ORIGINAL

M E M O R A N D U M

October 18, 1999

TO: DIVISION OF RECORDS AND REPORTING

FROM: DIVISION OF LEGAL SERVICES (Jaye) QUE

RE: DOCKET NO. 990007-EI - Environmental Cost Recovery Clause

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Attached is the prefiled direct testimony of Patricia S. Lee, to be issued in the above-referenced docket.

GAJ
Attachment
cc: Division of Auditing and Financial Analysis
I:memo1.gaj

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FPSC-RECORDS/REPORTING

ORIGINAL

DOCKET NO. 990007-EI - Environmental Cost Recovery Clause

WITNESS: **Direct Testimony Of Patricia S.Lee,** Appearing On Behalf Of The Staff Of The Florida Public Service Commission, Division Of Auditing And Financial Analysis.

DATE FILED: October 18, 1999

DIRECT TESTIMONY OF PATRICIA S. LEE

Q. Please state your name and business address.

A. My name is Patricia S. Lee. My business address is 2540 Shumard Oak Boulevard, Tallahassee, Florida, 32399-0865.

Q. By whom are you employed and in what capacity?

A. I am employed by the Florida Public Service Commission. My current position is Utility Systems Communications Engineer Supervisor of the Depreciation Section in the Bureau of Financial Analysis of the Division of Auditing and Financial Analysis.

Q. Will you briefly describe your educational background and business experience?

A. I graduated from Appalachian State University in Boone, North Carolina in December, 1970 receiving a Bachelor's degree in mathematics. I was employed as a high school mathematics teacher from 1971-1974, when I began working in the area of statistical analysis for the State of Florida. I joined the Public Service Commission staff in 1978 as a Research Assistant in the Depreciation section of the Engineering Department. Since that time, I have held various positions in the depreciation area, each with increased responsibility. On January 2, 1989 I became Chief of the Bureau of Depreciation. During the reorganization of the Division of Auditing and Financial Analysis in 1991, the Depreciation Bureau became the Depreciation Section of the Bureau of Financial Analysis. At that time, I became a Utility Systems Communications Engineer Supervisor.

Additionally, I gained the professional status of a Certified Depreciation Professional (CDP) by the Society of Depreciation Professionals

(SDP) in 1999.

Q. What are your duties as Utility Systems Communications Engineer Supervisor of the Depreciation section?

A. I supervise the analysis of depreciation rates and the capital recovery positions of Florida regulated utilities and the valuation of assets in a competitive market. My position also serves as the interface within the Commission and with the utilities and other governmental bodies on capital recovery matters in both the regulated and deregulated environments. Additionally, on behalf of the Commission, I have been a faculty member of the National Association of Regulatory Utility Commissioners (NARUC) Annual Regulatory Studies Program, am a member and current chair of the NARUC Staff Subcommittee on Depreciation, am a member of the Society of Depreciation Professionals (SDP) and current chair of the Journal Committee, and am a member of the National Conference of Regulatory Utility Commission Engineers current chair of the Program Committee.

Q. What is the purpose of your testimony?

A. The purpose of my testimony is to address whether an adjustment to ECRC project costs should be made to reflect the resulting replacement and retirement of in-plant costs that are currently being recovered through base rates and, if so, the appropriate methodology to quantify the adjustment.

Q. Why is it important to make an adjustment if costs are currently being recovered through base rates?

A. On April 13, 1993, Section 366.8255, Florida Statutes, was enacted into law establishing an environmental cost recovery clause. This statute authorized the recovery of prudently incurred environmental compliance costs

through the environmental cost recovery factor. Capital investments incurred in complying with environmental laws or regulations are specifically listed as environmental compliance costs recoverable through ECRC. The statute also states that:

> (a)n adjustment for the level of costs currently being recovered through base rates or other rate-adjustment clauses must be included in the filing.

