

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-**

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**DATE:** September 2, 2009

**TO:** Office of Commission Clerk (Cole)

**FROM:** Division of Economic Regulation (L'Amoreaux, Lee)  
Office of the General Counsel (Hartman)

**RE:** Docket No. 090403-EI – Request for approval to begin depreciating West County Energy Center (WCEC) Units 1 and 2 using whole life depreciation rates currently approved for Martin Power Plant Unit 4, by Florida Power & Light Company

**AGENDA:** 09/15/09 – Regular Agenda – Proposed Agency Action – Interested Persons May Participate

**COMMISSIONERS ASSIGNED:** All Commissioners

**PREHEARING OFFICER:** Edgar

**CRITICAL DATES:** None

**SPECIAL INSTRUCTIONS:** None

**FILE NAME AND LOCATION:** S:\PSC\ECR\WP\090403.RCM.DOC

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### 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 System 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 August 12, 2009, Florida Power & Light Company (FPL or Company) filed its request in accordance with this rule for the West County Energy Center (WCEC) Units 1 and 2 combined cycle units.

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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 it was assigned Docket No. 050188-EI. On March 22, 2005, the company filed its petition for approval of an increase in base rates and charges, which was assigned Docket No. 050045-EI. By Order No. PSC-05-0499-PCO-EI,<sup>1</sup> 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 proceedings. By Order No. PSC-05-0902-S-EI, issued September 14, 2005, the Stipulation was approved. Pursuant to paragraph 8 of the Stipulation, depreciation rates and capital recovery schedules were established according to the comprehensive depreciation studies as filed in March 2005, and they cannot be changed during the term of the Stipulation.

On March 17, 2009, FPL filed a depreciation study in Docket No. 090130-EI proposing revised depreciation rates to be effective January 1, 2010. On March 18, 2009, the company filed for a rate proceeding in Docket No. 080677-EI. By Order PSC-09-0311-PCO-EI,<sup>2</sup> the Commission consolidated the depreciation study and rate case dockets for the purpose of the hearing. A post-hearing order in these dockets is scheduled to issue on December 4, 2009.

In order to comply with the 2005 Stipulation, FPL filed a petition on August 12, 2009, requesting approval to begin depreciating WCEC Units 1 and 2 combined cycle units, using the whole life depreciation rates currently approved for Martin Power Plant Unit 4. FPL has requested these depreciation rates become effective with each unit's in-service dates.

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

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<sup>1</sup> 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.

<sup>2</sup> Issued May 7, 2009, in Docket No. 080677-EI, In Re: Petition for rate increase by Florida Power & Light Company; and in Docket No. 090130-EI, In Re: 2009 depreciation and dismantlement study by Florida Power & Light Company.

### **Discussion of Issues**

**Issue 1:** Should new depreciation rates be approved for FPL's WCEC Units 1 and 2 combined cycle units?

**Recommendation:** Yes. The whole life depreciation rates shown on Attachment A, page 6, should be approved for the combined cycle units being installed at the WCEC site, subject to true-up pending the outcome of Docket No. 090130-EI and Docket No. 080677-EI. These rates reflect the prescribed whole life rates for Martin Power Plant Unit 4. (L'Amoreaux)

**Staff Analysis:** The Commission found by Order No PSC-06-0555-FOF-EI that WCEC Units 1 and 2 are needed in order for FPL to meet its 20 percent reserve margin in 2009 and 2010.<sup>3</sup> Each unit is a 1,250 MW combined cycle generating unit, consisting of three combustion turbines and one steam generator. Unit 1 became operational in August 2009; Unit 2 is anticipated to go into service before the end of 2009.

Currently, there are no prescribed depreciation rates that apply to these new facilities. FPL proposes to use the whole life depreciation rates currently prescribed for Martin Power Plant Unit 4, subject to true-up after the Commission's decision in FPL's rate case and current depreciation study on new, final depreciation rates. Staff agrees with FPL that applying the Martin Power Plant Unit 4 whole life rates does not violate the 2005 Stipulation since this is not a change to depreciation rates but the application of current rates to a new plant.<sup>4</sup> Staff recommends these rates be used pending a Commission decision on Docket No. 090130-EI and Docket No. 080677-EI.

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<sup>3</sup>Issued June 28, 2006, in Docket No. 060255-EI, In Re: Petition for determination of need for West County Units 1 and 2 electrical power plants in Palm Beach County, by Florida Power & Light Company.

<sup>4</sup> See Order No. PSC-05-0902-S-EI, Issued September 14, 2005, in Docket No. 050188-EI, In Re: 2005 comprehensive depreciation study by Florida Power & Light Company.

**Issue 2:** What should be the implementation date for depreciation rates for WCEC Units 1 and 2 combined cycle units?

**Recommendation:** Staff recommends approval of FPL's proposal that depreciation rates for WCEC Unit 1 and 2 combined cycles be implemented effective with the in-service date of each unit. (L'Amoreaux)

**Staff Analysis:** Depreciation rates for the new units should be implemented when each unit becomes commercially operational. Accordingly, FPL has requested that depreciation rates for the new combined cycle units become effective with each unit's in-service date. Unit 1 became operational in August 2009; Unit 2 is anticipated to go into service before the end of 2009. Staff recommends approval of FPL's proposal.

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

**Recommendation**: If a protest is not received from a substantially affected person within 21 days of issuance of the Proposed Agency Action Order, a Consummating Order will be issued. If a Consummating Order is issued, the docket should be closed upon its issuance. (Hartman)

**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 & Light Company  
West County Energy Center Units 1 and 2 Combined Cycle Units  
Company Proposed Depreciation Rates

Accounts	Average Service Life (Yrs.)	Net Salvage (%)	Whole Life Depreciation Rates (%)
Combustion Turbines			
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 Misc. Power Plant Equipment	14.0	0.0	7.1