State of Florida

Public Service Commission

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TALLAHASSEE, FLORIDA 32399-0850

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

DATE: January 20, 2005

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: 02/01/05 – Regular Agenda – Proposed Agency Action – Interested Persons May Participate

CRITICAL DATES: None

SPECIAL INSTRUCTIONS: None

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

Case Background

Rule 25-6.0436, Florida Administrative Code, requires investor-owned utilities to file comprehensive depreciation studies at least once every four years. 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. By Order No. PSC-04-1224-PCO-EI, issued December 10, 2004, in this docket, the company was authorized to implement, on a preliminary basis, its depreciation rate changes, recovery schedules, and fossil dismantlement accruals as of January 1, 2004.

On November 22, 2004 the Company revised its fossil dismantlement proposal. This recommendation addresses this revised filing and the reallocation of the depreciation reserves.

The Commission has jurisdiction over these matters through several provisions of Chapter 366, Florida Statutes, including Sections 366.04, 366.05, and 366.06.

Discussion of Issues

Issue 1: Should the Commission change the preliminary depreciation rates, amortizations, recovery schedules, account sub categorization, and provision for dismantlement for Tampa Electric Company?

Recommendation: Yes. Staff recommends the Commission approve the company's revised lives, net salvage, reserves, resulting depreciation rates, and provision for dismantlement as shown on Attachments A, B, and C. (Gardner, Colson, Haff)

Staff Analysis: Order No. PSC-04-1224-PCO-EI authorized Tampa Electric to implement on a preliminary basis a change in depreciation rates and fossil dismantlement accruals effective January 1, 2004. The primary difference between the preliminary approved 2004 annual expense and provision for dismantlement with the current revised proposal is the reallocation of depreciation reserves for Polk Units 2 and 3 due to account sub-categorization and the recalculation of the depreciation rates. Also, for the calculation of fossil dismantlement accrual, an update of the Global Insight indices was updated from 2004 Winter to the most current 2004 Summer. Staff has completed its review of the company's depreciation study and recommends for final action the revised depreciation rates, recovery schedule, and provision for fossil dismantlement accruals shown on Attachments A, B, and C. The effect of this proposal would be to decrease total depreciation expenses shown on Attachment B by $745,298, beginning January 1, 2004.

Issue 2: What should be the implementation date for the new depreciation rates, recovery schedules, and dismantlement accruals?

Recommendation: Staff recommends January 1, 2004, as the implementation date for Tampa Electric Company's new depreciation rates, recovery schedules, and provision for fossil dismantlement as shown in Attachments A, B, and C. (Gardner, Colson, Haff)

Staff Analysis: Rule 25-6.0436, Florida Administrative Code, requires that data submitted in a depreciation study, including plant and reserve balances or company estimates, must match the effective date of the proposed rates. In this regard, Tampa Electric has provided supporting data and calculations for revised depreciation rates, recovery schedules, and dismantlement provisions to match a January 1, 2004, implementation date.

Issue 3: Should the Commission make any corrective reserve allocations?

Recommendation: Yes. Staff recommends the corrective measures shown in the table below. Staff recommends that the company make the necessary corrections to the reserve position for Polk Units 2 and 3. This action will bring the affected accounts' reserve more in line with its calculated theoretical level. (Gardner)

Staff Analysis: Staff's recommended reserve allocations address the imbalances that affect the company's investments and reserves between accounts of a given unit or function or between accounts and units of the same site. The allocations bring each affected account's reserve more in line with its theoretically correct position. Also, this corrective action is necessary to eliminate the accrual of depreciation expense that may continue beyond the account's current investment. Therefore, staff recommends that the company make the necessary corrections to its reserve position for Polk Units 2 and 3 as shown below. Tampa Electric agrees with these corrections.

RECOMMENDED RESERVE TRANSFERS						
Site and Account Number	Est. Book Reserve	Theoretical Reserve	Reserve Imbalance	Reserve Transfers	Restated Imbalance	Restated Reserve
Polk Unit 2 Account 341820	192,147	192,109	38	-38	0	192,109
Polk Unit 2 Account 342820	101,507	129,259	-27,752	27,752	0	129,259
Polk Unit 2 Account 343820	5,172,806	5,657,656	-484,850	484,850	0	5,657,656
Polk Unit 2 Account 345820	1,643,947	1,521,253	122,694	-122,694	0	1,521,253
Polk Unit 2 Account 346820	16,605	16,628	-23	23	0	16,628
Polk Unit 3 Account 341830	461,678	227,416	234,262	-156,069	78,178	305,594
Polk Unit 3 Account 342830	60,003	84,884	-24,881	24,881	0	84,884
Polk Unit 3 Account 343830	2,702,987	2,134,291	568,696	-389,893	178,803	2,313,094
Polk Unit 3 Account 345830	487,717	634,529	-146,812	146,812	0	634,529
Polk Unit 3 Account 346830	20,804	5,195	15,609	-15,609	0	5,195
Total	$10,860,201	$10,603,220	$256,981	0	$256,981	$10,860,201

Issue 4: Should the Commission change the depreciation rates, recovery schedule, and account sub categorization?