Finally, the statute provides that:

> (r)ecovery of environmental compliance costs under this section does not preclude inclusion of such costs in base rates in subsequent rate proceedings, if that inclusion is necessary and appropriate; however, any costs recovered in base rates may not also be recovered in the environmental cost-recovery clause. (Emphasis added.) (Section 366.8255 (5), Florida Statutes)

One of the questions facing the Commission in 1993, as it is today in this current proceeding, was how to determine whether specific costs are being recovered through base rates and how to quantify the amount currently being recovered. By Order No. PSC-94-0044-FOF-EI (94-0044), issued January 12, 1994 in Docket No. 930613-EI, the Commission found that all costs associated with activities included in the test year of the utility's last rate case are being recovered in base rates unless new legal requirements caused costs to change from the level included in the test year. If new legal requirements caused an increase, or decrease, in costs from the level included in the test year of the last rate case, the amount recovered through base rates would be determined to be the amount included in the test year. The incremental amount

not included in the test year would then be allowed to be recovered through the ECRC. Thus, at the time of Order 94-0044, the term "base rates" was determined to relate to the company's last test year.

An issue raised in recent ECRC dockets relates to new projects that result in the replacement of existing assets. Assuming the new project meets the criteria to be recovered through the ECRC, the question becomes what is the appropriate amount to be recovered.

Q. When an ECRC project results in the retirement of assets currently being recovered through base rates, should the total cost of the ECRC project be recovered through the ECRC?

A. No. In accord with the statute, when an ECRC project results in the retirement of existing assets, I believe only the expenses that are incremental to those currently being recovered through base rates should be recoverable through the ECRC.

Q. How would you determine the incremental expenses that should be recovered through the ECRC?

A. The difference between the depreciation expense and return on the investment being retired and the depreciation expense and return on the new investment being added to comply with environmental regulations would be the incremental cost to be recovered through the ECRC.

Q. What assumptions would you make in determining the return on the retiring investment?

A. Since the level of costs currently recovered through base rates includes many expenses not specifically considered at the time base rates were last set and since base rates no longer include expenses, or the level of expenses,

specifically considered when base rates were initially established, I believe there are several options available to determine the return on the retiring investment: the company's last rate case test year, the most recent surveillance report, or the most recent stipulation where base rates were changed. Witness Slemkewicz discusses these options in his testimony.

Q. Do you have an exhibit illustrating the determination of expenses incremental to the level currently being recovered through base rates that should be recoverable through the ECRC?

A. Yes. Exhibit PSL-1 is an example of the incremental expenses recoverable through the ECRC when the new project results in the retirement of existing assets. The base rate recovery returns are shown for each of the options listed above for each company.

Q. How are the depreciation expense and accumulated depreciation amounts determined for the new investment?

A. The depreciation expense and accumulated depreciation or reserve amounts for the new investment added for environmental reasons are based on the assumptions that the investment is placed in service at the beginning of the year and the currently prescribed depreciation rate for the account to which this investment is recorded is 4.0%.

Q. How is the depreciation expense associated with the investment subject to retirement determined?

A. Depreciation expense is based on the assumption that the investment is retired at the end of the year and the currently prescribed depreciation rate is 4.0%.

Q. How is the accumulated depreciation amount associated with the

investment subject to retirement determined?

A. The accumulated depreciation for electric utilities is maintained on a depreciable account basis. For this reason, the appropriate accumulated depreciation associated with investments being retired and replaced with the new investment will have to be estimated. Some of the more common methods for estimating the accumulated depreciation are the following:

1. Using the currently prescribed curve shape, synthesize the account accumulated depreciation by vintage. The original placement vintage of the investment being retired is then used to assign the appropriate accumulated depreciation percent.

2. If the original placement vintage of the investment being retired is unknown, the accumulated depreciation percent applicable to the account in which the investment resides may be assumed as being appropriate.

3. Where the age of the investment being retired is known and a history of the prescribed depreciation rates is known, an accumulated depreciation amount can be determined by multiplying the age times the investment times the applicable depreciation rate(s).

If the investment subject to replacement and retirement is comprised of several individual assets having different original placement dates, the accumulated deprecation should be estimated for each asset.

Q. Which of these methods have you used in determining the accumulated depreciation for the retiring investment on your exhibit?

