

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: January 16, 2008

TO: Office of Commission Clerk (Cole)

FROM: Division of Economic Regulation (Gardner, Bulecza-Banks, Springer)
Office of the General Counsel (Brown)

RE: Docket No. 070378-EI – Petition for approval of revised fossil dismantlement accrual by Florida Power & Light Company.

AGENDA: 01/29/08 – Regular Agenda –Proposed Agency Action-Interested Persons May Participate

COMMISSIONERS ASSIGNED: All Commissioners

PREHEARING OFFICER: Skop

CRITICAL DATES: None

SPECIAL INSTRUCTIONS: None

FILE NAME AND LOCATION: S:\PSC\ECR\WP\070378.RCM.DOC

Case Background

By Order No. 24741, issued July 1, 1991, in Docket No. 890186-EI, In Re: Investigation of the Ratemaking and Accounting Treatment for the Dismantlement of Fossil-Fueled Generating Stations (Order No. 24741), the Commission established the methodology for accruing the costs of dismantlement for fossil-fueled production plants. The methodology, codified in Rule 25-6.04364, Florida Administrative Code (F.A.C.), is dependent on three factors: estimated base costs for dismantlement, projected inflation, and a contingency factor. Electric companies are required to file site specific dismantlement studies at least once every four years from the submission date of the previous study unless otherwise required by Commission order. On June 21, 2007, Florida Power and Light (FPL or company) filed its revised fossil dismantlement site- specific cost studies. The company requested and was granted

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preliminary implementation of accruals by Order No. PSC-07-0641-PCO-EI, issued in this docket on August 7, 2007.

On August 22, 2005, the parties in Docket No. 050045-EI, In Re: Petition for rate increase by Florida Power and Light Company; and in Docket 050188-EI, In Re: 2005 comprehensive depreciation study by Florida Power and Light Company, filed a Stipulation and Settlement (Stipulation) that extended FPL's existing revenue sharing plan through the end of 2010. The Commission approved the Stipulation by Order No. PSC-05-0902-S-EI, issued September 14, 2005. The Stipulation precludes the revision of FPL's depreciation rates for the term of the Stipulation, but does not preclude the revision of FPL's dismantlement accruals.

Staff has reviewed FPL's dismantlement studies and presents its recommendation herein. The Commission has jurisdiction in this matter pursuant to Sections 366.04, 366.05, 366.06, and 366.07, Florida Statutes.

Discussion of Issues

Issue 1: Should the preliminary approved annual provision for fossil dismantlement be changed?

Recommendation: Yes. Staff recommends that the annual dismantlement accruals approved on a preliminary basis by Order No. PSC-07-0641-PCO-EI, issued August 7, 2007, be decreased by an additional \$226,202 and \$229,026, respectively, as shown on Attachments A and B. The effect of this proposal would decrease the current annual dismantlement accrual of \$18,674,395 by an estimated \$3,549,716 for 2007 and \$3,353,282 per year from 2008 through 2010. The change in accruals for 2007 results from the treatment of Turkey Point Unit 5. This unit was placed in service on May 1, 2007, and for 2007, the company applied a half year's dismantlement accrual. These accruals reflect current estimates of dismantlement costs on a site-specific basis using September 2007 inflation forecasts, impact of life extensions, and a 16% contingency factor. (Gardner, Springer)

Staff Analysis: Since FPL's 2003 dismantlement study, current and future cost estimates for the various dismantlement activities have changed as shown below:

FOSSIL DISMANTLEMENT COST ESTIMATES			
	2003 Study Current Costs	2007 Study Current Costs	2007 Study Future Costs
	(\$)	(\$)	(\$)
Cape Canaveral	12,698,822	12,953,491	24,027,642
Cutler	7,890,950	8,035,610	14,567,315
Fort Lauderdale	21,013,706	18,956,572	32,852,624
Ft. Myers	19,659,288	22,877,762	52,334,908
Manatee	38,735,568	53,698,856	104,999,174
Martin	57,422,630	57,337,705	114,884,754
Port Everglades	36,502,177	52,594,168	91,536,276
Putnam	7,774,579	9,403,254	16,455,621
Riviera	17,066,500	13,583,544	23,657,498
Sanford	27,356,897	28,650,916	61,706,738
Scherer	25,868,542	37,391,063	85,700,827
St. Johns River Power Park	17,652,261	19,548,345	41,787,574
Turkey Point	24,277,678	18,323,729	44,936,442
Total	313,919,598	353,355,015	709,447,393

