

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 13, 2010

TO: Office of Commission Clerk (Cole)

FROM: Division of Economic Regulation (Slemkewicz, Breman, Buys, Davis, Laux, Kaley Thompson) *JS* *DB* *CRB* *MRL*
Office of the General Counsel (A. Williams) *ARW* *CRB* *ALM* *CL*

RE: Docket No. 090529-EI – Petition to include costs associated with the extended power uprate project in base rates, by Florida Power & Light Company.

AGENDA: 01/26/10 – 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\090529.RCM.DOC
Note: Schedule 1 not attached electronically

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COMMISSION
CLERK

Case Background

In 2006, the Florida Legislature adopted legislation, Section 366.93, Florida Statutes (F.S.), encouraging the development of nuclear energy in the state. In that section, the Legislature directed the Commission to adopt rules providing for alternative cost recovery mechanisms that would encourage investor-owned electric utilities to invest in nuclear power plants. The Commission adopted Rule 25-6.0423, Florida Administrative Code (F.A.C.), which provides for an annual clause recovery proceeding to consider investor-owned utilities' requests for cost recovery for nuclear plants.

DOCUMENT NUMBER-DATE

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FPSC-COMMISSION CLERK

By Order No. PSC-08-0021-FOF-EI,¹ the Commission made an affirmative determination of need for FPL's Extended Power Uprate (EPU) project. The EPU project will be accomplished at FPL's four nuclear units located at two nuclear generating plant sites in Florida: Turkey Point Units 3 and 4, and St. Lucie Units 1 and 2. The EPU projects will go into commercial service at various points in time, with the majority of the costs anticipated to go into plant in service when the modifications are completed in 2011 and 2012. There will also be interim in-service items, such as the modification to the St. Lucie 2 (PSL2) turbine gantry crane, which is the subject of this recommendation.

On December 4, 2009, FPL filed a petition to increase its base rates by the \$354,225 revenue requirements associated with the 2009 PSL2 turbine gantry crane project pursuant to Rule 25-6.0423(7), F.A.C. FPL also has requested an additional \$16,924 base rate increase for the 5-year amortization of EPU assets that are being retired during 2009 pursuant to Rule 25-6.0423(7)(e), F.A.C. In total, FPL has requested a base rate increase of \$371,148. This base rate increase is less than \$0.01 per month on a typical 1,000 kWh residential bill.

The Commission has jurisdiction over this subject matter pursuant to the provisions of Section 366.93, F.S., and other provisions of Chapter 366, F.S.

¹ Order No. PSC-08-0021-FOF-EI, issued January 7, 2008, in Docket No. 070602-EI, In re: Petition for determination of need for expansion of Turkey Point and St. Lucie nuclear power plants, for exemption from Bid Rule 25-22.082, F.A.C., and for cost recovery through the Commission's Nuclear Power Plant Cost Recovery Rule, Rule 25-6.0423, F.A.C.

Discussion of Issues

Issue 1: Should FPL's request to increase its base rates by \$354,225 for the turbine gantry crane phase of the EPU project at PSL2 be approved?

Recommendation: Yes. FPL's request to increase its base rates by \$354,225 for the turbine gantry crane phase of the EPU project at PSL2 should be approved. This approval should be subject to true-up and revision based on the final review of the 2009 turbine gantry crane phase expenditures in Docket No. 100009-EI, Nuclear Cost Recovery Clause. (Slemkewicz, D. Buys, Davis, Breman, Laux)

Staff Analysis: FPL has requested approval to increase its base rates by \$354,225 for the turbine gantry crane phase of the EPU project at PSL2. During 2009, items associated with the turbine gantry crane phase of project have gone into service.

