

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

IN RE: Proposal to Extend Plan for)
the Recording of Certain Expenses)
for the Years 1998 and 1999 for)
Florida Power & Light Company)

DOCKET NO. 970410-EI
FILED: NOVEMBER 7, 1997

FLORIDA POWER & LIGHT COMPANY'S
PREHEARING STATEMENT

Pursuant to Order No. PSC-97-1035 PCO-EI, issued August 28, 1997, establishing the prehearing procedure in this docket, Florida Power & Light Company ("FPL") hereby submits its Prehearing Statement.

APPEARANCES

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A. WITNESSES

WITNESS

Hugh A. Gower (Direct)

Hugh A. Gower (Rebuttal)

SUBJECT MATTER

Explains how Order No. PSC-97-0499-FOF-EI which authorizes FPL to record additional expenses in 1998 and 1999 in order to correct cost underrecoveries is reasonable and appropriate, beneficial to customers who will be served by FPL for the longer term, and represents good regulatory policy.

Responds to certain assertions by Mr. Cicchetti that are erroneous and misleading and points out how his conclusions misconstrue the purpose of the plan and ignore key facts as well as the benefits to customers who will be served by FPL for the

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longer term.

B. EXHIBITS

<u>EXHIBITS</u>	<u>WITNESS</u>	<u>DESCRIPTION</u>
(HAG-1)	H. A. Gower	Examples of Costs Subject to Special Recovery Approved by the Florida Public Service Commission
(HAG-2)	H. A. Gower	Cost Underrecoveries Addressed by Docket No. 970410-EI

C. STATEMENT OF BASIC POSITION

The Commission should approve the proposal to extend the plan for FPL to record certain expenses for years 1998 and 1999 per its Order No. PSC-97-0499-FOF-EI issued April 29, 1997.

In support of its position FPL submits that:

- (1) It is appropriate and in the best interest of its customers to correct depreciation, fossil dismantlement and nuclear decommissioning reserve deficiencies as proposed. The Commission endorsed this policy in Order No. PSC-97-0499-FOF-EI by stating "We believe that this plan is appropriate because it mitigates past deficiencies with Commission prescribed depreciation, dismantlement, and nuclear decommissioning accruals."
- (2) The amount of reserve deficiencies are significant. The nuclear decommissioning reserve alone is calculated to be \$484 million deficient at December 31, 1996 based on the last study supporting the accrual approved by the Commission. Delaying correction of the deficiencies can only increase the long-run total revenue requirements to FPL's customers and increase the risk of recovery.
- (3) From 1984 - 1996, FPL has required higher interest rate debt which has resulted in cumulative net interest cost savings of more than \$500 million (after considering all related losses on reacquired debt). To achieve these interest cost savings FPL was required to pay a premium and other related costs, which is referred to as a loss on required debt, in order to require the higher interest rate debt issues. Accelerating the write-off of Unamortized Loss on Required Debt is

appropriate since it will lower FPL's overall cost of capital and will allow recovery of this cost more in line with the savings already being achieved which will be beneficial to the FPL's customers in the long term. The accelerated write-off of Unamortized Loss On Reacquired Debt is the same Commission directive contained in Order No. PSC-96-0461-FOF-EI that became effective January 1, 1995.

- (4) The proposal will have a positive impact on rate stability because the prior cost underrecoveries will be corrected without affecting rates.

D. STATEMENT OF FACTUAL ISSUES AND POSITIONS

All issues being addressed by FPL were identified in the Order Establishing Procedure, Order No. PSC-97-1035-PCO-EI.

1. What is the appropriate revenue forecast to be used to determine the level of additional expenses allocated to this Plan?

FPL's 1996 base rate revenues forecast is an appropriate reference point or benchmark for purposes of determining the amount of additional expenses to be recorded pursuant to this docket, just as it was in Docket No. 950359-EI.

