the proposed Stipulation and Settlement Agreement address the true-up of 2010 and 2011 CR3 uprate costs?

Response: The Agreement does not change the true-up process for the CR3 Uprate.

11. Does the proposed Stipulation and Settlement Agreement envision that the Commission will continue to be required to make annual decisions concerning the reasonableness of CR3 uprate costs and the prudence of PEF's actions associated with those costs?

Response: Yes.

12. Exhibit 5 of the Stipulation and Settlement Agreement, in a footnote, it states that "assume the transfer of land investments previously included in NCRC to base rate FERC Account 105 "Plant Held for Future Use" effective 1/1/2013 and that such investments will be included as rate case for Cost of Service and Surveillance Reporting. In accordance with the Stipulation and Settlement Agreement, PEF will transfer these land investments back to NCRC as part of such filing contemplated under the provisions of paragraph 4." Please identify where in paragraph 4 that the land issue is addressed?

Response: This footnote should reference paragraph 5. The Land, which will be transferred on 1/1/2013 out of FERC Account 107 and into FERC Account 105 "Plant Held for Future Use," was excluded from the derivation of the \$350 million.

13. With respect to Section 5 of the Stipulation and Settlement Agreement, please explain in detail the reason(s) why costs for Levy Nuclear Units 6 & 7 are capped until 2018 when terms of agreement is through 2016 (Section 5)?

Response: This was a negotiated term, which was an integral part of other negotiated terms and conditions, and the Agreement as a whole. However, the costs in paragraph 4 of the Agreement are an estimated, target amount for cost recovery.

14. Please explain whether Section 7 of the Stipulation and Settlement Agreement encompass as all three phases of the docket by the Parties, waiving the right to challenge the prudence of PEF's actions related to the SGR project from project inception approximately through implementation date (February 2012) including delaminations in 2009 and 2011.

Response: The Agreement resolves issues in all three phases of Docket No. 100437-EI as more fully set forth in paragraphs 2, 7, 9-11 of the Agreement.

15. With respect to Section 9(a) of the Stipulation and Settlement Agreement, what interest rate will apply to the \$288 million refund balance?

Response: Commercial Paper Rate

16. With respect to Section 9(a) of the Stipulation and Settlement Agreement, please explain in detail how PEF plans to implement the \$288 million refund to customers in the Fuel Clause. Please explain how this refund amount will appear on the Company's E-schedules and A-schedules.

Response: PEF and the Parties will work with Staff regarding how the refund amount will appear on the Company's E- and A-schedules.

17. With respect to Section 9(a) of the Stipulation and Settlement Agreement, please explain the reasoning as to why \$30 million will be refunded solely to customers on Rate Schedules RS-1, RSL-1, RSL-2, GS-1, and GS-2, and not to all customers. Also, please explain why 94% of such refund amounts will be allocated to Residential Service, while only 6% will be allocated to the General Service.

Response: This provision was a negotiated term, which was an integral part of other negotiated terms and conditions, and the Agreement as a whole. The allocation percentages were derived based on forecasted sales for the year of 2013.

18. Under Section 9(a) of the Stipulation and Settlement Agreement, \$129 million in replacement fuel costs will be refunded in 2013. What is PEF's current outlook for over/under recovery for 2012? What percentage of total fuel costs does \$129 million represent? What is the estimated residential bill impact in \$/month and % increase?

Response: The outlook for 2012 over/under recovery is a \$114 million over-recovery (6% to 7% of 2012). The \$129 million is approximately 7% of total fuel cost based on 2012 projections. The \$129 million represents a decrease of \$3.44 on the RS 1000/kWh bill which represents a 2.8% decrease on total bill.

19. With respect to Section 9 of the Stipulation and Settlement Agreement, please explain in detail how the settlement agreement affects the Fuel Clause and the Environmental Cost Recovery Clause Dockets over the next 4 years.

