**FLORIDA PUBLIC SERVICE COMMISSION**

**Fletcher Building**

**101 East Gaines Street**

**Tallahassee, Florida 32399-0850**

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

**May 21, 2015**

**TO : DIRECTOR OF RECORDS AND REPORTING**

**FROM : DIVISION OF AUDITING AND FINANCIAL ANALYSIS (LEE, SLEMKEWICZ)**

**DIVISION OF ELECTRIC AND GAS (BALLINGER)**

**DIVISION OF LEGAL SERVICES (CHRIST)**

**RE : DOCKET NO. 900794-EI, REQUEST FOR APPROVAL OF CHANGE IN**

**DEPRECIATION RATES FOR MARTIN AND TURKEY POINT GENERATING SITE,**

**TO BECOME EFFECTIVE 1-1-91, BY FLORIDA POWER AND LIGHT COMPANY**

**DOCKET NO.901001-EI, REQUEST FOR CHANGE IN DEPRECIATION RATES FOR PUTNAM AND ST. JOHNS RIVER POWER PARK GENERATING STATIONS BY FLORIDA POWER AND LIGHT COMPANY**

**DOCKET NO.910081-EI, 1991 DEPRECIATION STUDY FOR FLORIDA POWER AND**

**LIGHT COMPANY**

**AGENDA: FEBRUARY 2, 1993, PARTIES MAY PARTICIPATE, CONTROVERSIAL**

**CRITICAL DATES: I:\PSC\AFA\WP\900794.RCM**

**ATTACHMENT A - IS NOT AVAILABLE**

**DISCUSSION OF ISSUES**

**ISSUE 1:** Should the Commission approve Florida Power and Light Company's (FPL or Company) request for a waiver of the June 1993 depreciation study filing deadline set forth in Order No. PSC-92-1303-FOF-EI?

**RECOMMENDATION:** No. If a waiver is considered however, staff would recommend a December 1993 filing date with a January 1, 1994 implementation for the depreciation study covering production plant and TD&G. Dismantlement studies and decommissioning studies could be deferred until December 1994 with a January 1, 1995 implementation date. (LEE)

**STAFF ANALYSIS:** At the November 3, 1992 Agenda, the Commission voted to make the depreciation rates approved for preliminary implementation in Order No. 24161 for FPL as final rates for 1991 and 1992. This action was precipitated mainly by the concern over the catastrophic effects of Hurricane Andrew. In an effort to recognize those effects on FPL's operations and plant, FPL was directed to file an updated comprehensive depreciation study by June 1993 with an effective date of January 1, 1993. Further, if FPL found that a June 1993 filing date would not be possible, it could request an extension of time. Consequently, on November 30, 1992, FPL filed a request that the Commission waive the June 1993 comprehensive depreciation study deadline set forth in Order No. PSC-92-1303-FOF-EI on the grounds that the deadline is impractical and unrealistic.

FPL argues that the June 1993 deadline is impractical and unrealistic due to 1) the current valuation of the effects of Hurricane Andrew and 2) the time and personnel it needs to prepare a comprehensive study. The Company's request also provides two alternative filing schedules for the Commission's consideration.

Hurricane Andrew

According to the Company, completion of re-construction (where re-construction is presently feasible) of its TD&G plant was anticipated by December 1992. An additional three months is then needed to accumulate, analyze and process the data making April 1993 the earliest date that FPL proffers it will be able to begin preparing the depreciation study for TD&G. However, the Company believes that any study done at this time will not really be appropriate since it will only incorporate those facilities that have been replaced at this time, while future re-construction will be accounted for as normal plant replacement. Staff believes that if re-construction was completed by December 1992, FPL should know what the retirements due to the hurricane were including those retirements in locations where there is no re-construction at this time. Whether plant replacement is due to normal wear and tear or storm damages, the result is still that retirements and additions are booked and the causes for those are of no consequence to the need of recovery, either through the provision of "Extraordinary Retirements" or depreciation.

It is staff's understanding that the only two production sites damaged by Hurricane Andrew are Cutler and Turkey Point Fossil. According to FPL, repair of Cutler is expected to be completed sometime in 1993 and repair of Turkey Point Fossil is expected to be completed by December 1993. In its request, FPL has assumed repairs to both plants will be completed by December 1993 and, considering the three-month lag to accumulate, analyze and process the data, the Company states that the production site studies will not be able to be started until April 1994. This target date is also when the Company anticipates beginning studies for the remaining 13 production sites not affected by the hurricane.

Another point raised by FPL, is that the actual amount of recovery from insurance is subject to negotiation and a final settlement may not be received for some time. The concern apparently is that it may be necessary for the Company to estimate the insurance recoveries since the actual amounts may not be known. Estimates are contemplated in the Commission's depreciation rules and are acceptable to staff.

