

State of Florida



Public Service Commission

CAPITAL CIRCLE OFFICE CENTER • 2540 SHUMARD OAK BOULEVARD
TALLAHASSEE, FLORIDA 32399-0850

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

DATE: April 26, 2007

TO: Commission Clerk (Cole)

FROM: Division of Economic Regulation (Gardner, Bulecza-Banks, Ballinger, Marsh)
Office of the General Counsel (Young)

RE: Docket No. 070100-EI – Request for approval to begin depreciating Turkey Point Unit 5 combined cycle using whole life depreciation rates currently approved for Martin Power Plant Unit 4 and Common, by Florida Power & Light Company.

AGENDA: 05/08/07 – Regular Agenda – Proposed Agency Action - Interested Persons May Participate

COMMISSIONERS ASSIGNED: All Commissioners

PREHEARING OFFICER: McMurrian

CRITICAL DATES: None

SPECIAL INSTRUCTIONS: None

FILE NAME AND LOCATION: S:\PSC\ECR\WP\070100.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. (i.e., the FERC Uniform Systems of Accounts). Rule 25-6.0436(3)(b), F.A.C., further provides that “Upon establishing a new account or subaccount classification, each utility shall request Commission approval of a depreciation rate for the new plant category.” On February 2, 2007, Florida Power and Light (FPL or company) filed its petition in accordance with this rule for Turkey Point Unit 5, a combined cycle unit.

Pursuant to Rule 25-6.0435(8)(c), F.A.C., the company filed a petition for a comprehensive depreciation study on March 17, 2005, and was assigned Docket No. 050188-EI. On March 22, 2005, the company filed its petition for the approval of an increase in base rates and charges, and was assigned Docket No. 050045-EI. By Order No. PSC-05-0499-PCO-EI,¹ the Commission consolidated these proceedings to ensure that the appropriate depreciation rates could be incorporated into the rates established in the rate case.

On August 22, 2005, the parties to Docket Nos. 050188-EI and 050045-EI filed a joint motion for approval of a Stipulation and Settlement (Stipulation) for the consolidated proceeding. By Order No. PSC-05-0902-S-EI, issued September 14, 2005, the Stipulation was approved. Pursuant to paragraph 8 of the Stipulation, the depreciation rates and/or capital recovery schedules were established according to the comprehensive depreciation studies as filed in March 2005, and will not be changed during the term of the Stipulation, which ends December 31, 2009.

In order to comply with the Stipulation, the company filed a petition on February 2, 2007, requesting approval to begin depreciating Turkey Point Unit 5, a combined cycle unit, using the whole life depreciation rates currently approved for Martin Power Plant Unit 4. FPL has requested the depreciation rates become effective with the unit's in-service date.

Staff has completed its review and presents its recommendation herein. The Commission has jurisdiction in this matter pursuant to Sections 366.04, 366.05, and 366.06, Florida Statutes.

¹ Issued May 9, 2005, in Docket No. 050188-EI, In Re: 2005 comprehensive depreciation study by Florida Power & Light Company; and in Docket No. 050045-EI, In Re: Petition for rate increase by Florida Power & Light Company.

Discussion of Issues

Issue 1: Should new depreciation rates be approved for Florida Power and Light's Turkey Point Unit 5, combined cycle unit?

Recommendation: Yes. The whole life depreciation rates shown on Attachment A, page 6, should be approved for the combined cycle unit being installed at the Turkey Point site, pending a comprehensive depreciation study in 2009. These rates reflect the currently prescribed whole life rates for Martin Power Plant Unit 4. (Gardner)

Staff Analysis: By Order No. PSC-99-2507-S-EU,² FPL agreed to a minimum reserve margin planning criterion of 20 percent beginning with the Summer of 2004. FPL's 2003 integrated resource planning work determined that an additional 1,066 megawatts (MW) of capacity was needed by the Summer of 2007. If the additional megawatts are not obtained, FPL and the Peninsular Florida's electric system reliability and integrity would be reduced and the required 20 percent reserve margin would not be met for 2007. Also, the balance between the amount of generating capacity located in southeast Florida and the electrical load would not be maintained. Pursuant to Order No. PSC-04-0609-FOF-EI,³ the Commission approved the construction of Turkey Point Unit 5. Turkey Point Unit 5 is a 1,150-MW combined cycle generating unit consisting of four combustion turbines and one heat recovery steam generator (HRSG). The unit is located on the Turkey Point site which currently has two 400-megawatt natural gas/oil units and two 700-megawatt nuclear units. The company indicated that currently it has no facilities at Turkey Point Unit 5 that will be separated into a unique common location, which eliminated the need for the depreciation rates for Martin Power Plant Unit 4-Common. The unit will become fully operational in May 2007. However, the depreciation rates will not become effective until the unit's in-service date.

Currently, there are no prescribed depreciation rates that apply to this new facility. The rates approved in FPL's last depreciation study by Order No. PSC-05-0902-S-EI, addressed depreciation rates for the existing Martin combined cycle units. Staff believes that approval for applying the whole life rates currently prescribed for Martin Power Plant Unit 4 to Turkey Point Unit 5, does not violate the Stipulation approved by Order No. PSC-05-0902-S-EI, because the already approved rates for an existing combined cycle unit are being carried over to the new unit. Accordingly, staff recommends approval of FPL's request to implement the underlying whole life depreciation rates currently approved for Martin Power Plant Unit No. 4 until the completion of the 2009 comprehensive study.

² Issued December 22, 1999, in Docket No. 981890-EU, In Re: Generic investigation into the aggregate electric utility reserve margins planned for Peninsular Florida

³ Issued June 18, 2004, in Docket No. 040206-EI, In Re: Petition to determine need for Turkey Point Unit 5 electrical power plant, by Florida Power and Light Company

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Issue 2: What should be the implementation date for depreciation rates for Turkey Point Unit 5 combined cycle?

Recommendation: Staff recommends approval of FPL's proposal that depreciation rates for Turkey Point Unit 5 combined cycle be implemented effective with the unit's in-service date. (Gardner)

Staff Analysis: Depreciation rates for new installations should be implemented when the installations become commercially operational. Accordingly, FPL has requested that depreciation rates for the new combined cycle become effective with the unit's in-service date. Staff recommends acceptance of FPL's proposal.

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Issue 3: 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 the issuance of a consummating order. (Young)

Staff Analysis: At the conclusion of the protest period, if no protest is filed, this docket should be closed upon the issuance of a consummating order.

FLORIDA POWER AND LIGHT COMPANY
TURKEY POINT UNIT 5, COMBINED CYCLE UNIT

COMPANY PROPOSED/STAFF RECOMMENDED
DEPRECIATION RATES

Accounts	Average Service Life	Net Salvage	Whole Life Depreciation Rates
Combustion Turbines	(Yrs.)	(%)	(%)
341 Structures & Improvements	25.0	-2.0	4.1
342 Fuel Holders, Producers and Accessories	24.0	0.0	4.1
343 Prime Movers	17.7	0.0	5.6
344 Generators	25.0	-1.0	4.0
345 Accessory Electric Equipment	18.1	-1.0	5.6
346 Miscellaneous Equipment	14.0	0.0	7.1