A. For simplicity, I have assumed that the retiring investment is one asset

and that the age and a history of the prescribed depreciation rates are known. The age is assumed to be 10 years. Assuming that depreciation rates are prescribed every four years, I have assumed a prescribed 2.5% depreciation rate (40 year life, zero net salvage) for the first four years, a prescribed 3.3% depreciation rate (30 year life, zero net salvage) for the next four years, and a 4.0% currently prescribed depreciation rate (25 year life, zero net salvage).

Q. Should any unrecovered cost associated with the retirement of existing investment be recovered through the ECRC?

A. No. As with any retirement, the associated unrecovered cost becomes part of the reserve for the account in which the retiring investment is recorded. Any reserve deficiency or surplus will be part of the reserve position included in the remaining life depreciation rate design during the company's next depreciation study. The reserve imbalance will be corrected over the remaining life of the associated account unless another approach is determined to be appropriate. Under the group depreciation concept, it is recognized that some assets within the group will live a life shorter or longer than the expected average, but on the whole, the group will live the expected average. Under normal conditions of patterns of variations in plant activity and life and salvage projections, recovery over the remaining life of the account should suffice. In cases where the imbalance is substantial, other approaches of reserve correction should be considered.

Q. Does this complete your testimony?

A. Yes, it does.

GULF POWER
BASE RATE RECOVERY BASED ON LAST RATE CASE, ORDER NO. 23573)

| | ($) |
|---|---|
| NEW ECRC PROJECT | |
| Plant-in-Service | 120,000,000 |
| Less Accumulated Depreciation | (4,800,000) |
| CWIP -Non Interest Bearing | |
| Net Investment | 115,200,000 |
| | |
| Average Net Investment | 117,600,000 |
| | |
| RETURN ON AVERAGE INVESTMENT | |
| Equity Component Grossed Up for Taxes (1) | 8,431,920 |
| Debt Component (2) | 4,127,760 |
| TOTAL RETURN ON AVG. NET INVESTMENT | 12,559,680 |
| LESS BASE RATE RECOVERY | |
| Equity Component Grossed Up for Taxes (3) | (2,022,720) |
| Debt Component (2) | (965,952) |
| TOTAL BASE RATE RECOVERY | (2,988,672) |
| RETURN RECOVERABLE IN ECRC | 9,571,008 |
| | |
| INVESTMENT EXPENSES | |
| Depreciation | 4,800,000 |
| Amortization | |
| Dismantlement | |
| Property Taxes | |
| Other | |
| TOTAL INVESTMENT EXPENSES | 4,800,000 |
| LESS BASE RATE RECOVERY | |
| Depreciation | (1,600,000) |
| Amortization | |
| Dismantlement | |
| Property Taxes | |
| Other | |
| TOTAL BASE RATE RECOVERY | (1,600,000) |
| EXPENSES RECOVERABLE IN ECRC | 3,200,000 |
| | |
| TOTAL SYSTEM NET RECOVERABLE EXPENSE | 12,771,008 |

(1) Average net investment X 7.17%. Based on ROE 12% and weighted income tax rate of 38.575%.
(2) Average net investment X 3.51%.
(3) Average net investment X 7.35%. Based on ROE 12.55% and weighted income tax rate of 37.63%. (Last rate case)

ASSUMPTIONS:
New ECRC project replaced equipment with original cost of $40,000,000 and accumulated depreciation of $12,480,000, at date of retirement. Net investment is $27,520,000.
Equipment being replaced is currently recovered through base rates.
Equity and debt components attributable to base rate recovery based on last rate case.
Depreciation rate for new investment and retiring investment 4.0% (25 yr. life, zero net salvage).

GULF POWER
BASE RATE RECOVERY BASED ON MOST RECENT SURVEILLANCE REPORT, JUNE 30, 1999)

