State of Florida

Public Service Commission

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COMMISSION CLERK

DATE: November 9, 2011

TO: Office of Commission Clerk (Cole)

FROM: Division of Economic Regulation (Slemkewicz, Breman, Laux, A. Roberts)
Office of the General Counsel (Young)

ALM

RE: Docket No. 110270-EI – Petition for approval of base rate increase for extended power uprate systems placed in commercial service, pursuant to Section 366.93(4), F.S., and Rules 25-6.0423(7) and 28-106.201, F.A.C., by Florida Power & Light Company.

AGENDA: 11/22/11 – Regular Agenda – Proposed Agency Action – Interested Persons May Participate

COMMISSIONERS ASSIGNED: All Commissioners

PREHEARING OFFICER: Brown

CRITICAL DATES: None

SPECIAL INSTRUCTIONS: None

FILE NAME AND LOCATION: S:\PSC\ECR\WP\110270.RCM.DOC

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.

By Order No. PSC-08-0021-FOF-EI,[1] the Commission made an affirmative determination of need for Florida Power & Light Company's (FPL or Company) 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 turbine gantry crane that went into service in 2009.

On September 19, 2011, FPL filed a petition to increase its base rates by the $20,068,628 revenue requirements associated with the EPU systems placed in commercial service during 2011 pursuant to Rule 25-6.0423(7), F.A.C. Further, FPL has requested an additional $699,466 base rate increase for the 5-year amortization of existing assets retired during 2011 pursuant to Rule 25-6.0423(7)(e), F.A.C. FPL has also included an $88,016 true-up of the 2010 base rate revenue requirement for the 2010 modifications made at the St. Lucie and Turkey Point nuclear units.[2] In total, FPL has requested a base rate increase of $20,856,111. This base rate increase is approximately $0.23 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.

[2] Order No. PSC-11-0078-PAA-EI, issued January 31, 2011, in Docket No. 100419-EI, In re: Petition for approval of base rate increase for extended power uprate systems placed in commercial service, pursuant to Section 366.93(4), F.S., and Rules 25-6.0423(7) and 28-106.201, F.A.C., by Florida Power & Light Company.

Discussion of Issues

Issue 1: Should FPL's request to increase its base rates by $20,068,628 for the EPU systems placed in commercial service during 2011 be approved?

Recommendation: Yes. FPL's request to increase its base rates by $20,068,628 for the 2011 EPU project modifications at the St. Lucie and Turkey Point nuclear units should be approved. This approval should be subject to true-up and revision based on the final review of the 2011 modification expenditures in the Nuclear Cost Recovery Clause (NCRC). (Slemkewicz, Breman, Laux)

Staff Analysis: FPL has requested approval to increase its base rates by $20,068,628 for the EPU project modifications at the St. Lucie and Turkey Point units that went into service during 2011.

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 EPU project modifications for the first 12 months of operations. This calculation is shown on Attachment B, Page 1 of 42, attached to FPL's petition. Staff has reviewed the calculation of the $20,068,628 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 2011 expenditures related to the EPU project modifications are still under review in the NCRC. A final determination of the reasonableness and prudence of the 2011 expenditures will be made during 2012. Per Attachment B, Page 1 of 42, to FPL's petition, the increase in Electric Plant in Service included in the calculation is $148,844,407 ($145,213,196 jurisdictional), net of joint owners. If the $148,844,407 amount is revised based on a final audit and review of the 2011 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 $20,068,628 base rate increase be made subject to true-up and revision based on the final review of the 2011 EPU project modification expenditures at the St. Lucie and Turkey Point units in the NCRC.

Issue 2: Should FPL's request to increase its base rates by $699,466 for the 5-year amortization of existing assets that are being retired during 2011 as a result of the EPU project be approved?

Recommendation: No. The appropriate base rate increase is $226,479 for the 5-year amortization of the existing assets that are being retired during 2011. At the end of the recovery period, base rates should be reduced by an amount equal to the increase associated with the recovery of the retired generating plant. (Slemkewicz)

Staff Analysis: FPL has requested approval to increase its base rates by $699,466 for the 5-year amortization of existing assets that are being retired during 2011 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.

As a direct result of the EPU project modifications, certain existing assets have been replaced or are no longer necessary for the operation of the plant. Therefore, these assets are being retired pursuant to Rule 25-6.0423(7)(e). Per Attachment A to FPL's petition, the net book value of the asset retirements will be $2,702,015 at December 31, 2011. This results in an annual amortization of $540,403 ($508,816 jurisdictional) over the 5-year period. In addition, FPL has proposed to increase the annual amortization by annual depreciation expense and property tax expense credits of $205,757 ($190,650 jurisdictional), resulting in a net annual amortization of $746,160 ($699,466 jurisdictional).