Current dismantlement cost estimates are based on site-specific studies and reflect an increase of approximately 13% from the 2003 cost estimates. The major factors contributing to the changes in cost estimates and their annual accrual are: (1) increase in labor rates; (2) revised recovery periods for certain units; (3) increase in value of scrap metals; and (4) an increase in disposal costs.

The recommended dismantlement accruals shown on Attachments A and B are based on FPL's current cost estimates, escalated to future costs, as shown above, through the time of actual dismantlement. The future costs, less dismantlement reserves recovered to date and subject to reallocation, have been discounted over the remaining life of each plant site/unit. The calculation of the annual accrual for each site is based on the methodology for dismantlement established by Order No. 24741.

FPL's study assumes dismantlement will begin approximately five years after the plant is retired. This allows the company to research alternative power sources or repowering options utilizing existing plant equipment, existing plant sites, or some combination of both while taking advantage of already approved site permitting.

According to FPL, the proposed annual accrual decreases in the amounts of \$3,323,514 for 2007 and \$3,124,256 for 2008 through 2010 are attributable in large part to a change in Global Insight's methodology for establishing the current inflation factors, compared to the methodology used in the last fossil dismantlement study.¹ This study also includes the company's request to use a half year's dismantlement accrual for Turkey Point Unit 5 for 2007 and full year's dismantlement accrual beginning 2008 through 2010, as shown on Attachments A and B, respectively.

Global Insight publishes inflation factors that are updated twice a year. For purposes of the 2003 study, staff requested that FPL update its study using the latest Global Insight Fall inflation factors. The 2003 dismantlement accrual increased by \$2.2 million due to the rise in the updated Fall inflation factors compared to the 2003 Spring rates. According to FPL, Global Insight had changed the index methodology to provide what it believed to be a more accurate projection of future price levels. In retrospect, however, the 2003 Fall inflation was an anomaly that overstated inflation. The current Global Insight's projections have moderated to the point that they are more consistent with previous projections. The projected inflation rates for the years 2007 through 2011 are fairly consistent and then trend downward for the period from 2012 through 2040, the last year provided.

In the 2007 study, the inflation factors FPL used in its original filing were based on the March 2007 issue of Global Insight. Staff requested and received the updated inflation factors from FPL to reflect the latest available data. At the time of staff's request, the September 2007 issue was the most recent issuance of Global Insight. The recommended levelized annual accruals of \$15,124,679 and \$15,321,113, as shown on Attachments A and B, respectively, are based on FPL's site-specific dismantlement study cost estimates, a 16% contingency, service life extensions for certain plant site/units, and the most recent available inflation forecasts for 2007 through 2010.

¹ Global Insight is a provider of forecasted information and software to monitor and interpret economic, energy, survey, financial, industry and sector data used in analysis of various markets, industries, securities and strategic consulting.

Issue 2: What should be the implementation date for the revised annual dismantlement accruals?

Recommendation: Staff recommends January 1, 2007 and January 1, 2008, implementation dates for FPL's proposed dismantlement provisions as shown on Attachments A and B. (Gardner)

Staff Analysis: FPL's request for an implementation date of January 1, 2007, recognizes the application of a half-year dismantlement accrual for Turkey Point Unit 5 after its inservice date of May 1, 2007. The company provided the appropriate data to support the implementation of the 2007 fossil dismantlement annual accruals. Also, with a January 1, 2008, implementation date, the full year's accrual for Turkey Point Unit 5 will be used in the calculation of the revised annual dismantlement accrual. All data and calculations support these dates. Staff recommends acceptance of FPL's requested January 1, 2007, and January 1, 2008, implementation dates as the earliest practicable date for utilizing the revised dismantlement accruals.

Issue 3: Should any corrective reserve allocations be made?