| | ($) |
|---|---|
| NEW ECRC PROJECT | |
| Plant-in-Service | 120,000,000 |
| Less Accumulated Depreciation | (4,800,000) |
| CWIP -Non Interest Bearing | |
| Net Investment | 115,200,000 |
| | |
| Average Net Investment | 117,600,000 |
| | |
| RETURN ON AVERAGE INVESTMENT | |
| Equity Component Grossed Up for Taxes (1) | 8,431,920 |
| Debt Component (2) | 4,127,760 |
| TOTAL RETURN ON AVG. NET INVESTMENT | 12,559,680 |
| LESS BASE RATE RECOVERY | |
| Equity Component Grossed Up for Taxes (3) | (2,396,992) |
| Debt Component (4) | (613,696) |
| TOTAL BASE RATE RECOVERY | (3,010,688) |
| RETURN RECOVERABLE IN ECRC | 9,548,992 |
| | |
| INVESTMENT EXPENSES | |
| Depreciation | 4,800,000 |
| Amortization | |
| Dismantlement | |
| Property Taxes | |
| Other | |
| TOTAL INVESTMENT EXPENSES | 4,800,000 |
| LESS BASE RATE RECOVERY | |
| Depreciation | (1,600,000) |
| Amortization | |
| Dismantlement | |
| Property Taxes | |
| Other | |
| TOTAL BASE RATE RECOVERY | (1,600,000) |
| EXPENSES RECOVERABLE IN ECRC | 3,200,000 |
| | |
| DESCRIPTION OF O&M ACTIVITIES | |
| | |
| TOTAL SYSTEM NET RECOVERABLE EXPENSE | 12,748,992 |

(1) Average net investment X 7.17%. Based on ROE 12% and weighted income tax rate of 38.575%.
(2) Average net investment X 3.51%.
(3) Average net investment X 8.71%. Based on most recent surveillance report, 12 mos. ending 6/30/99.
(4) Average net investment X 2.23%.

ASSUMPTIONS:
New ECRC project replaced equipment with original cost of $40,000,000 and accumulated depreciation of $12,480,000, at date of retirement. Net investment is $27,520,000.
Equipment being replaced is currently recovered through base rates.
Equity and debt components attributable to base rate recovery based on most recent surveillance report.
Depreciation rate for new investment and retiring investment 4.0% (25 yr. life, zero net salvage).

GULF POWER
BASE RATE RECOVERY BASED ON MOST RECENT STIPULATION, DOCKET NO. 991487, ORDER PENDING)

| | ($) |
|---|---|
| NEW ECRC PROJECT | |
| Plant-in-Service | 120,000,000 |
| Less Accumulated Depreciation | (4,800,000) |
| CWIP -Non Interest Bearing | |
| Net Investment | 115,200,000 |
| | |
| Average Net Investment | 117,600,000 |
| | |
| RETURN ON AVERAGE INVESTMENT | |
| Equity Component Grossed Up for Taxes (1) | 8,431,920 |
| Debt Component (2) | 4,127,760 |
| TOTAL RETURN ON AVG. NET INVESTMENT | 12,559,680 |
| LESS BASE RATE RECOVERY | |
| Equity Component Grossed Up for Taxes (3) | (2,306,176) |
| Debt Component (4) | (613,696) |
| TOTAL BASE RATE RECOVERY | (2,919,872) |
| RETURN RECOVERABLE IN ECRC | 9,639,808 |
| | |
| INVESTMENT EXPENSES | |
| Depreciation | 4,800,000 |
| Amortization | |
| Dismantlement | |
| Property Taxes | |
| Other | |
| TOTAL INVESTMENT EXPENSES | 4,800,000 |
| LESS BASE RATE RECOVERY | |
| Depreciation | (1,600,000) |
| Amortization | |
| Dismantlement | |
| Property Taxes | |
| Other | |
| TOTAL BASE RATE RECOVERY | (1,600,000) |
| EXPENSES RECOVERABLE IN ECRC | 3,200,000 |
| | |
| TOTAL SYSTEM NET RECOVERABLE EXPENSE | 12,839,808 |

(1) Average net investment X 7.17%. Based on ROE 12% and weighted income tax rate of 38.575%.
(2) Average net investment X 3.51%.
(3) Average net investment X 8.38%. Based on ROE 11.5%, stipulation approved in Docket No. 991487-EI.
(4) Average net investment X 2.23%.

ASSUMPTIONS:
New ECRC project replaced equipment with original cost of $40,000,000 and accumulated depreciation of $12,480,000, at date of retirement. Net investment is $27,520,000.
Equipment being replaced is currently recovered through base rates.
Equity and debt components attributable to base rate recovery based on recent stipulation approved in Docket No. 991487.
Depreciation rate for new investment and retiring investment 4.0% (25 yr. life, zero net salvage).

