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State of Florida



Public Service Commission

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TALLAHASSEE, FLORIDA 32399-0850

-M-E-M-O-R-A-N-D-U-M-

DATE: November 13, 2014

TO: Office of Commission Clerk (Stauffer)

FROM: Division of Accounting and Finance (Fletcher) *BF*
Division of Economics (Draper) *AD*
Office of the General Counsel (Young) *ALM*

RE: Docket No. 140197-EI – Petition for approval of base rate adjustment for extended power uprate project by Florida Power & Light Company.

AGENDA: 11/25/14 – Regular Agenda – Proposed Agency Action – Interested Persons May Participate

COMMISSIONERS ASSIGNED: All Commissioners

PREHEARING OFFICER: Brisé

CRITICAL DATES: None

SPECIAL INSTRUCTIONS: None

Case Background

In 2006, the Florida Legislature enacted 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 involved FPL's 4 nuclear units located at 2 nuclear generating plant sites in Florida: Turkey Point Units 3 and 4, and St. Lucie Units 1 and 2. The EPU projects have gone into commercial service at various points in time, with the majority of the costs going into plant in service when the modifications were completed in 2012 and 2013.

By Order No. PSC-14-0024-PAA-EI,² the Commission approved a \$94,235,311 base rate increase, subject to true-up and revision based on the final review of the 2013 EPU project modification expenditures for the St. Lucie and Turkey Point units in the Nuclear Cost Recovery Clause (NCRC). In that order, the Commission also approved a \$917,671 base rate decrease for the 5-year amortization period to reverse the excess amortization associated with previously retired assets and approved a 2012 true-up calculation resulting in an increase of \$18,795,383 to base rates.

On October 7, 2014, FPL filed a petition requesting the Commission enter an order approving a base rate revenue requirement reduction of \$761,690 associated with the final true-up of the Company's EPU project and approving its tariff revisions with an effective date of January 2, 2015.

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

¹ See 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 See Order No. PSC-14-0024-PAA-EI, issued January 10, 2014, In Docket No. 130245-EI, In re: Petition for base rate increase for extended power uprate systems placed in commercial service by Florida Power & Light Company.

Discussion of Issues

Issue 1: Should the Commission approve FPL's base rate revenue requirement reduction of \$761,690 associated with the final true-up of the Company's EPU project?

Recommendation: Yes. The Commission should approve FPL's base rate revenue requirement reduction of \$761,690 associated with the final true-up of the Company's EPU project. (Fletcher)

Staff Analysis: In its petition, FPL requests the Commission approve a base rate revenue requirement reduction of \$761,690 associated with the final true-up of the Company's EPU project. The Company states its request reflects the final true-up of the EPU project costs, consistent with the final true-up of NCRC recoverable costs in Docket No. 140009-EI. FPL provided detailed schedules for its calculated base rate revenue requirement reduction of \$761,690, which includes the following four components: 1) a \$19,640 revenue requirement reduction to reflect reduced capital costs associated with the settlement of certain EPU warranty refund claims; 2) an \$830,593 revenue requirement reduction to reflect the true-up of plant placed in service in 2013 and related net book value of retirements, removal costs, and salvage; 3) a \$95,678 revenue requirement increase associated with the true-up of previously estimated 2013 post-in-service costs for plant placed in service in 2012 and related net book value of retirements, removal costs, and salvage; and 4) a \$7,135 revenue requirement reduction associated with the end of the five-year amortization period for the recovery of net book value of retirements, removal costs, and salvage approved by Order No. PSC-10-0207-PAA-EI. In its petition, the Company states that the effect of a base rate revenue requirement reduction of \$761,690 is approximately a 1 cent decrease on a typical 1,000 kWh monthly residential bill.

In a staff data request, FPL was asked to reconcile the base rate revenue requirement reduction of \$796,243 in the Docket No. 140009-EI with its \$761,690 reduction in the instant docket. In its response, the Company stated the difference was attributable to: 1) the effect of a full year's warranty refund associated with its Turkey Point Unit 4 plant cost; 2) the amortization of the 2013 net book value retirements, removal costs, and salvage; 3) the removal of a sales and use tax credit that was erroneously included in Docket No. 130245-EI; 4) the amortization of the 2012 true-up of net book value retirements, removal costs, and salvage; and 5) the removal of the amortization of the 2009 net book value retirements, removal costs, and salvage that will terminate in February 2015. The detailed reconciliation provided by FPL in its response to staff's data request is shown in Attachment A to this recommendation.

Staff reviewed the Company's detailed schedules for its calculated base rate revenue requirement reduction of \$761,690. Staff believes the Company's final true-up calculation is consistent with the final true-up of NCRC recoverable costs in Docket No. 140009-EI. Based on the above, staff recommends that the Commission approve FPL's base rate revenue requirement reduction of \$761,690 associated with the final true-up of the Company's EPU project.

Issue 2: What is the appropriate effective date of FPL's revised base rates?