Response: Paragraph 9 of the Agreement will affect fuel by the refund provision discussed. Paragraph 14 addresses certain CAIR assets, and provides for the movement of certain CAIR assets (only CR4&5 CAIR Electric Plant In-Service Investments in project number 7.4 per the Company's filing schedules) into base rates with a corresponding base rate revenue increase in 2014, and a corresponding reduction in revenue recovered in the ECRC. This will not impact other existing projects or new projects that are normally recovered through the ECRC.

(a) In your response to the question above, please state whether PEF believes that the Stipulation and Settlement Agreement excuses its participation in these dockets.

Response: No.

(b) If nothing shall preclude PEF from costs that are, would be or have been recovered through cost recovery clauses, how does PEF believe the Commission should handle issues overlapping the Stipulation and Settlement Agreement.

Response: See Response to 19 above.

- (c) If the Stipulation and Settlement Agreement does not allow Commission input regarding the repair or retire question or the cost recover, as established in Phase 2 and Phase 3, why do the Parties ask for a stay in both Phases?

Response: PEF will file a motion to stay Phases 2 and 3 because the Agreement provides the Intervenor Parties the right to challenge certain decisions and/or costs under certain, specified circumstances in the Agreement and have those issues presented to the Commission for resolution. Because those issues are not yet ripe for Commission consideration, the Parties believe the appropriate course of action is to stay phases 2 and 3 of Docket No. 100437-EI.

20. Paragraph 9(b) of the Stipulation and Settlement Agreement references refunds that would be required if PEF does not in good faith commence CR3 containment building repairs by December 31, 2012. According to the Agreement, PEF would be required to refund a prorated amount to exceed \$40 million towards replacement fuel and purchased power costs if CR3 remains out of service in 2015. Assuming that PEF does not commence CR3 containment building repairs by December 31, 2012, and that CR3 remains out of service until April 2015, when would PEF be required to issue the refunds?

Response: The refund would be included in the projection for 2015 and/or 2016.

21. Please refer to Paragraph 9(b) of the Stipulation and Settlement Agreement. Is 30 months the “worse case scenario” estimate for completely repairing the containment building?

Response: No.

22. Please refer to Paragraph 9(b) of the Stipulation and Settlement Agreement. Please state in detail what happens if PEF commences repairs to CR3 before December 2012, but commercial operation is delayed beyond 30 months?

Response: If PEF commences repairs before December 31, 2012, paragraphs 9 and 10 apply.

23. Please refer to Paragraph 9(b) of the Stipulation and Settlement Agreement. Please state whether as part of the agreement the parties waive their right to challenge the decision to repair (Phase 2), but retain rights to challenge execution of repair?

Response: The Parties’ rights regarding this issue are addressed in paragraphs 9.b, 9.c, and 10.a-f.

24. Please refer to Sections 9(b) and 10(a) of the Stipulation and Settlement Agreement. Please define “Board”, “Board of Directors,” and “Company’s Board.”

Response: All three refer to the Progress Energy, Inc. or its successor Board of Directors.

25. Please refer to Section 10 of the Stipulation and Settlement Agreement. Please state whether PEF will self-manage the repair of the CR3?

Response: This decision has not been made.

26. In Section 10(a)(3) of the Stipulation and Settlement Agreement, it states that the Intervenor Parties’ waiver of rights shall remain in effect until there is final resolution with NEIL or December 31, 2013. Please state what is the significance of the December 31, 2013 date?

Response: This was a negotiated term, which was an integral part of other negotiated terms and conditions and the Agreement as a whole.

27. Please refer to Section 10(d) of the Stipulation and Settlement Agreement on page 12. Is the company or the parties opposed to a staff representative attending the quarterly meetings? If not, will PEF be willing to report to the Commission what resulted from the quarterly status updates between the parties?

Response: The Parties always contemplated briefing Staff periodically throughout the repair process, apart from the meetings among the Parties referenced in paragraph 10 of the Agreement. The meetings referenced in paragraph 10 are intended to be on-going settlement meetings among only the Parties to the Agreement.

