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: February 18, 2016

TO: Office of Commission Clerk (Stauffer)

FROM: Division of Economics (Stratis, Wu)
Division of Engineering (King, Wooten)
Office of the General Counsel (Janjic)
Office of Industry Development and Market Analysis (Clemence)

RE: Docket No. 160017-EI – Petition for approval of depreciation rates for solar photovoltaic generating units, by Duke Energy Florida, LLC.

AGENDA: 3/1/2016 – Regular Agenda – Proposed Agency Action

COMMISSIONERS ASSIGNED: All Commissioners

PREHEARING OFFICER: Brisé

CRITICAL DATES: None

SPECIAL INSTRUCTIONS: None

Case Background

Pursuant to Rule 25-6.0436(3)(a), Florida Administrative Code (F.A.C.), electric utilities are required to maintain depreciation rates and accumulated depreciation reserve in accounts or subaccounts as prescribed in Rule 25-6.014(1), F.A.C. Rule 25-6.0436(3)(b), F.A.C., provides that "[u]pon establishing a new account or subaccount classification, each utility shall request Commission approval of a depreciation rate for the new plant category." On January 11, 2016, Duke Energy Florida, LLC (DEF or the company) filed a petition, in accordance with this rule, to establish depreciation rates for its solar photovoltaic generating units and associated equipment. The Florida Public Service Commission (Commission) has jurisdiction in this matter pursuant to Sections 366.04, 366.05, and 366.06, Florida Statutes (F.S.).

Discussion of Issues

Issue 1: Should the Commission approve DEF's proposed depreciation rates for DEF's solar photovoltaic generating units and associated equipment?

Recommendation: Yes. Staff recommends that the Commission approve a 30-year life and a whole life depreciation rate of 3.3 percent, for DEF's solar photovoltaic generating units. (Stratis, Clemence, Wooten, Wu)

Staff Analysis: DEF seeks the Commission's approval of depreciation rates of 3.3 percent for specified subaccounts to apply to solar photovoltaic (PV) generating units and associated equipment it is constructing at two facilities: the Perry Solar Facility, in Taylor County, and the Osceola Solar Facility, in Osceola County. The Perry facility will be a 5.1 megawatt system, and the Osceola facility will be a 3.8 megawatt system. DEF notes that the depreciation rates and subaccounts would also apply to "... such other solar photovoltaic generating units as may be constructed in the future." The two facilities will be constructed on property owned by DEF in Taylor and Osceola counties, both located in DEF's service area. DEF will own all equipment associated with the two facilities. DEF assigns an expected operating life to the systems of 30 years for the Perry and Osceola facilities, and for the 9 other solar PV facilities planned by DEF.[1]

At the time of the petition, DEF had not yet determined the retirement unit structure that it will use. The company plans to include these facilities in its next Annual Status Report, due on April 30, 2016. DEF seeks approval of the 3.3 percent depreciation rate for the following subaccounts:

303.xx Intangible Plant

341.xx Structures and Improvements

343.xx Other Generation Plant

345.xx Accessory Electric Equipment

The major components of the solar PV generating system include solar PV panels, inverters, racking support system, and transformers. DEF cites information from vendors, industry, and from the Technical Advisor of the Solar Energy Technologies Office of the US Department of Energy, as well as industry studies produced by the National Renewable Energy Laboratory (NREL), in support of its estimates of the expected life of the facilities and components.

In Order Nos. PSC-08-0731-PAA-EI and PSC-15-0573-PAA-EI the Commission adopted a 30-year life with zero net salvage for comparable solar PV generating units for Florida Power & Light Company (FPL) and for Tampa Electric Company (TECO). The Commission authorized FPL and TECO to use the resulting depreciation rate of 3.3 percent for the same subaccounts DEF proposes for its solar PV generating units and related equipment.

[1] DEF response to Staff's First Data Request, No. 1b. The Solar 3 facility will be located in either Volusia or Suwannee County; the locations of the remaining projects remain to be determined.

Conclusion

Staff believes that DEF's depreciation rate request is supported by industry information and studies and is consistent with previous Commission practice. Therefore, staff believes a 30-year life and a whole life depreciation rate of 3.3 percent is appropriate at this time for DEF's solar photovoltaic generating units and associated equipment, applied to each of the related subaccounts discussed in the staff analysis.

Issue 2: What should be the effective date for the implementation of the new depreciation rates for DEF's solar photovoltaic generating units and associated equipment?

Recommendation: Staff recommends the Commission approve an effective date of March 15, 2016, for the implementation of the new depreciation rates for DEF's solar photovoltaic generating units and associated equipment. (Stratis)

Staff Analysis: Depreciation is the recovery of invested capital representing equipment that provides service to the public. This recovery is designed to take place over the related period of service to the public, beginning with the equipment's in-service date. In their responses to staff's first data request, DEF provides in-service dates of May 2016 for the Osceola project and June 2016 for the Perry project. DEF requests the Commission to approve the new depreciation rates for solar photovoltaic generating units and associated equipment, effective March 15, 2016. An effective date of March 15, 2016 would allow sufficient time for the company to make the necessary adjustments to its accounting system before the in-service dates of the Osceola and Perry projects. Staff believes an effective date of March 15, 2016 for the implementation of the depreciation rates for the generating units and associated equipment is appropriate.

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, this docket should be closed upon issuance of the consummating order. (Janjic)

Staff Analysis: At the conclusion of the protest period, if no protest is filed, this docket should be closed upon the issuance of a consummating order.