TECO
BASE RATE RECOVERY BASED ON LAST RATE CASE, ORDER NO. PSC-93-0165-FOF-EI)

| | ($) |
|---|---|
| NEW ECRC PROJECT | |
| Plant-in-Service | 120,000,000 |
| Less Accumulated Depreciation | (4,800,000) |
| CWIP -Non Interest Bearing | |
| Net Investment | 115,200,000 |
| | |
| Average Net Investment | 117,600,000 |
| | |
| RETURN ON AVERAGE INVESTMENT | |
| Equity Component Grossed Up for Taxes (1) | 10,372,320 |
| Debt Component (2) | 3,316,320 |
| TOTAL RETURN ON AVG. NET INVESTMENT | 13,688,640 |
| LESS BASE RATE RECOVERY | |
| Equity Component Grossed Up for Taxes (3) | (2,476,800) |
| Debt Component (2) | (776,064) |
| TOTAL BASE RATE RECOVERY | (3,252,864) |
| RETURN RECOVERABLE IN ECRC | 10,435,776 |
| | |
| INVESTMENT EXPENSES | |
| Depreciation | 4,800,000 |
| Amortization | |
| Dismantlement | |
| Property Taxes | |
| Other | |
| TOTAL INVESTMENT EXPENSES | 4,800,000 |
| LESS BASE RATE RECOVERY | |
| Depreciation | (1,600,000) |
| Amortization | |
| Dismantlement | |
| Property Taxes | |
| Other | |
| TOTAL BASE RATE RECOVERY | (1,600,000) |
| EXPENSES RECOVERABLE IN ECRC | 3,200,000 |
| | |
| TOTAL SYSTEM NET RECOVERABLE EXPENSE | 13,635,776 |

(1) Average net investment X 8.82%. Based on ROE 11.75% and weighted income tax rate of 38.575%.
(2) Average net investment X 2.82%.
(3) Average net investment X 9.00%. Based on last rate case.

ASSUMPTIONS:
New ECRC project replaced equipment with original cost of $40,000,000 and accumulated depreciation of $12,480,000, at date of retirement. Net investment is $27,520,000.
Equipment being replaced is currently recovered through base rates.
Equity and debt components attributable to base rate recovery based on last rate case.
Depreciation rate for new investment and retiring investment 4.0% (25 yr. life, zero net salvage).

TECO
BASE RATE RECOVERY BASED ON MOST RECENT SURVEILLANCE REPORT, JUNE 30, 1999)

| | ($) |
|---|---|
| NEW ECRC PROJECT | |
| Plant-in-Service | 120,000,000 |
| Less Accumulated Depreciation | (4,800,000) |
| CWIP -Non Interest Bearing | |
| Net Investment | 115,200,000 |
| | |
| Average Net Investment | 117,600,000 |
| | |
| RETURN ON AVERAGE INVESTMENT | |
| Equity Component Grossed Up for Taxes (1) | 10,372,320 |
| Debt Component (2) | 3,316,320 |
| TOTAL RETURN ON AVG. NET INVESTMENT | 13,688,640 |
| LESS BASE RATE RECOVERY | |
| Equity Component Grossed Up for Taxes (3) | (2,663,936) |
| Debt Component (4) | (613,696) |
| TOTAL BASE RATE RECOVERY | (3,277,632) |
| RETURN RECOVERABLE IN ECRC | 10,411,008 |
| | |
| INVESTMENT EXPENSES | |
| Depreciation | 4,800,000 |
| Amortization | |
| Dismantlement | |
| Property Taxes | |
| Other | |
| TOTAL INVESTMENT EXPENSES | 4,800,000 |
| LESS BASE RATE RECOVERY | |
| Depreciation | (1,600,000) |
| Amortization | |
| Dismantlement | |
| Property Taxes | |
| Other | |
| TOTAL BASE RATE RECOVERY | (1,600,000) |
| EXPENSES RECOVERABLE IN ECRC | 3,200,000 |
| | |
| TOTAL SYSTEM NET RECOVERABLE EXPENSE | 13,611,008 |

(1) Average net investment X 8.82%. Based on ROE 11.75% and weighted income tax rate of 38.575%.
(2) Average net investment X 2.82%.
(3) Average net investment X 9.68%. Based on last rate case.
(4) Average net investment X 2.23%.