28. With respect to Section 10(a)2 on pages 9 and 10 of the Stipulation and Settlement Agreement, please explain what specific action will satisfy the requirement that PEF “commences containment building repairs by December 31, 2012, and continues to implement such repairs.”

Response: The Parties did not define what constitutes “commencement” of repairs, or the “continuation” of any such repairs. If disputed, whether PEF has commenced and continued repairs could be an issue determined by the Commission.

29. According to Section 11(a) of the Stipulation and Settlement Agreement paragraph 11, relating to the decommission of CR3, NEIL insurance proceeds will, unless otherwise agreed among the Parties, be applied first to offset the consumers' share of replacement fuel costs incurred after December 31, 2012, with any remaining proceeds to be applied to any unrecovered CR3-related investments. What would cause there to be additional proceeds beyond the replacement fuel costs if PEF decides to decommission CR3?

Response: The Parties did not necessarily contemplate any specific scenario in which such an event would occur; however, in the event it did, the Parties agreed to address any such proceeds in this manner.

30. With respect to Section 11(b) on page 14 of the Stipulation and Settlement Agreement, please provide a list of the items and the respective amount of each item PEF intends to have treated as regulatory assets to address the revenue requirement associated with all CR3 related costs.

Response: This section addresses a retirement scenario so the amounts under this scenario are not currently known; however, the types of expenditures which will give rise to a regulatory asset are: O&M; property taxes; depreciation and amortization; and carrying costs.

31. With respect to Section 13 of the Agreement, please provide a schedule showing how the \$150 million increase was calculated listing all adjustments with explanations for each.

Response: This provision was a negotiated term, which was an integral part of other negotiated terms and conditions, and the Agreement as a whole.

32. With respect to Section 14 of the Agreement, it states that “the Company will be authorized” to move the CAIR-related assets and revenue requirements from the ECRC to base rates in January 2014. Does PEF intend to move these assets from the ECRC to base rates?

Response: Yes. Consistent with the provisions in paragraph 14 of the Agreement, approval of the Agreement by the Commission will require PEF to move the assets in the specified schedule that are in-service and/or projected to be in-service as of the end of 2013 from ECRC and place them in base rates beginning in January 2014. As a consequence of Commission approval of the Agreement, PEF will file tariff changes to become effective the first billing cycle in January 2014 to increase base rate revenues in an

amount which will equal the annual retail revenue requirements associated with these assets, and decrease retail revenues to be recovered through the ECRC by a corresponding amount. The Company does not have discretion as to whether or not to make this adjustment; it is part and parcel of the overall Agreement that is before the Commission for approval. It is the intention of the Parties that the Commission's approval of the Agreement constitutes approval of the transfer of the costs associated with the CAIR assets to base rates as provided in the Agreement. Thus, the only future Commission action necessary with respect to the transfer will be the administrative approval of the tariff sheets for the revised ECRC charges and base rates, necessary to implement paragraph 14 of the Agreement, that will become effective in the first billing cycle of January 2014.

33. With respect to Section 16 on page 18 of the Stipulation and Settlement Agreement, please provide the respective 12/31/11 balance and 2011 amortization of each regulatory asset identified in this paragraph.

Response:

Q#33	<i>amounts in millions</i>	
	2011 Annual Balance	2011 Expense (pretax)
Loss on Reaquired Debt	16.9	1.4
Interest on Tax Deficiency	0.5	(15.6) Note 1
2009 Pension Asset	33.8	-
FAS 109 Asset	5.7	0.6

Note 1.

The annual expense for 2011 reflects an adjustment we made to reverse the interest accrued on taxes primarily related to 2004 and 2005 storm damage costs. The issue was resolved favorably in 2011, so we were able to reverse the accrued interest expense.

34. With respect to paragraph 16 on page 18 of the Stipulation and Settlement Agreement, please provide a detailed explanation of the adjustment to the Company's equity ratio identified in this Section. For purposes of this response, please show the calculation of the Company's equity ratio as of December 31, 2012 and 2013 as contemplated by this provision. In addition, please explain how long the Parties contemplate this adjustment to PEF's equity ratio will remain in force.

