

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:** March 4, 2010

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

**FROM:** Division of Economic Regulation (Slemkewicz, Breman, D. Buys, Davis, Laux, Kaley Thompson) *ket*  
Office of the General Counsel (A. Williams) *AKW JPB*

*JS* *DD* *CD* *MPC* *CRB* *CH*  
*ALM*

**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:** 03/16/10 – 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

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### 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.

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FPSC-COMMISSION CLERK

By Order No. PSC-08-0021-FOF-EI,<sup>1</sup> 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 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.

Staff filed its recommendation on January 13, 2010, for consideration at the January 26, 2010, Agenda Conference. On January 22, 2010, FPL sent an e-mail<sup>2</sup> to the parties stating that the gantry crane revenue requirement was not sufficient by itself to change base rates. Based on the wording in the e-mail, it was not clear whether FPL's petition was being revised in some manner. In order to adequately evaluate the impact of FPL's e-mail on its recommendation, staff requested that the recommendation be deferred. That request was approved at the January 26, 2010 Agenda Conference. An informal meeting was noticed and held on February 15, 2010, to discuss FPL's e-mail. FPL indicated that the gantry crane investment and expenses would be included in rate base and net operating income for earnings surveillance purposes. However, FPL proposed that the requested gantry crane operating revenue increase would not be implemented until it could be combined with other operating revenue increases in the next Nuclear Cost Recovery base rate filing.

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.

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<sup>1</sup> 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.

<sup>2</sup> Document No. 00585-10, filed in this proceeding in Docket No. 090529-EI.

### 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 that FPL's proposed annual revenue requirement 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,<sup>3</sup> 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.

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<sup>3</sup> 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.

**Issue 3:** Should the Commission approve FPL's revised proposal to delay the implementation of any base rate increase approved in this docket until it can be combined with a subsequent base rate increase in a future Nuclear Cost Recovery base rate filing?

**Recommendation:** No. The Commission should approve FPL's original 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. Because the recommended base rate increase does not result in a change to any of the rate classes' base rate charge, no revision to the tariff sheets approved in Docket No. 080677-EI is required. (Slemkewicz, Kaley Thompson)

**Staff Analysis:** FPL originally 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.<sup>4</sup> 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.

On January 22, 2010, FPL sent an e-mail<sup>5</sup> to the parties stating that the gantry crane revenue requirement was not sufficient by itself to change base rates. Based on the wording in the e-mail, it was not clear whether FPL's petition was being revised in some manner. In order to adequately evaluate the impact of FPL's e-mail, the recommendation was deferred. During a noticed informal meeting on February 15, 2010, FPL indicated that the gantry crane investment and expenses would be included in rate base and net operating income for earnings surveillance purposes. However, the requested gantry crane operating revenue increase would not be implemented until it was combined with other operating revenue increases in the next Nuclear Cost Recovery base rate filing.

Rule 25-6.0423(7), F.A.C., requires that a utility file a petition for a base rate increase when any operating units or systems are placed in commercial service. In accordance with this provision, FPL filed a petition to include the gantry crane revenue requirements in base rates. By its January 22, 2010, e-mail and subsequent discussions at the February 15, 2010, informal meeting, FPL effectively amended its petition to request that the implementation of its requested base rate increase be deferred until it is added to a future base rate increase. Staff does not believe that Rule 25-6.0423(7), F.A.C., contemplated the deferral of the required base rate increases until a sufficient dollar amount was accumulated that would result in a tariff change. Based on the amount and in-service date timing of the Nuclear Cost Recovery projects that give rise to any base rate increases, the deferral of the base rate increase could last for an indefinite and extended period of time.

Staff does not agree with FPL's revised proposal to defer the implementation of the proposed base rate increase until it is combined with other operating revenue increases in a future Nuclear Cost Recovery base rate filing. Instead, staff agrees with FPL's original proposal

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<sup>4</sup> Docket No. 080677-EI, In Re: Petition for increase in rates by Florida Power & Light Company.

<sup>5</sup> Document No. 00585-10, filed in this proceeding in Docket No. 090529-EI.

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that any revenue increase granted in this docket 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. Because the recommended base rate increase does not result in a change to any of the rate classes' base rate charge, no revision to the tariff sheets approved in Docket No. 080677-EI is required.

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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)	
		System	Jurisdictional	System Net of Participants	Jurisdictional	System	Jurisdictional
1	In-Service Date	12/15/2009					
2							
3	<u>Annualized Rate Base - 13 Month Average</u>						
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)	(23,246)	(23,328)	(23,246)		
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	<u>Annualized NOI</u>						
13	O&M						
14	Depreciation Expense	48,655	46,491	48,655	46,491		
15	Depreciation Exclusion (c)	(154)	(152)	(154)	(152)		
16	Net Depreciation Expense	48,501	46,339	48,501	46,339		
17	Property Taxes	46,497	46,334	46,497	46,334		
18	Property Tax Exclusion (c)	(146)	(144)	(146)	(144)		
19	Net Property Tax Expense	46,351	46,190	46,351	46,190		
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)	(40,482)	(40,624)	(40,482)		
26							
27							
28							
29	<u>Calculation of Revenue Requirement</u>						
30	Fully Adjusted Cost of Capital (a)	0.07303	0.07303	0.07303	0.07303		
31	NOI Requirement (Line 10 * Line 29)	177,052	176,435	177,052	176,435		
32	NOI Deficiency (Line 30 Less Line 25)	217,875	218,917	217,875	218,917		
33	Net Operating Income Multiplier	1.632998604	1.632998604	1.632998604	1.632998604		
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 Deprec. Credit	(23,502)	(23,418)	(20,001)	(19,765)	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	368,904	365,817	(5,542)	(5,331)
40							
41	<u>Calculation of Taxes on Imputed Interest</u>						
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 8.0895% and Florida Municipal Power Agency of 8.808%.
- (c) To exclude from Rate Base, Depreciation and Property Tax Expense amounts included in base rates. Exclusions are at the jurisdictional separation factor of .986182 which is the rate at which they were included in FPL's base rate filing in Docket No. 080677-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