

State of Florida



## Public Service Commission

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

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**DATE:** November 18, 2004

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

**FROM:** Division of Economic Regulation (Gardner, Colson, Haff, Kenny, Lester)  
Office of the General Counsel (Brown)

**RE:** Docket No. 041143-EI – Petition for Approval of Depreciation Rate Changes for Big Bend Combustion Turbine Nos. 2 and 3, and Polk Units 2 and 3, by Tampa Electric Company.

**AGENDA:** 11/30/04 - Regular Agenda - Interested Persons May Participate

**CRITICAL DATES:** None

**SPECIAL INSTRUCTIONS:** None

**FILE NAME AND LOCATION:** S:\PSC\ECR\WP\041143.RCM.DOC

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### Case Background

Rule 25-6.0436, Florida Administrative Code, requires investor-owned utilities to file comprehensive depreciation studies at least once every four years. The Commission authorized the approval of new depreciation rates for Tampa Electric Company (TECO or company) effective January 1, 2004, by Order No. PSC-04-0815-PAA-EI, in Docket No. 030409-EI, issued August 20, 2004. That order approved a new recovery schedule for Big Bend Combustion Turbine Units 2 and 3 to begin January 1, 2003 and end December 31, 2004, matching recovery of the remaining net investment to the remaining service period of the investment.

On September 24, 2004, Tampa Electric Company filed a petition for the approval of depreciation rate changes for Big Bend Combustion Turbine Units 2 and 3, and Polk Units 2 and 3. The request is based upon the refurbishment of the Big Bend Combustion Turbines units necessitated by the lack of response to TECO's Request for Proposals (RFP) for purchased power, as well as the completion of account subcategorization for Polk Units 2 and 3.

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This is staff's recommendation to permit implementation of TECO's proposed depreciation rates on a preliminary basis, pending a full review of the proposed rates. The Commission has jurisdiction over these matters pursuant to Sections 366.04, 366.05, and 366.06, Florida Statutes.

### **Discussion of Issues**

**Issue 1:** Should the Commission permit Tampa Electric Company to implement its proposed depreciation rates, provision for dismantlement, and account subcategorization on a preliminary basis for Big Bend Combustion Turbine Units 2 and 3, and Polk Units 2 and 3?

**Recommendation:** Yes. The additional \$4.1 million of plant investment to refurbish Big Bend Combustion Turbines 2 and 3 will extend the useful life of these units approximately 10 years. Therefore, the depreciation rates, recovery schedules, and provision for dismantlement should be adjusted to reflect the units' current life expectancy. In addition, property records are now complete for Polk Units 2 and 3 to allow plant account specific depreciation rates, per Rule 25-6.04361(5)(c), Florida Administrative Code. The effect of this proposal would decrease expenses as shown on Attachments B and C by an estimated \$748,000 for 2004. The resulting expenses should be trued-up when final action, expected to occur in January 2005, is taken by the Commission in this docket. (Gardner, Colson, Haff, Lester)

**Staff Analysis:** During the fall of 2003, TECO issued a Request for Proposals to procure peaking capacity beginning in the fall of 2005. By the summer of 2004, TECO recognized that a reliable and economical source of power was not available to meet its capacity need. As shown in TECO's Ten-Year Site Plan, Big Bend Combustion Turbine (CT) 2 is currently in long-term shutdown status, and the output of Big Bend CT 3 was reduced to a summer capacity of 60 MW (70 MW winter). Initially, these two units were to be returned to service by May 1, 2006. When TECO realized that its RFP process would not provide sufficient capacity resources to meet its need, TECO determined that the most cost-effective and timely alternative was to accelerate planned refurbishment of the Big Bend CT units. Work began on July 19, 2004 and October 5, 2004, on Big Bend CT Units 2 and 3, respectively. TECO is replacing damaged turbine blades, restoring the units to original design, and completing other refurbishment activities. Work is scheduled to be completed on November 11, 2004 and December 23, 2004, for Units 2 and 3, respectively. The proposed total cost for the work is \$4.1 million, of which \$2.1 million is for Big Bend CT Unit 2 and \$2.0 million is for Big Bend CT Unit 3. Big Bend CT Unit 2 will be restored to its original summer capacity of 66 MW (80 MW winter), while Big Bend Big Bend CT Unit 3 will be restored to its original summer capacity of 70 MW (76 MW winter). The additional plant investment and replacement activities require revised life analysis and depreciation rates for Big Bend CT Units 2 and 3.