Response: The equity ratio is projected to be approximately 47% on an FPSC adjusted basis. The equity adjustment provision will remain in effect through the term of the Agreement. Realizing that for Surveillance Reporting, which presents the capital structure on a 13-month average, this will require a phase-out with the adjustment completely removed by January 2018.

35. With respect to Section 18 of the Agreement, please describe the purpose (s) of this proposal, and explain the similarities and differences between this proposal and that reflected in Paragraph 3 of the stipulation approved by the Commission by Order PSC-10-0398-S-EI.

Response: The provisions of paragraph 18 are similar to the terms of the stipulation approved by the Commission in 2010. The principal difference is that there are no ranges provided for the amount of the depreciation credits in any period.

36. With respect to Section 18, please provide the FERC 2011 accounting order that is referenced in that section (or provide a cite whereby staff can download it).

Response: A copy of the referenced FERC Order is attached.

37. Section 18 of the Agreement states that these credit amounts to depreciation expense are in lieu of the annual amortization of the theoretical depreciation reserve surplus approved in Order No. PSC-10-0131-FOF-EI. Is it the intent of the parties that any remaining amortization amounts from the rate case order will cease? If so, please explain why.

Response: Yes, the amount included in the 2010 order will cease and the provisions of paragraph 18 will take its place.

38. With respect to Section 18 of the Stipulation and Settlement Agreement, when is the first year that PEF could record such a jurisdictional credit to depreciation expense?

Response: PEF can record a jurisdictional credit to depreciation expense each year throughout the term of this Agreement. PEF's current settlement agreement also provides for this option in 2012.

39. With respect to Section 18, it is stated that the reduction in depreciation expense is limited by the remaining balance in the cost of removal reserve throughout the term. What is the balance as of 1/1/2012, and estimated for the each of the years 2013 through 2017 (disregarding taking any credits)?

Response: PEF anticipates having a balance of approximately \$70 to \$75 million at the end of 2012. PEF does not have the information necessary to complete a projection for years 2013-2017.

40. With respect to Section 18, it is stated that recovery of the regulatory asset will be “no longer than the average remaining service life of the assets, approved in Company’s most recent depreciation study.” By way of clarification, does “average remaining service life” here refer to the composite remaining service of all depreciable assets? If not, please explain what is meant.

Response: Yes.

41. With respect to Section 18, the Stipulation and Settlement Agreement states that “PEF agrees to file a Depreciation Study, Fossil Dismantlement Study or Nuclear Decommissioning Study on or before July 31, 2017.” Should the first “or” be an “and”? If not, please clarify the parties’ intent. Are these depreciation and fossil dismantlement studies in addition to, or in lieu of, the comparable studies currently due to be filed in 2013?

Response: Yes, this is a typo; it should be “and”. It is also in lieu of studies due in 2013; PEF does not plan to file any studies in 2013.

42. Due to the uncertain status of CR3, staff’s review of PEF’s decommissioning study filed in Docket No. 100461-EI has been on hold. If the stipulation is approved, what does the Company and the parties believe the Commission should do with the study filed in Docket No. 100461-EI?

Response: The Commission should approve the study in that docket.

43. For purposes of this question, please refer to Slide 8 of the presentation made during PEF’s 2012 Rate Settlement Analyst Call held on January 23, 2012. With respect to the final bullet point on Slide 8, does the Settlement contemplate customer rates increasing by the amount of revenue requirement associated with the incremental difference between applying a 10.5 percent and 10.7 percent ROE to just the CR3 investment or by the incremental difference between applying a 10.5 percent and 10.7 percent ROE to PEF’s entire rate base? For purposes of this response, please provide an explanation of how the rate increase will be determined and an estimate of the annual revenue requirement increase contemplated by this provision.