Recommendation: Yes. Staff recommends the corrective reserve allocations for the imbalances that affect FPL's dismantlement reserves for certain plant sites/units as shown in the table below in the Staff Analysis. (Gardner)

Staff Analysis: Staff's recommended reserve allocations address the major imbalances that affect the company's reserves between accounts of a given unit or function, or between accounts and units at the same site. The allocations bring each affected plant site/unit's reserve in line with its theoretically correct position. This corrective action is necessary to eliminate the over-accruing of future dismantlement expense for this fossil dismantlement study.

The Commission approved the preliminary implementation of the fossil dismantlement study on August 7, 2007 in this docket. For this study, the company provided the proposed dismantlement reserve adjusting entries used for each plant site/unit, which was used to re-allocate the reserves in the calculation of the net amount to accrue during the plant's capital recovery period. Staff's analysis and review demonstrated that the company's reserve allocation process consisted of establishing a dismantlement reserve percentage for each plant site/unit's share based on the overall dismantlement reserve. In some cases, the resulting dismantlement reserve was below the plant site/unit's actual reserves as of December 31, 2006. Staff asked the company to recalculate the reserves to be in agreement with the methodology established by the Commission, and bring the plant sites/units more in line with its theoretically correct reserve position by site/unit or function. Through the reallocation of the dismantlement reserves, the amount of accruals to be recovered over the remaining life of the plant site changed as shown on Attachments A and B.

Staff will continue to monitor the fossil dismantlement reserves when the company files its Annual Status Report.

THEORETICAL RESERVE RE-ALLOCATION FOR JANUARY 1, 2007				
PLANT SITE	Actual Reserves December 31, 2006	Theoretical Reserves	Reserve Transfers	Restated Reserve For 1/1/2007
Cape Canaveral	\$15,900,384	\$17,783,564	\$449,359	\$16,349,743
Cutler	10,394,971	11,477,119	385,341	10,780,312
Manatee	42,059,037	55,409,077	6,178,629	48,237,666
Martin	56,670,210	62,790,574	1,311,992	57,982,202
Port Everglades	36,407,662	60,981,741	10,917,168	47,324,830
Riviera	23,127,932	18,574,059	(4,989,869)	18,138,063
Sanford	25,720,013	21,898,066	(5,920,241)	19,799,772
Scherer	19,909,454	36,095,881	5,763,798	25,673,252
St. Johns River Power Park	15,081,452	18,791,387	1,321,064	16,402,516
Turkey Point	30,374,096	17,963,165	(14,240,469)	16,133,627
Ft. Lauderdale	15,764,630	16,022,087	112,332	15,876,962
Ft. Myers	17,976,444	19,438,008	(1,935,947)	16,040,497
Putnam	9,969,914	11,137,343	646,843	10,616,757
Total Reserves	\$319,356,199	\$368,362,071	0	\$319,356,199

Issue 4: When should FPL be required to file its future fossil fuel dismantlement studies?

Recommendation: FPL should be required to file its future fossil fuel dismantlement studies concurrently with the filing of its future comprehensive depreciation studies. FPL's next fossil dismantlement study should be filed on or about March 17, 2009. (Gardner)

Staff Analysis: The course of events over the years has increased the time lag from one to two years between the filing of the depreciation and fossil fuel dismantlement studies. In previous filings, FPL's depreciation and dismantlement studies have used the same service life and expected retirement dates for its plant site/units. According to FPL, in developing the data for this study, the company used the best available information regarding its resource plans, and the 2007 Ten Year Site Plan, which was filed on April 1, 2007. Since the 2007 dismantlement study filing is two years removed from the 2005 depreciation filing, the company believes the best available information was used to establish reasonable assumptions about the plant site/units' service life and expected retirement dates. Also, FPL has no plans to dismantle any generating stations before the year 2020. For this study, the company's assumptions changed the service life and expected retirement dates for certain plant site/units by an additional 5 to 17 years, from what was approved in the 2005 depreciation study.