Time and Personnel

A comprehensive depreciation study would entail, for FPL, 15 production plant site-specific studies, 14 dismantlement studies, and studies for each of the transmission, distribution and general plant accounts. According to the Company, it would be physically impossible for it's depreciation personnel to properly prepare a comprehensive study by June 1993 even if the effects of Hurricane Andrew could be accurately accounted for by the end of 1992. An estimated 3,000 hours or six months has been given as the amount time needed to complete the TD&G study once the data is available with an additional 700 hours or four months needed to complete each production site-specific study. These estimates do not include the fossil dismantlement studies which are to be filed with the site-specific studies nor do they recognize time for preparation of the nuclear decommissioning studies which are required to be filed by September 1994. In addition, FPL points out the importance of incorporating Company plans into its studies which will involve input from engineers and field personnel who are still affected by the storm. These people apparently will not be available to help the depreciation section until all storm-related activities, as well as backlogged work, is completed. Staff is very sympathetic to the exorbitant amount of time FPL is spending on preparing its studies. While we certainly have been impressed with the detail of FPL's site specific studies, the need to produce such would seem to override any benefits. Staff has offered to work with the FPL depreciation personnel in developing a comprehensive study requiring much less time than 13,500-plus hours. While we recognize that FPL believes that this would compromise the quality, integrity and usefulness of the study, we believe when estimating 20 to 30 years into the future, undue precision in the mechanics of compositing may not be warranted. Staff will work with the Company in reducing the number of hours needed to produce a comprehensive study without compromising its resultant quality, integrity or usefulness.

FPL's Alternative Filing Schedules

In lieu of the ordered June 1993 filing deadline, FPL has offered two alternative filing schedules for the Commission's consideration. The Company has characterized these alternative schedules as "accelerated" since a company normally has four years to file a comprehensive study and, according to FPL, the alternatives will result in a study for all functions in about two years. It should be noted that under normal circumstances, the Commission's rules would require FPL to file its next comprehensive depreciation study by January 23, 1995, since its last study was filed January 23, 1991. The first alternative offered by FPL is to file the TD&G study by December 1993 with an effective date of January 1, 1994; Nuclear Plants by December 1993, with an effective date of January 1, 1994; and Fossil Plants (depreciation and dismantlement) by December 1994, with an effective date of January 1, 1995. The second alternative calls for the complete comprehensive study covering all functions of plant to be filed by December 1994, with an effective date of January 1, 1995.

FPL believes that the first alternative is far better than the second for three reasons. One, the Commission will be able to review the TD&G accounts, those most affected by Hurricane Andrew, at an earlier date than the second alternative would provide. Second, a bifurcated filing will provide the Commission the most current data available to FPL. Third, regulatory lag in setting depreciation rates will be minimized, and both the staff's and Company's workload will be spread out over the next two-year period. FPL argues that the second alternative will result in the Commission having to set depreciation rates based on old data for the TD&G accounts since, it says, that part will have been completed two years earlier.

The aim of a comprehensive study as contemplated by Rule 25-6.0436 (8)(a), Florida Administrative Code, is that each category of depreciable plant will be addressed. Only during a review of all plant can the assessment of the capital recovery position for the total company be made and an examination of the adequacy of the reserve position be addressed. While bifurcated studies have been submitted and by other companies and found acceptable to staff, the bifurcation was with implementation dates rather than with data. In other words, the complete studies were filed with requests for implementation of certain rates or recovery schedules at one point of time with implementation of the remainder for the beginning of the next year.

Staff cannot follow FPL's argument that regulatory lag in setting depreciation rates will be minimized if the Commission accepts its first alternative filing schedule. With the prospect of preliminary implementation provided in the Rule 25-6.0436 (5), F.A.C., staff opines there is little regulatory lag. Now if the argument is regulatory lag as it relates to a revenue proceeding, then yes there would be a lag, unless a rate case and a depreciation study were filed in close proximity to each other and unless the implementation date of new depreciation rates is projected to the point new revenue rates would go into affect. In this case, it would seem that there would be little regulatory lag.

Staff believes that the biggest problem facing FPL with filing a comprehensive study is with the number of hours it states is needed to produce the study. As discussed earlier, staff is as distressed as FPL with this and will work with the Company in any way to streamline the process. We reiterate, undue precision in the mechanism may not be practicable. And when that mechanism results in 13,500-plus hours, we opine the mechanism is not practicable. It is recommended therefore that FPL's request for waiver from the ordered June 1993 filing deadline be denied. If a waiver is considered, staff suggests a December 1993 filing date with a January 1, 1994 implementation for the depreciation study covering production plant and TD&G. Dismantlement studies and decommissioning studies could be deferred until December 1994 with a January 1, 1995 implementation date. This will allow a comprehensive review of depreciation parameters for all categories of plant at the same time while allowing the review of extraordinary removal costs (fossil dismantlement and nuclear decommissioning) at a later time.