Response: The 10.7% cash increase will only be applied to the CR3 Investment. The 10.7% will also be used for earnings surveillance, the cost recovery clauses, and for the AFUDC rate on going forward basis. PEF does not have an estimate of the annual revenue requirements, which will depend on the total cost of repairs and the level of NEIL coverage.

44. Please state what the limits are on all NEIL claims on either a one or two scenario event?

Response: PEF's Accidental Outage Insurance policy has a twelve week deductible period per accident and provides a set payment for weekly indemnity up to a \$490 million limit of liability per accident. PEF's Property Damage Insurance policies have a \$10 million deductible per accident and a total limit of liability per accident of \$2.25 billion. Thus, under a one accident scenario, PEF has up to \$490 million in accidental outage coverage and up to \$2.25 billion in property damage coverage, subject to the aforementioned deductibles. Under a second accident, PEF would have the same coverage for the second accident. Under a two accident scenario, the Accidental Outage coverage for each accident would overlap.

In addition, at the January 26, 2012 meeting, Staff requested PEF to provide the total amount the Company has spent on repairs from March 2011 through December 2011. That amount is approximately \$80 million.

45. Please identify separately the impact on a 1,000 kilowatt-hour residential bill in 2013, 2014, 2015, and 2016 for each of the provisions in the proposed Stipulation that affect rates (base rates and all recovery clauses). In the response, show the impact on the following rate components: customer charge, non-fuel energy charge, fuel factor, capacity factor excluding nuclear component, nuclear component of capacity factor, environmental factor, and conservation factor for each of the years listed above.

Response: [Remainder of page intentionally left blank]

Progress Energy Florida
Settlement Impacts - Residential \$/1000 Bill
Based on 2012 Approved Rates Adjusted only for Settlement Provisions

Line No.		RS - 1000 KWH Bill		
		2012	2013	2014
1	Base Revenue:			
2	Customer charge	\$ 8.76	\$ 8.76	\$ 8.76
3	Energy Charge	39.82	45.09	49.96
4	Subtotal Base Revenue	48.58	53.85	58.72
5	Clause Revenue:			
6	Fuel Cost Recovery	48.60	45.16	44.62
7	Capacity Cost Recovery	11.74	11.74	11.74
8	Energy Conservation Cost Recovery	2.88	3.19	3.19
9	Environmental Cost Recovery	5.45	5.45	1.24
10	Nuclear Cost Recovery - CR3 Uprate	0.19	2.08	1.75
11	Nuclear Cost Recovery - Levy	2.67	3.45	3.45
12	2.5641% Gross Receipts	3.08	3.20	3.20
13	Subtotal Clause Revenue	74.61	74.27	69.19
14	Total Residential Bill	\$ 123.19	\$ 128.12	\$ 127.90
15				
16	Change Year over Year		4.93	(0.21)
17	% Change Year over Year		4.0%	-0.2%
18				
19	2013-2014 Impacts Based on 2012 Current Rates			
20				
21	Settlement Base Rate Revenue Increase			
22	13.23% 2013 \$150+20M- \$/1000 KWH Bill Impact		5.27	5.27
23	10.80% 2014 CAIR \$158 - \$/1000 KWH Bill Impact			4.87
24				
25	ECCR - Increase IS/CS & SBG Credits			
26	\$/1000 KWH Bill Impact		0.31	0.31
27				
28	ECRC - Move CAIR Assets to Base - \$158M in 2014			
29	10.80% \$/1000 KWH Bill Impact			(4.21)
30				
31	Fuel Refund - \$288M over 4 yrs 2013-2016 (10M to RS 14-16)			
32	\$/1000 KWH Bill Impact		(3.44)	(3.98)
33				
34	NCRC - Levy 5 Yr Amortization			
35	\$/1000 KWH Bill Impact		0.78	0.78
36				
37	NCRC - CR3 Uprate			
38	\$/1000 KWH Bill Impact		1.89	1.56

46. Please state the total impact on a 1,000 kilowatt-hour residential bill in 2013, 2014, 2015, and 2016 of the proposed Stipulation.