Recommendation: Yes. Staff recommends the Commission approve the lives, net salvages, reserves, account sub categorization, and resultant depreciation rates, as shown on Attachments A and B. (Gardner)

Staff Analysis: Staff's analysis represents an overall review of the company's proposed life, salvage and reserve factors, as well as, the establishment of a fixed levelized annual accrual for dismantlement of fossil plants in accordance with Order No. 24741, issued July 1, 1991, in Docket No. 890186-EI, In re: Investigation of the rate making and accounting treatment for the dismantlement of fossil-fueled generating stations. The analysis of the company's data and resulting expenses reflects the impact of its current planning to ensure that assets are fully amortized at the time of retirement as reflected on Attachments A and B. Attachment A shows the comparison of rate components (lives, salvages, and reserves) and Attachment B shows the comparison of expenses approved pursuant to Order No. PSC-04-1224-PCO-EI compared to staff's recommended 2004 expenses for preliminary implementation. The reallocation of the depreciation reserves for Polk Units 2 and 3 created a recalculation of the depreciation rates for some accounts which brought about the decrease in the depreciation expenses from $746,186 to $745,298 as shown in the table below. Staff's recommendation reflects the difference, which is a decrease of approximately $888 in annual depreciation accruals for production plant beginning January 1, 2004.

As a result of the review and analytical process, Tampa Electric and Staff have reached a basic agreement on lives and net salvage parameters recommended in this docket.

A summary of the changes to the annual accrual based on a January 1, 2004 estimate of investments resulting from the recommended rates, general plant amortizations, recovery schedules, and provision for fossil dismantlement which are shown on Attachments B and C are as follows:

Functional Change in Annual Depreciation		
	Preliminary Approval	Staff Final Recommendation
Production Plant	(746,186)	(745,298) (See Attachment B)
Fossil Dismantlement	(1,637)	2,331 (See Attachment C)
Total Depreciation and Dismantling Cost	($747,823)	(742,957)

Issue 5: Should the Commission revise the preliminary approved annual provision for fossil dismantlement?

Recommendation: Yes. Staff recommends an increase in the annual provision for fossil dismantlement accruals of $2,331 for Big Bend Combustion Turbines Units 2 and 3 beginning January 1, 2004. (Gardner, Lester)

Staff Analysis: By Order No. 24741, the Commission established the methodology for accruing the costs of fossil dismantlement. The methodology depends on three factors: estimated base costs of dismantling the fossil-fueled plants, projected inflation, and a contingency factor. The fixed annual amount is based on a four year average of the accruals related to the years between depreciation study reviews. The purpose of this review is to reflect changes in estimates, inflation, regulatory, or environmental requirements caused by the refurbishment of the Big Bend Combustion Turbines Units 2 and 3 necessitated by the lack of response to TECO's Request for Proposals for purchased power.

For its study, Tampa Electric used the escalation factors from the Winter 2004 issue of the U.S. Economy: The 25 Year Focus, which is published by Global Insight. The escalation factors are for compensation per hour, metal and metal products, intermediate materials, and the GDP deflator. The factors are projections of annual rates of change and are used to calculate the inflation compound multiplier.

Attachment C shows a comparison of the preliminarily approved dismantlement accruals to Tampa Electric's revised proposal for Big Bend CTs Units 2 and 3. The company provided staff updated fossil dismantlement data to support the changes to its dismantlement proposal. By Order No. PSC-04-0815-PAA-EI, in Docket No. 030409-EI, issued August 20, 2004, Big Bend CTs Units 2 and 3 dismantlement accrual was $10,123 to be effective January 1, 2004. At the time of the preliminary implementation, TECO's dismantlement accrual was $8,486 based upon the 2004 Winter Indices. However, with the application of the updated escalation factors from the Summer 2004 Global Insight indices, the dismantlement accrual changed from $8,486 to $12,454, which once applied to the dismantlement accrual of $10,123 from the approved depreciation study created an increase of $2,331. This resulted in an overall dismantlement accrual change, as was previously approved by Order No. PSC-04-0815-PAA-EI, effective January 1, 2004 in the amount of $3,874,572 to $3,876,903 for final Commission action.

Issue 6: Should the current amortization of investment tax credits and flow back of excess deferred income taxes be revised to reflect the approved depreciation rates and recovery schedules?

Recommendation: Yes. The current amortization of investment tax credits (ITC) and the flowback of excess deferred income taxes (EDIT) should be revised to match the actual recovery periods for the related property. The company should file detailed calculations of the revised ITC amortization and flowback of EDIT at the same time it files its surveillance report covering the period ending December 31, 2004. (Kenny)

Staff Analysis: In earlier issues, staff recommends approval of the company's proposed remaining lives, to be effective January 1, 2004. Revising a utility's book depreciation lives generally results in a change in its rate of ITC amortization and flowback of EDIT to comply with the normalization requirements of the Internal Revenue Code (IRC) and underlying Regulations (REGs) found in Sections 46, 167, and 168, and 1.46, 1.67, and 1.68, respectively.

Section 46(f)(6), IRC, states that the amortization of ITC should be determined by the period of time actually used in computing depreciation expense for ratemaking purposes and on the regulated books of the utility. Since staff is recommending approval of the company's proposed remaining lives, it is also important to change the amortization of ITC to avoid violation of the provisions of Sections 46, IRC and 1.46, REGs.

Section 203(3) of the Tax Reform Act of 1986 (the Act) prohibits rapid flowback of depreciation related (protected) EDIT. Further, Rule 25-14.013, Florida Administrative Code, Accounting for Deferred Income Taxes Under SFAS 109, generally prohibits writing off EDIT off any faster than allowed under the Act. The Act, SFAS 109, and Rule 25-14.013, Florida Administrative Code, regulate the flowback of EDIT. Therefore, staff recommends that the flowback of EDIT be adjusted to comply with the Act, SFAS 109, and Rule 25-14.013, Florida Administrative Code.

Staff, the Internal Revenue Service, and independent outside auditors look at a company's books and records and the orders and rules of the jurisdictional regulatory authorities to determine if the books and records are maintained in the appropriate manner and to determine the intent of the regulatory bodies in regard to normalization. Therefore, staff recommends that the current amortization of ITC and the flowback of EDIT be revised to reflect the approved remaining lives.

Issue 7: Should this docket be closed?

Recommendation: Yes. 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 a consummating order.