Rule 25-6.0423(7), F.A.C., states the following:

(7) Commercial Service. As operating units or systems associated with the power plant and the power plant itself are placed in commercial service:

(a) The utility shall file a petition for Commission approval of the base rate increase pursuant to Section 366.93(4), F.S., separate from any cost recovery clause petitions, that includes any and all costs reflected in such increase, whether or not those costs have been previously reviewed by the Commission; provided, however, that any actual costs previously reviewed and determined to be prudent in the Capacity Cost Recovery Clause shall not be subject to disallowance or further prudence review except for fraud, perjury, or intentional withholding of key information.

(b) The utility shall calculate the increase in base rates resulting from the jurisdictional annual base revenue requirements for the power plant in conjunction with the Capacity Cost Recovery Clause projection filing for the year the power plant is projected to achieve commercial operation. The increase in base rates will be based on the annualized base revenue requirements for the power plant for the first 12 months of operations consistent with the cost projections filed in conjunction with the Capacity Cost Recovery Clause projection filing.

(c) At such time as the power plant is included in base rates, recovery through the Capacity Cost Recovery Clause will cease, except for the difference between actual and projected construction costs as provided in subparagraph (5)(c)4. above.

(d) The rate of return on capital investments shall be calculated using the utility's most recent actual Commission adjusted basis overall weighted average rate of return as reported by the utility in its most recent Earnings Surveillance Report prior to the filing of a petition as provided in paragraph (7)(a). The return on equity cost rate used shall be the midpoint of the last Commission approved range for return on equity or the last Commission approved return on equity cost rate established for use for all other regulatory purposes, as appropriate.

(e) The jurisdictional net book value of any existing generating plant that is retired as a result of operation of the power plant shall be recovered through an increase in base rate charges over a period not to exceed 5 years. At the end of the recovery period, base rates shall be reduced by an amount equal to the increase associated with the recovery of the retired generating plant.

In compliance with Rule 25-6.0423(7), F.A.C., FPL submitted its calculation of the annualized base rate revenue requirements for the turbine gantry crane phase for the first 12 months of operations. This calculation is shown on Schedule 1. Staff has reviewed the calculation of the \$354,225 jurisdictional annual revenue requirement. Staff believes the annual revenue requirement calculation has been calculated in compliance with Rule 25-6.0423(7), F.A.C.

The 2009 expenditures related to the turbine gantry crane phase are still under review in Docket No. 100009-EI. A final determination of the reasonableness and prudence of the 2009 expenditures will be made during 2010. Per Attachment A to FPL's petition, the increase in Electric Plant in Service included in the calculation is \$2,455,535 (\$2,446,914 jurisdictional), net of joint owners. If the \$2,455,535 amount is revised based on a final audit and review of the 2009 expenditures, the annual revenue requirement will have to be recalculated. This would require a true-up of the revenues already collected and a revision of the related tariffs. Therefore, staff further recommends that the approval of the \$354,225 base rate increase be made subject to true-up and revision based on the final review of the 2009 turbine gantry crane phase expenditures in Docket No. 100009-EI.

Issue 2: Should FPL's request to increase its base rates by \$16,924 for the 5-year amortization of the EPU assets that are being retired during 2009 be approved?

Recommendation: No. FPL's request to increase its base rates by \$16,924 for the 5-year amortization of the EPU assets that are being retired during 2009 should be reduced to \$7,136, a reduction of \$9,788. (Slemkewicz)

Staff Analysis: FPL has requested approval to increase its base rates by \$16,924 for the 5-year amortization of EPU assets that are being retired during 2009 pursuant to Rule 25-6.0423(7)(e), F.A.C., which states:

The jurisdictional net book value of any existing generating plant that is retired as a result of operation of the power plant shall be recovered through an increase in base rate charges over a period not to exceed 5 years. At the end of the recovery period, base rates shall be reduced by an amount equal to the increase associated with the recovery of the retired generating plant.

Per Attachment A to FPL's petition, the net book value of the EPU asset retirements will be \$202,424 at December 31, 2009. This results in an annual amortization of \$40,485 over the 5-year period. In addition, FPL has proposed to offset the annual amortization by an annual depreciation credit of \$23,502 resulting in a net annual amortization of \$16,983 (\$16,924 jurisdictional).