Staff's recommended change in the filing date of future dismantlement studies reflects a chronology of events, that occurred after the inception of the Commission's accounting and ratemaking methodology for dismantlement of fossil fueled generating plants. Initially, Order No. 24741 required that fossil dismantlement site-specific studies were to be filed at least once every four years in connection with each electric company's required comprehensive depreciation study. Thereafter, by Order No. PSC-93-0211-FOF-EI,² the Commission granted FPL a waiver from this schedule and permitted it to file its fossil dismantlement studies on December 29, 1994, with a January 1, 1995 implementation date, rather than with its 1993 depreciation rate study. This order created FPL's initial one year lag between comprehensive depreciation and fossil fuel dismantlement studies. Also, by Order No. PSC-95-1532-FOF-EI,³ the company was granted its request to continue the filing schedule of its dismantlement studies rather than filing with its next required depreciation study in December 1997. The company stated the same personnel prepared both studies, and the one year lag between the two studies would allow a smoothing of their workload. Therefore, by the above referenced order, the next fossil dismantlement study was due December 29, 1999. By Order No. PSC-98-0027-FOF-EI,⁴ FPL was required to file its fossil dismantlement studies no later than October 1, 1998, instead of the established date of December 29, 1999. In that order, the company was authorized to record additional expense amounts to correct the calculated historical deficiency brought about by failure in the past to adequately provide for the cost of dismantlement. The company filed its study on September 17, 1998. Subsequently, by Order No. PSC-99-0519-AS-EI,⁵ a Stipulation

² Issued February 10, 1993, in Docket No. 900794-EI, In Re: 1991 Depreciation Study for Florida Power and Light Company

³ Issued December 12, 1995, in Docket No. 941343-EI, In Re: Request for Approval of Fossil Dismantlement Studies by Florida Power and Light

⁴ Issued January 5, 1998, in Docket No. 970410-EI, In Re: Proposal to extend Plan for Recording of Certain Expenses for Years 1998 and 1999 for Florida Power and Light Company

⁵ Issued March 17, 1999, in Docket No. 990067-EI, In Re: Petition by the Citizens of the State of Florida for a full revenue requirements rate case for Florida Power and Light Company.

and Settlement was approved between FPL, the Office of Public Counsel, the Florida Industrial Power User's Group, and the Coalition for Equitable Rates. In paragraph 8 of the Stipulation, the parties agreed that FPL's fossil dismantlement expense would be capped at the currently approved level established by Order No. PSC-95-1532-FOF-EI, in Docket No. 941343-EI. By Order No. PSC-00-0293-PAA-EI,⁶ the next scheduled fossil dismantlement site-specific studies were to be filed no later than September 17, 2002, which was after the April 15, 2002 expiration period of the Stipulation. By Order No. PSC-01-1346-PCO-EI,⁷ the company was directed to file Minimum Filing Requirements (MFRs) for a base rate proceeding to address its high level of earnings. On March 14, 2002, the parties to that docket filed a Stipulation and Settlement (Stipulation) that extended FPL's existing revenue sharing plan through the end of 2005. The Stipulation precludes the revision of FPL's depreciation rates for the term of the Stipulation, but does not preclude the revision of FPL's dismantlement accruals. On June 20, 2003, FPL filed its revised fossil dismantlement site-specific cost studies, in which, its production plant life parameters were changed since the inception of the prior Stipulations. Also, in Order No. PSC-05-0902-S-EI,⁸ the Company updated its production plant service life and expected retirement dates.

In summary, the company's assumptions in its current planning and the effects of earlier events have created a timing gap in the evaluation process of FPL's depreciation and dismantlement studies. This disconnection interferes with proper evaluation of the studies. Staff believes that in order to bring the studies in line with each other, the filing date for the fossil fuel dismantlement studies should be changed to coincide with the filing of the comprehensive depreciation study that will occur on or about March 17, 2009. The site-specific dismantlement studies have allowed staff to review the life parameters of both studies and to establish the most appropriate dismantlement reserves to calculate just and reasonable annual accruals for 2007 through 2010. The company agrees with staff's recommendation that, in the future, depreciation and fossil dismantlement studies should be prepared and filed by the company at the same time. This will afford staff the opportunity to review and evaluate the company's data and assumptions for both studies, and bring the life parameters in line as reflected in this study and with any proposed changes in the next studies.

⁶ Issued February 14, 2000, in Docket No. 981166-EI, In Re: Request for approval of revised fossil dismantlement expense accruals, effective 1/1/99, by Florida Power and Light.