Also, Rule 25-6.04361(5)(c), Florida Administrative Code, requires that Accounts 341 through 346 be maintained, at a minimum, on a plant site basis, but that stratification within the accounts for use in determining depreciation rates must be established in accord with the potential life patterns and usage by the specific company. In its 2003 comprehensive depreciation study, the company provided the life analysis of Polk Units 2 and 3 at the site level pending completion of its property records and subcategorizations of the individual units, as authorized by Order No. PSC-00-0603-PAA-EI, issued March 29, 2000, in Docket No. 990529-EI, In Re: Petition for 1999 depreciation study by Tampa Electric Company. Polk Unit 2 was placed in service in July 2000 and expenditures were complete in July 2001. Polk Unit 3 was placed in service in April 2002 and expenditures were completed in February 2003. The property records and subcategorizations for the units were completed in July 2004. The 2003 comprehensive depreciation study final order was issued in August 2004. This recommendation

provides the necessary stratification of the assets into various categories expected to live in different patterns to include recalculation of salvage values, remaining life, and retirement.

Preliminary implementation does not infer that, upon completion of the review of the company's filed petition, staff will be in full agreement with the company's life, reserve, and salvage proposals. It only means that preliminary implementation of the rates and dismantlement provision shown on Attachments A and C is likely to result in more appropriate expenses than retention of the currently effective depreciation rates and dismantlement accruals. Also, it resolves the problem Tampa Electric would face if the 2-year recovery schedule proceeded to its December 31, 2004 end date and it became necessary for the company to absorb the additional \$4.1 million refurbishment expense for the Big Bend CT units. In any case, expenses should be trued-up upon final Commission action in this docket.

The proposed changes in depreciation rates, dismantling accruals and recovery schedules indicate the following functional changes in annual depreciation.

Functional Change in Annual Depreciation	
Production Plant	(\$746,186) (See Attachment B)
Dismantling	(1,637) (See Attachment C)
Total Depreciation and Dismantling Cost	(\$747,823)

**Issue 2:** What should be the implementation date for the new depreciation rates, recovery schedule, provision for dismantlement accruals, and account sub categorization?

**Recommendation:** Staff recommends preliminary approval of Tampa Electric's proposed implementation date of January 1, 2004. (Gardner)

**Staff Analysis:** In Tampa Electric's Petition, the company requests a January 1, 2004, implementation date for its proposed depreciation rates, recovery schedule, dismantlement accruals for Big Bend Combustion Turbines 2 and 3, and account subcategorization for Polk Units 1 and 2. The Big Bend Combustion Turbines No. 2 and 3 were planned to be retired by year-end 2004, but the company proposes that it be allowed to terminate the two year recovery schedule and replace it with the appropriate life analysis, salvage values, and dismantlement provision effective January 1, 2004.

Rule 25-6.0436, Florida Administrative Code, requires that submitted plant and reserve balances or company planning involving estimates, match the effective date of the proposed rates. The Commission approved recovery schedule for the combustion turbines reflects the recovery of the company's investment prior to the change in planning because of the lack of response to its purchased power RFP. To comply with Rule 25-6.0436, Florida Administrative Code, Tampa Electric's petition addresses the unusual plant activity occurring at Big Bend CTs 2 and 3, which results in a recalculation of the depreciation rate components, and remaining life of the surviving investments. This will ensure that Tampa Electric's Ten Year Site Plan and the company's books and records accurately reflect operating conditions and generation planning.

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

**Recommendation:** No. This docket should remain open, pending staff review, analysis, and final Commission action on the revised depreciation rates, recovery schedule, dismantlement provision, and account subcategorization. (Brown)

**Staff Analysis:** The recommendation addresses the preliminary booking of Tampa Electric's revised depreciation rates, recovery schedules, dismantlement provision, and account subcategorization beginning January 1, 2004, with a provision for a true-up of resulting expenses when final Commission action is taken. The issue regarding the appropriate depreciation, recovery schedule, dismantlement factors, and account subcategorizations can not be resolved until staff has thoroughly reviewed and analyzed the company's filed petition. Staff expects to bring a recommendation to the Commission for final action on this request in January 2005. The Order resulting from staff's recommendation on the final depreciation rates, recovery schedule, and dismantlement provision will be issued as Proposed Agency Action affording a point of entry for substantially affected persons.