In the Company's updated response to Staff's First Data Request,² FPL filed a revision of the calculation of the 5-year amortization of the EPU assets that are being retired during 2009 (See Schedule 1). The revisions were an adjustment to recognize the participant's share of the EPU assets and an adjustment to recognize property taxes included in base rates. After making these adjustments, the 5-year amortization of \$40,485 was reduced to \$21,209, and the offsetting credits were revised to \$14,166. The resulting net annual amortization is \$7,043 (\$7,136 jurisdictional). Staff agrees with these adjustments and recommends that \$7,136 is the appropriate annual amount for the 5-year amortization of the EPU assets that are being retired during 2009.

² Document No. 00264-10, FPL's Revised Responses to Staff's First Data Request, filed January 11, 2010, in Docket No. 090529-EI, In re: Petition to include costs associated with the extended power uprate project in base rates, by Florida Power & Light Company.

Docket No. 090529-EI
Date: January 13, 2010

Issue 3: Should the Commission approve FPL's proposal to implement any base rate increase approved in this docket on the same date as any approved base rate revision in its pending base rate proceeding in Docket No. 080677-EI?

Recommendation: Yes. The Commission should approve FPL's proposal to implement any base rate increase approved in this docket on the same date as any approved base rate revision in its pending base rate proceeding in Docket No. 080677-EI. (Kaley Thompson)

Staff Analysis: FPL requested that any base rate increase approved in this docket be implemented on the same date as any approved base rate revision in its pending base rate proceeding in Docket No. 080677-EI. FPL asked that those costs be allocated to retail rate classes and developed into individual rates consistent with methods and billing determinants approved in the base rate proceeding. FPL has stated that it plans to file one complete set of tariff sheets with new rates to include the increase requested in this docket and that approved in Docket No. 080677-EI.

Staff agrees with FPL that any revenue increase granted in this docket should be implemented at the same time as any revenue increase granted in the rate case. That insures that customers will not experience multiple rate changes which can lead to customer confusion and frustration. The effective date of any base rate change is an issue in the rate case docket, subject to Commission approval. Staff recommends that rates and tariff sheets be filed for approval in compliance with final decisions related to revenue requirements, cost of service, billing determinants, rate design, and effective date made in this docket and Docket No. 080677-EI, in accordance with the schedule established in Docket No. 080677-EI.

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Issue 4: 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. (A. Williams)

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.

Florida Power & Light Company
St. Lucie Unit 2 Turbine Gantry Crane Modifications
Base Rate Revenue Requirements