⁷ Issued June 19, 2001, in Docket No. 001148-EI, In Re: Review of The Retail Rates of Florida Power and Light Company.

⁸ Issued September 14, 2005, in Docket No. 050045-EI and 050188-EI, In Re: Petition for rate increase by Florida Power and Light Company, and In Re: 2005 comprehensive depreciation study by Florida Power and Light Company.

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Issue 5: Should this docket be closed?

Recommendation: 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. (Brown)

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
 PRELIMINARY IMPLEMENTATION
 DISMANTLEMENT ACCRUAL FOR 2007

Plant Site	2003 Current Annual Accrual	August 19, 2007 Preliminary Approved Annual Accrual	August 19, 2007 Preliminary Change in Annual Accrual	Staff Recommendation	Final Change in Annual Accrual
	(\$)	(\$)	(\$)	(\$)	(\$)
Cape Canaveral	695,862	520,131	(175,731)	434,779	(261,083)
Cutler	300,103	286,673	(13,430)	216,262	(83,841)
Fort Lauderdale	1,566,221	1,082,262	(483,959)	985,269	(580,952)
Fort Myers	1,071,886	1,141,833	69,947	1,161,985	90,099
Manatee	2,777,116	2,357,769	(419,347)	2,255,726	(521,390)
Martin	3,642,936	2,607,319	(1,035,617)	2,327,547	(1,315,389)
Port Everglades	2,342,270	1,938,010	(404,260)	2,566,987	224,717
Putnam	392,208	382,623	(9,585)	339,106	(53,102)
Riviera	703,713	476,263	(227,450)	321,232	(382,481)
Sanford	1,427,946	1,428,622	676	1,374,909	(53,037)
Scherer	1,523,894	1,637,679	113,785	1,755,506	231,612
St. Johns River Power Park	960,630	835,972	(124,658)	807,788	(152,842)
Turkey Point*	1,269,610	655,725	(613,885)	577,583	(692,027)
Total Dismantlement Provision	18,674,395	15,350,881	(3,323,514)	**15,124,679	(3,549,716)

*Annual Accrual for Turkey Point Unit 5 is based upon the company's request for a half year's dismantlement accrual for 2007. Turkey Point Unit 5 went into service May 1, 2007.

** Annual accruals were subject to rounding for some of the plant sites.

FLORIDA POWER AND LIGHT COMPANY
PRELIMINARY IMPLEMENTATION
DISMANTLEMENT ACCRUAL FOR 2008 THROUGH 2010

Plant Site	2003 Current Annual Accrual	August 19, 2007 Preliminary Approved Annual Accrual	August 19, 2007 Preliminary Change In Accrual	Staff Final Recommended Annual Accrual	Final Change in Annual Accrual
	(\$)	(\$)		(\$)	(\$)
Cape Canaveral	695,862	520,131	(175,731)	434,779	(261,083)
Cutler	300,103	286,673	(13,430)	216,262	(83,841)
Fort Lauderdale	1,566,221	1,082,262	(483,959)	985,269	(580,952)
Fort Myers	1,071,886	1,141,833	69,947	1,161,985	90,099
Manatee	2,777,116	2,357,769	(419,347)	2,255,726	(521,390)
Martin	3,642,936	2,607,319	(1,035,617)	2,327,547	(1,315,389)
Port Everglades	2,342,270	1,938,010	(404,260)	2,566,987	224,717
Putnam	392,208	382,623	(9,585)	339,106	(53,102)
Riviera	703,713	476,263	(227,450)	321,232	(382,481)
Sanford	1,427,946	1,428,622	676	1,374,909	(53,037)
Scherer	1,523,894	1,637,679	113,785	1,755,506	231,612
St. Johns River Power Park	960,630	835,972	(124,658)	807,788	(152,842)
Turkey Point*	1,269,610	854,983	(414,627)	774,017	(495,593)
Total Dismantlement Provision	18,674,395	15,550,139	(3,124,256)	**15,321,113	(3,353,282)

* Annual Accrual for Turkey Point Unit 5 established on a full year basis beginning January 1, 2008 through 2010.

** Annual accruals were subject to rounding for some of the plant site/units.