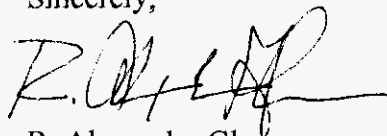
Response: See response to request no. 45 above.

47. With respect to paragraph 4, provide the amount of the annual retail revenue requirement associated with the carrying costs on the deferred tax assets that will be transferred to base rates effective with the first billing cycle in January 2013. Is this proposed rate increase in addition to the \$150 million dollar annual revenue increase addressed in paragraph 13.

Response: Yes, this is in addition to the \$150 million annual revenue increase addressed in paragraph 13. See attached pdf and MFR schedule E-12 in attachment A to Exhibit 1 of the Agreement and Exhibit 6 of the Agreement.

Thank you in advance for your attention to this matter. Please do not hesitate to contact me at (727) 820-5587 should you have any questions.

Sincerely,



R. Alexander Glenn

cc: Office of Commission Clerk
Director of Economic Regulation - Marshall Willis

136 FERC ¶ 61,033
UNITED STATES OF AMERICA
FEDERAL ENERGY REGULATORY COMMISSION

Before Commissioners: Jon Wellingshoff, Chairman;
Marc Spitzer, Philip D. Moeller, ✓
John R. Norris, and Cheryl A. LaFleur.

Florida Power Corporation

Docket No. ER11-3584-000

ORDER ON RETAIL ADJUSTMENTS TO DEPRECIATION RESERVES

(Issued July 15, 2011)

1. On May 16, 2011, pursuant to section 205 of the Federal Power Act (FPA),¹ Florida Power Corporation (Florida Power) filed to reflect the impact of retail rate depreciation reserve² adjustments on Florida Power's Open Access Transmission Tariff (OATT) formula rates. In this order, we reject the adjustments and instead direct Florida Power to account for the retail rate adjustments as regulatory assets, as discussed below.

I. Background

2. On February 28, 2011, in Docket No. ER11-2584, the Commission issued an order accepting Florida Power's proposed depreciation rates included in Schedule 10 of Florida Power's OATT.³ These depreciation rates were the same as those approved by the

Florida Public Service Commission (Florida Commission) in 2010.⁴ Protestors in Docket No. ER11-2584 argued that Florida Power should be required to supplement that filing to

¹ 16 U.S.C. § 824d (2006).

² As used here, the term "depreciation reserve" refers to amounts recorded in Florida Power's Account 108, Accumulated Provision for Depreciation of Electric Utility Plant.

³ *Florida Power Corp.*, 134 FERC ¶ 61,145, at P 3 (2011) (February 28 Order).

⁴ *In re: Petition for Increase in Rates by Progress Energy Florida, Inc.*, Docket No. 090079-EI, at 45-46 (Fla. Pub. Serv. Comm'n Mar. 5, 2010 and June 18, 2010).

reflect the Florida Commission's approval of adjustments necessary to eliminate theoretical depreciation reserve imbalances (excess depreciation reserves).⁵ They argued that those adjustments will have a wholesale rate effect beyond that included in Florida Power's filing. Florida Power argued, however, that the actual quantitative rate impact of those adjustments would not be available for Commission consideration until April 2011, after it filed its 2010 FERC Form No. 1.⁶ The Commission agreed with the protestors that, consistent with Order No. 618,⁷ additions or deductions to depreciation expense to reflect any theoretical reserve amortization would require an FPA section 205 filing because such amortization would affect the remaining life calculations typically used to determine subsequent depreciation rates.⁸ The Commission emphasized that it was only approving the proposed depreciation rates and not any adjustments to eliminate the theoretical depreciation reserve surplus.⁹ Florida Power committed to make a FPA section 205 filing to account for these adjustments after its FERC Form No. 1 data became available and before filing its 2010 Annual Update for its OATT formula rate.