ASSUMPTIONS:
New ECRC project replaced equipment with original cost of $40,000,000 and accumulated depreciation of $12,480,000, at date of retirement. Net investment is $27,520,000.
Equipment being replaced is currently recovered through base rates.
Equity and debt components attributable to base rate recovery based on most recent surveillance report.
Depreciation rate for new investment and retiring investment 4.0% (25 yr. life, zero net salvage).

FPL
BASE RATE RECOVERY BASED ON LAST RATE CASE, ORDER NO. 13948)

| | ($) |
|---|---|
| NEW ECRC PROJECT | |
| Plant-in-Service | 120,000,000 |
| Less Accumulated Depreciation | (4,800,000) |
| CWIP -Non Interest Bearing | |
| Net Investment | 115,200,000 |
| | |
| Average Net Investment | 117,600,000 |
| | |
| RETURN ON AVERAGE INVESTMENT | |
| Equity Component Grossed Up for Taxes (1) | 8,361,360 |
| Debt Component (2) | 3,304,560 |
| TOTAL RETURN ON AVG. NET INVESTMENT | 11,665,920 |
| LESS BASE RATE RECOVERY | |
| Equity Component Grossed Up for Taxes (3) | (3,206,080) |
| Debt Component (4) | (1,186,112) |
| TOTAL BASE RATE RECOVERY | (4,392,192) |
| RETURN RECOVERABLE IN ECRC | 7,273,728 |
| | |
| INVESTMENT EXPENSES | |
| Depreciation | 4,800,000 |
| Amortization | |
| Dismantlement | |
| Property Taxes | |
| Other | |
| TOTAL INVESTMENT EXPENSES | 4,800,000 |
| .ESS BASE RATE RECOVERY | |
| Depreciation | (1,600,000) |
| Amortization | |
| Dismantlement | |
| Property Taxes | |
| Other | |
| TOTAL BASE RATE RECOVERY | (1,600,000) |
| EXPENSES RECOVERABLE IN ECRC | 3,200,000 |
| | |
| TOTAL SYSTEM NET RECOVERABLE EXPENSE | 10,473,728 |

(1) Average net investment X 7.11%. Based on ROE 12.00% and weighted income tax rate of 38.575%.
(2) Average net investment X 2.81%.
(3) Average net investment X 11.65%. Based on ROE 15.60% and weighted income tax rate of 47.7793%. (Last rate case)
(4) Average net investment X 4.31%.

ASSUMPTIONS:
New ECRC project replaced equipment with original cost of $40,000,000 and accumulated depreciation of $12,480,000, at date of retirement. Net investment is $27,520,000.
Equipment being replaced is currently recovered through base rates.
Equity and debt components attributable to base rate recovery based on last rate case.
Depreciation rate for new investment and retiring investment 4.0% (25 yr. life, zero net salvage).

FPL
(BASE RATE RECOVERY BASED ON MOST RECENT SURVEILLANCE REPORT, JUNE 30, 1999)

| | ($) |
|---|---|
| NEW ECRC PROJECT | |
| Plant-in-Service | 120,000,000 |
| Less Accumulated Depreciation | (4,800,000) |
| CWIP -Non Interest Bearing | |
| Net Investment | 115,200,000 |
| | |
| Average Net Investment | 117,600,000 |
| | |
| RETURN ON AVERAGE INVESTMENT | |
| Equity Component Grossed Up for Taxes (1) | 8,361,360 |
| Debt Component (2) | 3,304,560 |
| TOTAL RETURN ON AVG. NET INVESTMENT | 11,665,920 |
| LESS BASE RATE RECOVERY | |
| Equity Component Grossed Up for Taxes (3) | (2,749,248) |
| Debt Component (4) | (553,152) |
| TOTAL BASE RATE RECOVERY | (3,302,400) |
| RETURN RECOVERABLE IN ECRC | 8,363,520 |
| | |
| INVESTMENT EXPENSES | |
| Depreciation | 4,800,000 |
| Amortization | |
| Dismantlement | |
| Property Taxes | |
| Other | |
| TOTAL INVESTMENT EXPENSES | 4,800,000 |
| LESS BASE RATE RECOVERY | |
| Depreciation | (1,600,000) |
| Amortization | |
| Dismantlement | |
| Property Taxes | |
| Other | |
| TOTAL BASE RATE RECOVERY | (1,600,000) |
| EXPENSES RECOVERABLE IN ECRC | 3,200,000 |
| | |
| TOTAL SYSTEM NET RECOVERABLE EXPENSE | 11,563,520 |