Recommendation: If the Commission approves the staff recommendation in Issue 1, the revised base rates should be implemented with the first billing cycle for 2015, which falls on January 2, 2015. Staff's recommended base rate revenue requirement reduction should be allocated among the various rate classes consistent with the Cost of Service study approved by the Commission in Order No. PSC-13-0023-S-EI.³ Furthermore, FPL should file revised tariff sheets to reflect the revised base energy charges to implement the Commission vote in Issue 1 for administrative approval by staff prior to their effective date. (Draper)

Staff Analysis: The total retail revenue requirements are allocated among the various rate classes based on the allocations of nuclear revenue requirements in the Cost of Service study approved by the Commission in Order No. PSC-13-0023-S-EI. The base rate revenue requirement reduction recommended in Issue 1 results in a decrease of 1 cent on the 1,000 kilowatt-hour residential bill. The magnitude of the revenue requirement reduction does not change the base demand charges. Therefore, FPL allocated the decrease to the base energy charges only.

If the Commission approves the staff recommendation in Issue 1, the revised base energy charges should be implemented with the first billing cycle for 2015, which falls on January 2, 2015. Furthermore, FPL should file revised tariff sheets to reflect the revised energy charges to implement the Commission vote in Issue 1 for administrative approval by staff prior to their effective date.

³ See Order No. PSC-13-0023-S-EI, issued January 14, 2013, in Docket No. 120015-EI, In re: Petition for increase in rates by Florida Power & Light Company.

Issue 3: 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, a consummating order should be issued. FPL should file revised tariff sheets to reflect the base energy charges implemented by the Commission's vote on Issue 1 for administrative approval by staff prior to the effective date of the new rates. Once these actions are complete, this docket should be closed administratively. (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, a consummating order should be issued. FPL should file revised tariff sheets to reflect the base energy charges implemented by the Commission's vote on Issue 1 for administrative approval by staff prior to the effective date of the new rates. Once these actions are complete, this docket should be closed administratively.

Florida Power & Light Company
 Docket No. 140197-EI
 Staff's First Set of Data Requests
 Interrogatory No. 1, Attachment 1

Interrogatory 1:

In Exhibit 71, Column 5, Line 33, filed in Docket No. 140009-EI, FPL provided a schedule supporting negative \$796,243 in base rate revenue requirement for the Extended Power Uprate (EPU). In this docket, FPL requested a final true-up reduction of \$761,690 to base rate revenue requirement for the EPU (See Attachment A). Please explain and reconcile the differences, if any, in FPL's filings in Docket Nos. 140009-EI and 140197-EI regarding the final true-up of base rate revenue requirement for the EPU.

	<u>Revenue Requirements</u>
<u>Base Rate Revenue Requirements filed in Docket No. 140009-EI</u>	<u>(\$796,243)</u>
<u>Reconciling Items</u>	
1 The 2014 base rate decrease includes a reduction to Turkey Point Unit 4 plant cost (P767) for the capital portion of warranty claims refunded to FPL by its vendors. The base rate revenue requirements included in Docket No. 140009-EI calculate the return of warranty refunds and a return on the refund from time the refund was received through the end of the year. The base rate revenue requirements included in Docket No. 140197-EI represent a full year's refund of and return on warranty refund from the beginning of the year (associated with the reversal of plant previously placed in service). The difference in the calculation creates an approximate (\$9.7k) change in revenue requirements.	
<u>Revenue Requirements associated with difference in calculation of Annualized Rate Base:</u>	(\$9,709)
2 The revenue requirement calculated in Docket No. 140009-EI does not include amortization of 2013 True-Up of Net Book Value of Retirements, Removal and Salvage. The revenue requirement calculated in Docket No. 140197-EI includes such amortization for 2013.	
<u>Revenue Requirements associated with the amortization of NBV of retirements, removal and salvage:</u>	(\$50,634)
3 The original 2012 base rate increase true-up, as filed in Docket 130245-EI, erroneously included a sales and use tax credit adjustment to plant in-service that is being reversed in this docket.	
<u>Revenue Requirements associated with difference in plant in-service:</u>	\$1,154
4 The revenue requirement calculated in Docket No. 140009-EI does not include amortization of 2012 True-Up of Net Book Value of Retirements, Removal Costs and Salvage. The revenue requirement calculated in Docket No. 140197-EI includes such amortization for 2012.	
<u>Revenue Requirements associated with the amortization of NBV of Retirements, Removal Costs and Salvage:</u>	\$100,877
5 The revenue requirement calculated in Docket No. 140009-EI does not include the amortization of the 2009 Net Book Value of Retirements, Removal Costs and Salvage that will terminate in February 2015, necessitating a base rate decrease as authorized by Order No. PSC-10-0207-PAA-EI.	
<u>Revenue Requirements associated with the roll-off of the 2009 Net Book Value of Retirements, Removal Costs and Salvage:</u>	(\$7,135)
<u>Base Rate Revenue Requirements filed in Docket No. 140197-EI</u>	<u>Total</u> <u>(\$761,690)</u>