II. Florida Power's Filing

3. In the instant filing, Florida Power submits the 2010 impact of the retail depreciation reserve adjustments on its OATT formula rate. Florida Power states that it reduced the cost of removal portion of its depreciation reserve for production and distribution accounts, pursuant to Florida Commission orders and a retail Stipulation and Settlement Agreement dated May 10, 2010 that was accepted by the Florida Commission.¹⁰ This Settlement Agreement states in part:

[Florida Power] will have the discretion to reduce depreciation expense (cost of removal) by up to \$150 million in 2010, up to \$250 million in 2011, and up to any remaining

⁵ The theoretical depreciation reserve balance is "the calculated balance that would be in the reserve if the life and salvage estimates now considered appropriate had always been applied." *Id.*

⁶ FERC February 28 Order, 134 ¶ 61,145 at P 12.

⁷ *Depreciation Accounting*, Order No. 618, FERC Stats. & Regs. ¶ 31,104, at 31,695, n.25 (2000) (Order No. 618).

⁸ FERC February 28 Order, 134 ¶ 61,145 at P 20.

⁹ *Id.*

¹⁰ Transmittal Letter, Attachment 1 at 3 (Settlement Agreement).

balance in 2012 during the term of this Agreement until the earlier of (a) [Florida Power's] depreciation (cost of removal) reserve reaches zero, or (b) the term of this Agreement expires. In the event [Florida Power] reduces depreciation expense (cost of removal) by less than the caps set forth in this paragraph, [Florida Power] may carry forward (i.e. increase the cap by) any used depreciation (cost of removal) reserve amounts in subsequent years during the term of this Agreement.¹¹

Because the Settlement Agreement grants Florida Power discretion to reduce depreciation expense up to a specified amount in 2010, 2011, and 2012, Florida Power asserts that it does not know whether and to what extent the adjustments to depreciation reserves will impact the OATT formula rate for service in 2011 and 2012.¹²

4. Florida Power states that it has recorded total 2010 depreciation reserve reductions of \$65,840,613, consisting of a \$33,296,538 reduction to the production plant depreciation reserve and a \$32,544,075 reduction to its distribution plant depreciation reserve.¹³ These depreciation reserve reductions result in reduced amounts of allocated deferred income taxes attributable to wholesale rate base and, consequently, result in a wholesale rate increase of \$79,986 under the OATT formula rate for 2010.¹⁴

5. Florida Power further explains that it implemented the retail depreciation reduction for 2010 effective January 1, 2010. Accordingly, Florida Power requests waiver of the Commission's prior notice requirements to permit an effective date of January 1, 2010.¹⁵ In support of this waiver, Florida Power explains that, on June 1, 2011, it will complete its Annual Update and true up of the OATT formula rate for 2010 transmission service, and that such true up will be completed using the 2010 FERC Form No. 1 data, which incorporates the depreciation adjustments described in this filing. Therefore, Florida Power is implementing the depreciation adjustments consistent with the OATT formula

¹¹ *Id.*

¹² *Id.* at n.8.

¹³ *Id.* at 3.

¹⁴ *Id.* The depreciation reserve is an offset to plant in service. Therefore a decrease in reserve results in an increase in rate base.

¹⁵ *Id.* at 4.

rate. Florida Power notes that the Commission has granted waiver of its notice requirements in several similar cases.¹⁶

III. Notice of Filing and Responsive Pleadings

6. Notice of Florida Power's filing was published in the *Federal Register*, 76 Fed. Reg. 30,330 (2011), with interventions or protests due on or before June 6, 2011. Timely motions to intervene were filed by Florida Municipal Power Agency and Seminole Electric Power Cooperative, Inc.

IV. Discussion

A. Procedural Matters

7. Pursuant to Rule 214 of the Commission's Rules of Practice and Procedure, 18 C.F.R. § 385.214 (2011), the timely, unopposed motions to intervene serve to make the entities that filed them parties to this proceeding.

B. Substantive Matters

8. As explained below, the Commission finds that Florida Power's adjustment of its depreciation reserves is not in accordance with the Commission's accounting and reporting requirements. We also find that Florida Power must recognize the economic effects of the Florida Commission's rate actions as regulatory assets in Account 182.3, Other Regulatory Assets, rather than as adjustments to its depreciation reserve.