During its review, staff noted several apparent errors that were made in the calculation involving the net book value of the assets and the application of the depreciation expense and property tax expense credits. In the Company's response to Staff's First Data Request,[3] FPL filed a revision of the calculation of the 5-year amortization of the EPU assets that are being retired during 2011 (Schedule 1). FPL also identified several other errors that were made in the calculation. The revisions reflect the appropriate net book value amount and proper application of the depreciation expense and property tax expense credits in the calculation. As shown on Schedule 1, line 49, the net amortization of the asset retirements decreased from $746,160 ($699,466 jurisdictional) to $241,860 ($226,479 jurisdictional).

Staff agrees with FPL's revised calculation of the 5-year amortization amount for the assets that are being retired during 2011. Therefore, staff recommends that the Commission approve $226,479 as the appropriate base rate increase for the 5-year amortization of the assets that are being retired during 2011. In addition, base rates should be reduced by an amount equal to the increase associated with the recovery of the retired generating plant at the end of the recovery period.

[3] Document No. 07713-11, filed October 20, 2011.

Issue 3: Should FPL's request to increase its base rates by $88,016 for the true-up of the 2010 base rate adjustment be approved?

Recommendation: No. The appropriate base rate increase is $88,000 for the true-up of the 2010 base rate adjustment. (Slemkewicz, Breman, Laux)

Staff Analysis: Per Order No. PSC-11-0078-PAA-EI,[4] FPL was authorized to increase its base rates by $2,150,927 for the 2010 modifications made at the St. Lucie and Turkey Point nuclear units. This approval was subject to true-up and revision based on the final review of the 2010 expenditures in the NCRC in Docket No. 110009-EI.

As shown on Page 42 of 42 of Attachment B to FPL's Petition, the Company is requesting a true-up to increase base rates by $88,016. The primary reasons for the true-up are (1) a $2,484,960 Electric Plant in Service - Nuclear increase between the estimated $9,580,345 used in the previous calculation and the final amount of $12,065,304 used in the current calculation, and (2) a $1,913,353 Electric Plant in Service - Transmission decrease between the estimated $5,436,327 used in the previous calculation and the final amount of $3,522,975 used in the current calculation.

In the Company's response to Staff's First Data Request,[5] FPL indicated that it made a slight calculation error that, when corrected, reduced the requested base rate increase from $88,016 to $88,000. This revised calculation is shown on Revised Attachment B, Page 42 of 42, included in FPL's response to Staff's First Data Request. Staff has reviewed the revised true-up calculation and recommends that the $88,000 base rate increase be approved.

[4] Order No. PSC-11-0078-PAA-EI, issued January 31, 2011, in Docket No. 100419-EI, In re: Petition for approval of base rate increase for extended power uprate systems placed in commercial service, pursuant to Section 366.93(4), F.S., and Rules 25-6.0423(7) and 28-106.201, F.A.C., by Florida Power & Light Company.
[5] Document No. 07713-11, filed October 20, 2011.

Issue 4: What is the appropriate effective date of FPL's revised base rates?

Recommendation: If the Commission approves the staff recommendation in Issues 1, 2, and 3, the revised base rates should be implemented with the first billing cycle for 2012, which falls on January 3, 2012. Furthermore, FPL should file revised tariff sheets to implement the Commission vote in Issues 1, 2, and 3 for administrative approval by staff prior to their effective date. (A. Roberts)

Staff Analysis: FPL proposed to revise base rates by increasing the energy charge for all rate classes. FPL has allocated the total increase of $20,383,107 among the various rate classes with the energy and demand allocation factors FPL utilized in its calculation of the 2012 Capacity Cost Recovery factors (Docket No. 110001-EI). The total base rate increase recommended in Issues 1, 2, and 3 results in a $0.23 increase in the 1,000 kilowatt-hour residential bill.

If the Commission approves the staff recommendation in Issues 1, 2, and 3, the revised base rates should be implemented with the first billing cycle for 2012, which falls on January 3, 2012. Furthermore, FPL should file revised tariff sheets to implement the Commission vote in Issues 1, 2, and 3 for administrative approval by staff prior to their effective date.

Issue 5: Should this docket be closed?

Recommendation: Yes. 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. (Young)

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.

Docket No. 110270-EI
Date: November 9, 2011

Florida Power & Light Company
12 Months Base Rate Revenue Requirements
For Plant being Placed into Service in 2011
Effective January 1, 2012