(1) Average net investment X 7.11%. Based on ROE 12.00% and weighted income tax rate of 38.575%.
(2) Average net investment X 2.81%.
(3) Average net investment X 9.99%. Based on ROE 11.00% and weighted income tax rate of 38.575%. (Most recent surveillance report.)
(4) Average net investment X 2.01%.

ASSUMPTIONS:
New ECRC project replaced equipment with original cost of $40,000,000 and accumulated depreciation of $12,480,000, at date of retirement. Net investment is $27,520,000.
Equipment being replaced is currently recovered through base rates.
Equity and debt components attributable to base rate recovery based on most recent surveillance report.
Depreciation rate for new investment and retiring investment 4.0% (25 yr. life, zero net salvage).

FPL
BASE RATE RECOVERY BASED ON MOST RECENT STIPULATION, ORDER NO. PSC-99-0519-AS-EI)

| | ($) |
|---|---|
| NEW ECRC PROJECT | |
| Plant-in-Service | 120,000,000 |
| Less Accumulated Depreciation | (4,800,000) |
| CWIP -Non Interest Bearing | |
| Net Investment | 115,200,000 |
| | |
| Average Net Investment | 117,600,000 |
| | |
| RETURN ON AVERAGE INVESTMENT | |
| Equity Component Grossed Up for Taxes (1) | 8,361,360 |
| Debt Component (2) | 3,304,560 |
| TOTAL RETURN ON AVG. NET INVESTMENT | 11,665,920 |
| LESS BASE RATE RECOVERY | |
| Equity Component Grossed Up for Taxes (3) | (2,749,248) |
| Debt Component (4) | (553,152) |
| TOTAL BASE RATE RECOVERY | (3,302,400) |
| RETURN RECOVERABLE IN ECRC | 8,363,520 |
| | |
| INVESTMENT EXPENSES | |
| Depreciation | 4,800,000 |
| Amortization | |
| Dismantlement | |
| Property Taxes | |
| Other | |
| TOTAL INVESTMENT EXPENSES | 4,800,000 |
| LESS BASE RATE RECOVERY | |
| Depreciation | (1,600,000) |
| Amortization | |
| Dismantlement | |
| Property Taxes | |
| Other | |
| TOTAL BASE RATE RECOVERY | (1,600,000) |
| EXPENSES RECOVERABLE IN ECRC | 3,200,000 |
| | |
| TOTAL SYSTEM NET RECOVERABLE EXPENSE | 11,563,520 |

(1) Average net investment X 7.11%. Based on ROE 12.00% and weighted income tax rate of 38.575%.
(2) Average net investment X 2.81%.
(3) Average net investment X 9.99%. Based on stipulation approved in Order No. PSC-99-0519-AS-EI.
(4) Average net investment X 2.01%.

ASSUMPTIONS:
New ECRC project replaced equipment with original cost of $40,000,000 and accumulated depreciation of $12,480,000, at date of retirement. Net investment is $27,520,000.
Equipment being replaced is currently recovered through base rates.
Equity and debt components attributable to base rate recovery based on Istipulatoin approved by Order No. PSC-99-0519-AS-EI.
Depreciation rate for new investment and retiring investment 4.0% (25 yr. life, zero net salvage).

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

| | |
|---|---|
| In re: Environmental Cost Recovery Clause | DOCKET NO. 990007-EI<br><br>FILED: October 18, 1999 |

CERTIFICATE OF SERVICE

I HEREBY CERTIFY that one true and correct copy of the testimony of Patricia S. Lee has been furnished by U.S. Mail this 18th day of October, 1999, to the following:

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