9. In Order No. 618 and in the February 28 Order, the Commission stated that the cost of property used in utility operations should be allocated in a "systematic and rational manner" to periods during which the property is used in utility operations, i.e., over the property's remaining estimated useful service life.¹⁷ For this reason, changes in asset depreciation estimates, including cost of removal, should be made prospectively over the

¹⁶ *Id.* (citing *South Carolina Electric and Gas Co.*, 132 FERC ¶ 61,043 (2010); *Duke Energy Carolinas, LLC*, 130 FERC ¶ 61,079 (2010)).

¹⁷ See FERC February 28 Order, 134 ¶ 61,145 at P 19; Order No. 618, FERC Stats. & Regs. ¶ 31,104 at 31,694-95. Additionally, the Commission's Uniform System of Accounts provides, in part, that, "[u]tilities must use percentage rates of depreciation that are based on a method of depreciation that allocates in a systematic and rational manner the *service value* of depreciable property to the service life of the property." General Instruction No. 2, Depreciation Accounting, 18 C.F.R. Part 101 (2011) (emphasis added). "Service value" refers to "the difference between original cost and net

(continued...)

asset's remaining life. Florida Power proposes to adjust its depreciation reserves by \$65,840,613 in 2010 and intends to adjust its depreciation reserves by varying amounts in 2011 through 2013 rather than allocating the excess depreciation reserves over the remaining service lives of the related utility plant. While these adjustments may be acceptable for retail ratemaking purposes, they do not conform to our requirements for allocating the costs of utility plant over their service lives. Accordingly, we will direct Florida Power to reinstate all such adjustments to its depreciation reserves (Account 108). Florida Power must also re-file its 2010 FERC Form No. 1 to reflect the restatement of its depreciation reserves. Additionally, because Florida Power's OATT Formula Rate automatically incorporates the revised plant amounts, we will direct Florida Power to recalculate wholesale formula rate billings¹⁸ to reflect the reinstatement of the depreciation reserves and refund with interest all amounts improperly collected from wholesale customers.

10. Additionally, we find that the adjustments approved by the Florida Commission should be recognized in Florida Power's accounts and FERC Form No. 1 financial statements as regulatory assets. The Commission's Uniform System of Accounts for public utilities provides for the use of regulatory assets and liabilities to account for, *inter alia*, rate actions of regulatory agencies that differ from the Commission's accounting requirements.¹⁹ Specifically, Account 182.3, Other Regulatory Assets, provides for amounts of regulatory-created assets, not includible in other accounts, resulting from the ratemaking actions of regulatory agencies. Therefore, Florida Power must debit Account 182.3 and credit Account 407.4, Regulatory Credits, for the above discussed adjustments that are reflected in its retail rate orders.

The Commission orders:

(A) Florida Power's proposed adjustments to its depreciation reserves are hereby rejected, and Florida Power is hereby directed to reinstate amounts improperly removed from Account 108, as discussed in the body of this order.

salvage value of electric plant." Definition No. 37, Service Value, 18 C.F.R. Part 101 (2011). The "net salvage value" is the "salvage value of property retired less the cost of removal." Definition No. 19, Net Salvage Value, 18 C.F.R. Part 101 (2011).

¹⁸ Florida Power Corp., OATT, Schedule 10 (1.0.0), Section 1.

¹⁹ See Definition No. 31, Regulatory Assets and Liabilities, 18 C.F.R. Part 101 (2011).

(B) Florida Power is hereby directed to record a regulatory asset to record the economic effects of the Florida Commission's retail rate order, as discussed in the body of this order.

(C) Florida Power is hereby directed to refund with interest all amounts improperly collected from wholesale customers, as discussed in the body of this order.

(D) Florida Power is hereby directed to file a refund report with the Commission within 30 days after making the refunds.

By the Commission.

(S E A L)

Nathaniel J. Davis, Sr.,
Deputy Secretary.