Line No.		Nuclear Generation & Transmission: System (Net of Participants) (b)	Separation Factor (f)	Retail Jurisdictional (Net of Participants) (b)
1				
2				
3	Annualized Rate Base - 13 Month Average			
4	Electric Plant In Service - Nuclear	$130,347,450	0.98818187	$128,806,987
5	Accumulated Reserve for Depreciation - Nuclear	($1,539,099)	0.98818187	($1,520,910)
6	Net Rate Base - Nuclear	$128,808,351		$127,286,077
7	Electric Plant In Service - Transmission	$18,496,957	0.88696801	$16,406,209
8	Accumulated Reserve for Depreciation - Transmission	($264,940)	0.88696801	($234,994)
9	Net Rate Base - Transmission	$18,232,016		$16,171,215
10	Fuel Inventory			
11	Working Capital - Income Taxes Payable			
12	Total Annualized Rate Base (Line 6 + Line 9)	$147,040,367		$143,457,292
13				
14	Annualized NOI			
15	O&M	$0		$0
16	Depreciation Expense - Nuclear	$3,078,198	0.98818187	$3,041,820
17	Depreciation Expense - Transmission	$529,881	0.88696801	$469,987
18	Total Depreciation Expense	$3,608,079		$3,511,807
19	Property Taxes - Nuclear (d)	$2,663,211	0.98818187	$2,631,737
20	Property Taxes - Transmission (d)	$376,790	0.88696801	$334,201
21	Total Property Tax Expense	$3,040,001		$2,965,937
22	Total Depreciation and Property Tax Expense (Line 18 + Line 21)	$6,648,080		$6,477,744
23	Payroll Taxes & Benefits			
24	Income Taxes			
25	Direct Current & Deferred (c)	($2,564,497)		($2,498,790)
26	Imputed Interest (see calculation below)	($991,167)		($967,014)
27	Total Income Taxes (Line 25 + Line 26)	($3,555,664)		($3,465,804)
28	Total Annualized NOI (Line 22 + Line 27)	$3,092,416		$3,011,940
29				
30				
31	Calculation of Revenue Requirement			
32	Fully Adjusted Cost of Capital (a)	6.46%		6.46%
33	NOI Requirement (Line 12 * Line 32)	$9,500,622		$9,269,111
34	NOI Deficiency (Line 33 Plus Line 28)	$12,593,038		$12,281,051
35	Net Operating Income Multiplier (g)	1.63411		1.63411
36				
37	Revenue Requirement (Line 34 * Line 35)	**$20,578,450**		**$20,068,626**
38				
39	Annual Amort of Retired NBV - Nuclear (e)	$198,862	0.98818187	$196,314
40	Annual Amort of Retired NBV - Transmission (e)	$248,956	0.88696801	$220,818
41	Total Annual Amort of Retired NBV	$447,617		$417,130
42	Annual Deprec. Credit - Nuclear	($52,739)	0.98818187	($52,115)
43	Annual Deprec. Credit - Transmission	($97,935)	0.88696801	($86,866)
44	Total Annual Deprec. Credit	($150,674)		($138,981)
45	Annual Property Tax Expense - Nuclear (d)	($27,791)	0.98818187	($27,463)
46	Annual Property Tax Expense - Transmission (d)	($27,292)	0.88696801	($24,207)
47	Total Annual Property Tax Expense Credit (k)	($55,083)		($51,670)
48				
49	Net amount of retired plant (Line 41 + Line 44 + Line 47) (i)	$241,860		$226,479
50				
51	Net Revenue Requirement (Line 37 + Line 49)	**$20,820,310**		**$20,295,108**
52				
53	True-up of 2010 Base Rate Increase	**$57,240**		**$88,000**
54				
55	Total Revenue Requirement (Line 51 + 53)	**$20,877,550**		**$20,383,107**
56				
57	Calculation of Taxes on Imputed Interest			
58	Weighted Cost of Debt Capital (a):			
59	Long Term Debt Fixed Rate	1.54%		1.54%
60	Long Term Debt Variable Rate	0.00%		0.00%
61	Short Term Debt	0.03%		0.03%
62	Customer Deposits	0.18%		0.18%
63	JDIC	0.0006%		0.0006%
64		1.75%		1.75%
65				
66	Imputed Interest (Line 12 * Line 64)	$2,569,454		$2,506,842
67	Income Taxes on Imputed Interest at 38.575% (c)	($991,187)		($967,014)
68				
69				
70				
71				

72 Notes:
73 (a) Rate of return on capital investments is from FPL July 2011 Surveillance Report per Rule 25-6.0423 Section 7(d).
(b) Participants' share represents Orlando Utilities Commission of 6.0895% and Florida Municipal Power Agency of 8.806% on St. Lucie Unit No. 2. If plant placed into service is related to common St. Lucie Plant, the participants share is calculated on half of the plant placed into
74 service.
75 (c) Federal Income Tax rate of 35% & State Income Tax rate of 5.5%, for an effective rate of 38.575%.
76 (d) Property Tax Rate is the projected 2012 rate received from FPL's property tax department for St. Lucie and Dade Counties.
77 (e) Per Rule 25-6.0423 7(e), retirements associated with the Modifications placed into service are to be recovered over a period not to exceed 5 yrs.
78 (f) Jurisdictional separation factors are from FPL's rate case in Docket No. 080677-EI
79 (g) Net Operating Income Multiplier is from Order No. PSC-10-0153-FOF-EI in Dkt. 080677, 090130-EI, Pg 211.
80 (h) Depreciation and Amortization rates are from Order No. PSC-10-0153-FOF-EI in Dkt. 080677-EI, Pgs 47,48,77,& 79.
81 (i) Amortization of NBV of retired plan, removal cost and salvage less depreciation and property taxes included in base rates.
82 (j) Totals may not add due to rounding.
83 (k) Description changed to reflect the property tax expense as a credit