**ISSUE 2:** For plant retired and replaced as a result of damages caused by Hurricane Andrew, should the Commission approve FPL's proposed accounting treatment to record cost of removal and the cost of new plant at a normal or "fair" cost and to charge the remaining excess cost to maintenance expense?

**RECOMMENDATION:** Yes. However, any insurance proceeds received should be used first to offset the costs charged to maintenance expense before being credited against the depreciation reserve or plant accounts. In addition, FPL should maintain adequate records to facilitate any Staff review of the determination of normal cost. (SLEMKEWICZ, LEE)

**STAFF ANALYSIS:** Due to the necessity of restoring property damaged by Hurricane Andrew without delay, abnormal expenditures have been incurred. As an example, employees may have been working overtime to restore overhead lines. Under normal circumstances, no overtime pay would be incurred. Therefore, the difference between straight time pay and overtime pay would be considered "abnormal" and be charged to maintenance expense.

The Staff agrees with FPL that it is appropriate to charge the depreciation and plant accounts with only the normal cost for such activities. However, it is also Staff's opinion that the abnormal costs charged to maintenance expense should be offset first by any insurance proceeds received. The remaining insurance proceeds should then be credited against the depreciation reserve or plant accounts, as appropriate. In addition, FPL should maintain adequate records so that a review of the appropriateness of the cost to be considered "normal" can be made by the Staff.

**ISSUE 3:** Should the Commission approve FPL's proposed accounting treatment for the replacement cost insurance proceeds related to new plant?

**RECOMMENDATION:** No. All replacement cost insurance proceeds not otherwise allocated to abnormal maintenance costs should be debited against the depreciation reserve. In addition, FPL should file monthly reports with the Commission detailing the costs incurred and the disposition of insurance proceeds and monies obtained from FPL's storm damage fund. The first report, based on the month of March 1993, should be filed by May 1, 1993. (SLEMKEWICZ, LEE)

**STAFF ANALYSIS:** As described in Attachment A, FPL proposes to adjust its plant accounts so that the value of the replacement plant is equal to the original value of the plant prior to the damages caused by Hurricane Andrew. This will be accomplished by allocating the various insurance proceeds among the plant accounts, depreciation reserve and "abnormal" maintenance expenses.

FPL anticipates that it will be made whole for the damages caused by Hurricane Andrew. Except for the $21 million in deductibles that will be funded from FPL's storm damage fund, the replacement cost insurance proceeds are expected to cover the depreciated value of the damaged facilities. When the facilities are replaced, FPL will be reimbursed for the replacement cost less the amount already paid for the depreciated value.

There are three alternative methods for recording the insurance proceeds. Although each method results in the same amount of net plant (gross plant minus depreciation reserve), the amount of gross plant and reserve are different. As proposed by FPL, the value of the replacement gross plant would be reduced by insurance proceeds until it was equal to the value of the plant that it replaced. Any remaining insurance proceeds would be credited against the depreciation reserve. As a result, the new plant would have a value equal to the old plant just prior to the arrival of Hurricane Andrew.

The second method would be to record the replacement gross plant at its actual cost and credit all of the insurance proceeds against the depreciation reserve. Although the gross plant would be higher under this methodology, that higher value would be offset by a larger depreciation reserve. This methodology is the normal treatment for insurance proceeds as prescribed by the Uniform System of Accounts.

A third alternative would be to treat the insurance proceeds as though they represented contributions in aid of construction (CIAC). After assigning a portion of the insurance proceeds to cover the depreciated value of the retired plant, the remainder would be used to reduce the amount of the replacement gross plant. Under this methodology, the gross plant would have a smaller value but that value would not be offset by any depreciation.

Although net plant would have the same value under any alternative, there is a difference in revenue requirements associated with depreciation expense. Under FPL's method, there would not be any change in the depreciation expense and, therefore, no change in revenue requirements. Using the "normal" method, depreciation expense would be higher than required and earnings would be reduced. The CIAC method results in a lower depreciation expense, thereby increasing earnings. The next depreciation rate represcription would correct for this problem.

Since the next depreciation study and rate represcription are scheduled for the near future, Staff does not find any compelling reasons to deviate from the normal accounting treatment for insurance proceeds and recommends that FPL's proposal be denied.

In order for the Commission to be fully aware of the foregoing transactions, FPL should be required to file monthly reports concerning the costs incurred and the disposition of the insurance proceeds and monies recovered from the storm damage reserve. The first report, based on the month of March 1993, would be due May 1, 1993. Subsequent reports would be due on the first of each following month.

**ISSUE 4:** Should this docket be closed?

**RECOMMENDATION:** Yes. (LEE)

**STAFF ANALYSIS:** No further Commission action is required and this docket can be closed.