Revenues are used to simply quantify the amount of additional expenses. The key factor in the calculation is based on 100% of the difference between the "low band" and "most likely" revenue amounts plus at least 50% of the actual revenues above the "most likely" amount. Thus, given adequate sales, the Commission established a quantifiable floor for the amount of revenues to be used.

The use of the 1996 revenue forecast provides a greater degree of earnings risk to FPL. This provides additional incentive to FPL management to control costs but the Company believes it is important to correct the cost underrecoveries. (Gower)

2. Should the Commission defer a decision to allow any additional decommissioning or dismantlement expense until there has been a full examination of FPL's nuclear decommissioning and fossil plant dismantlement studies?

No. There is no logical reason for the Commission to defer approving this action which is consistent with its policy of mitigating past deficiencies. It is clear that reserve deficiencies exist since the nuclear decommissioning reserve alone is calculated to be \$484 million deficient at December 31, 1996. The Commission will determine the final amount of

reserve deficiencies which will be the basis for any amounts recorded by FPL to correct such deficiencies after 1997. Furthermore, the exact amount of deficiencies is irrelevant because the Commission has, and will continue to maintain, jurisdiction over any unallocated amounts (see Issue No. 5). (Gower)

3. Should the Commission consider whether FPL has reserve depreciation surplus balances for any of its plant accounts to offset depreciation reserve deficiencies?

No. Reserve surpluses and deficiencies within an account reflect the results of what individual customers have paid for the particular service they received. Transfers can affect the future prices for an individual customer if this relationship is altered. Thus, transfers between functions, and even within certain functions, have the potential to create cross-subsidies between different customers who take different types of services.

In addition, the FERC proscribes such depreciation reserve transfers. (Gower)

4. Should FPL be authorized to accelerate the write-off of Unamortized Loss on Reacquired Debt?

Yes. Moreover, FPL has projected that its interest savings from reacquisitions of higher cost debt for the year 1998 will be greater than its Unamortized Loss on Reacquired Debt balance at January 1, 1998. Given that investors can currently recover their invested capital from the savings achieved by the reacquisitions, it makes sense to offset the cost incurred to achieve those savings with the actual benefits as soon as possible. (Gower)

5. Should FPL be authorized to record, in an unspecified depreciation reserve, an expense amount greater than the amounts to correct any depreciation reserve deficiency, write off the Unamortized Loss on Reacquired Debt, correct any fossil dismantlement reserve deficiency, and correct any nuclear decommissioning reserve deficiency?

Yes. As a result of this provision, the Commission maintains jurisdiction over any additional expenses recorded by FPL that are not transferred to a specifically identified account, pursuant to this docket, as of the end of 1999. As stated in the Commission's Order No. PSC-97-0499-FOF-EI, "In the event that any revenues remain to be disposed of, they are to be recorded as an expense in an unspecified depreciation reserve account for production plant to be allocated to specific accounts at a later date by the Commission." (Emphasis added) (Gower)

6. Should the Plan be extended for 1998 and 1999 as set forth in Order No. PSC-97-0499-FOF-EI?

Yes. See FPL's Statement of Basic Position and its positions as set forth in Issues 1 through 5 above. (Gower)

E. STATEMENT OF LEGAL ISSUES AND POSITIONS

None at this time.

F. STATEMENT OF POLICY ISSUES AND POSITIONS

There are no separately stated policy issues.

G. STIPULATED ISSUES

None at this time.

H. PENDING MOTIONS

None at this time.

I. STATEMENT OF COMPLIANCE WITH ORDER ESTABLISHING PROCEDURE

There are no requirements of the Order Establishing Procedure with which Florida Power & Light Company cannot comply.

DATED this 7th day of November, 1997.

Respectfully submitted,

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BY: 

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**CERTIFICATE OF SERVICE
DOCKET NO. 970410-EI**

I HEREBY CERTIFY that a true and correct copy of Florida Power & Light Company's Prehearing Statement has been furnished by Hand Delivery (*), U.S. Mail and Courier (**), and U.S. Mail (***) this 7th day of November, 1997, to the following:

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