Line No.		Original		Adjusted		Difference (h)	
		Retail		Retail		Retail	
		System	Jurisdictional	System Net of Participants	Jurisdictional	System	Jurisdictional
1	In-Service Date	12/15/2009					
2							
3	Annualized Rate Base - 13 Month Average						
4	Electric Plant In Service (Net of Joint Owners)	2,455,535	2,446,914	2,455,535	2,446,914		
5	Accumulated Reserve for Depreciation	(23,328)	(23,248)	(23,328)	(23,248)		
6	Fuel Inventory						
7	Working Capital - Income Taxes Payable						
8	Total Annualized Rate Base	2,432,208	2,423,668	2,432,208	2,423,668		
9	Rate Base Exclusion (c)	(7,840)	(7,747)	(7,840)	(7,747)		
10	Net Annualized Rate Base	2,424,368	2,415,921	2,424,368	2,415,921		
11							
12	Annualized NOI						
13	O&M						
14	Depreciation Expense	46,655	46,491	46,655	46,491		
15	Depreciation Exclusion (c)	(154)	(152)	(154)	(152)		
16	Net Depreciation Expense	46,501	46,339	46,501	46,339		
17	Property Taxes	48,497	48,334	48,497	48,334		
18	Property Tax Exclusion (c)	(146)	(144)	(146)	(144)		
19	Net Property Tax Expense	48,351	48,190	48,351	48,190		
20							
21	Payroll Taxes & Benefits						
22	Income Taxes						
23	Direct Current & Deferred	(35,818)	(35,693)	(35,818)	(35,693)		
24	Imputed Interest	(16,411)	(16,354)	(16,411)	(16,354)		
25	Total Annualized NOI (Line 16 + Line 19 + Line 23 + Line 24)	(40,624)	(40,462)	(40,624)	(40,462)		
26							
27							
28	Calculation of Revenue Requirement						
29	Fully Adjusted Cost of Capital (a)	0.07303	0.07303	0.07303	0.07303		
30	NOI Requirement (Line 10 * Line 29)	177,052	176,435	177,052	176,435		
31	NOI Deficiency (Line 30 Less Line 25)	217,875	218,917	217,875	218,917		
32	Net Operating Income Multiplier	1.632998604	1.632998604	1.632998604	1.632998604		
33							
34	Revenue Requirement (Line 31 * Line 32)	355,464	354,225	355,464	354,225		
35							
36	* Annual Amort of Retired BV	40,485	40,343	34,454	34,333	(6,030)	(6,009)
37	* Annual Deprac. Credit	(23,502)	(23,419)	(20,001)	(19,785)	3,501	3,655
37a	** Annual Property Tax Expense			(3,012)	(2,977)	(3,012)	(2,977)
38							
39	Net Revenue Requirement (Line 34 + Line 36 + Line 37 + Line 37a)	372,446	371,148	365,904	365,817	(5,542)	(5,331)
40							
41	Calculation of Taxes on Imputed Interest						
42	Weighted Cost of Debt Capital (a):						
43	Long Term Debt Fixed Rate	1.52%	1.52%	1.52%	1.52%		
44	Long Term Debt Variable Rate	0.00%	0.00%	0.00%	0.00%		
45	Short Term Debt	0.03%	0.03%	0.03%	0.03%		
46	Customer Deposits	0.20%	0.20%	0.20%	0.20%		
47	JDIC	0.00%	0.00%	0.00%	0.00%		
48		1.75%	1.75%	1.75%	1.75%		
49							
50	Imputed Interest (Line 10 * Line 48)	42,543	42,395	42,543	42,395		
51	Income Taxes on Imputed Interest at 38.575%	(16,411)	(16,354)	(16,411)	(16,354)		

* = Adjusted to reflect participants' share of retirements and depreciation expense (See Note b)
** = Adjusted to reflect property taxes on retirements included in base rates net of participants.

Notes:

- (a) Rate of return on capital investments is from FPL September 2009 Surveillance Report per Rule 25-6.0423 Section 7(d).
- (b) Participants share is Orlando Utilities Commission of 6.0895% and Florida Municipal Power Agency of 6.806%.
- (c) To exclude from Rate Base, Depreciation and Property Tax Expense amounts included in base rates. Exclusions are at the Jurisdictional separation factor of .988182 which is the rate at which they were included in FPL's base rate filing in Docket No. 090577-EI.
- (d) Federal Income Tax rate of 35% & State Income Tax rate of 5.5%.
- (e) Property Tax Rate is the projected 2010 rate received from FPL's property tax department for St. Lucie County.
- (f) Per Rule 25-6.0423 7(e), retirements associated with the Gantry Crane Modifications are to be recovered over 5 yrs.
- (g) Electric Plant In-Service Amount Net of Joint Owners is the same as the above noted 13 month average Electric Plant In-Service Amount Net of Joint Owners
- (h) In responding to these data requests, FPL became aware that the retired book value of net unrecovered costs and the resulting depreciation expense adjustment related to that cost were not reduced for the participant share. Additionally as discussed in response to question 5, FPL inadvertently did not reduce the unrecovered costs related to retirements for property tax (Net of Participants) expense also included in base rates.

(i) This attachment is as filed in original data response, see attachment C for removal of Gantry Crane Trolley