

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

In Re: Investigation of the rate-)	DOCKET NO. 890186-EI
making and accounting treatment)	ORDER NO. 24741
for the dismantlement of fossil-)	ISSUED: 7-1-91
fueled generating stations.)	
_____)	

The following Commissioners participated in the disposition of this matter:

J. TERRY DEASON
BETTY EASLEY
GERALD L. GUNTER

Pursuant to Notice, the Florida Public Service Commission held hearings in Tallahassee, Florida on April 3 and 4, 1991.

APPEARANCES:

GREG N. ANDERSON, Steel, Hector & Davis, 4000 Southeast Financial Center, Miami, Florida 33131-2398
On behalf of Florida Power & Light Company.

JAMES MCGEE, 3201 34th Street, South, Post Office Box 14042, St. Petersburg, Florida 33711
On behalf of Florida Power Corporation.

JAMES D. BEASLEY and JEFF WAHLEN, Class B Practitioner, Ausley, McMullen, McGehee, Carothers and Proctor, Post Office Box 391, Tallahassee, Florida 32302
On behalf of Tampa Electric Company.

JEFFREY A. STONE, Beggs and Lane, Post Office Box 12950, Pensacola, Florida 32576-2950
On behalf of Gulf Power Company.

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On behalf of Citizens of the State of Florida.

JOSEPH MCGLOTHLIN, Lawson, McWhirter, Grandoff and Reeves, 522 East Park Avenue, Tallahassee, Florida 32301
On behalf of Florida Industrial Power Users Group.

M. ROBERT CHRIST, FPSC, Division of Legal Services, 101 East Gaines Street, Tallahassee, Florida 32399-0863
On behalf of the Commission Staff.

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On behalf of the Commissioners.

DOCUMENT NUMBER-DATE

06561 JUL -1 1991

FPSC-RECORDS/REPORTING

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ORDER APPROVING RATE-MAKING AND ACCOUNTING
TREATMENT FOR DISMANTLEMENT OF INVESTOR-OWNED
FOSSIL-FUELED GENERATING STATION

CASE BACKGROUND

The Commission, on its own motion, ordered this docket opened on February 7, 1989. The docket was to investigate the ratemaking and accounting treatment for the dismantling of fossil-fueled generating stations. The intent of the Commission was to quantify costs associated with future dismantlement and disposal and to decide whether the provision for these costs should continue through depreciation, or through funding or through a combination of both. In the past, estimates were used to calculate expenses without detailed cost study support. In order to determine the appropriate method for recovering those costs, cost studies were necessary.

A workshop was held on December 14, 1990 with interested parties participating. Subsequently, the parties held a prehearing on March 18, 1991 in order to identify the issues and determine the parties' positions on those issues. The Commission issued an order on prehearing procedure, Order No. 24026. Pursuant to that Order, testimony was prefiled by the utilities. In lieu of prehearing statements the parties filed a draft prehearing order on March 19, 1991. On March 26, 1991, a prehearing conference was held, and three days later Prehearing Order No. 24305 was issued.

On March 29, 1991, the Office of Public Counsel (OPC) filed a Notice of Intervention, and on April 3, 1991, Order No. 24319 was issued acknowledging that intervention. The Commission also approved the Florida Industrial Power Users Group (FIPUG) request to file a post-hearing Amicus Memorandum.

Hearings were held on April 3 and 4, 1991. The utilities presented ten witnesses, including Mr. Hugh Gower who testified on behalf of all the utilities. The OPC participated in the hearing by the use of cross-examination. FIPUG's participation was limited to providing unsworn information to the Commission in the form of an Amicus Memorandum.

DISCUSSION

Initially, it should be noted that this docket was established to determine the Commission's policy for ratemaking and accounting treatment of cost associated with the dismantlement of fossil-

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fueled generating stations. The associated costs will be incurred at the time of ultimate physical demolition/removal of each unit and will be offset by any attended salvage from removal of the assets. In making our determination, we must address three fundamental policies issues: 1) whether the estimated costs to dismantle fossil-fueled generating stations should be funded or remain unfunded; 2) how the dismantlement accrual should be calculated; and 3) whether the annual dismantlement accrual should be based on a percentage rate to be applied to plant in service, or a levelized fixed dollar amount. Based on our decision of these issues, we then must determine whether currently prescribed accruals need to be changed and what procedure should be established to review these costs on an ongoing basis.

We are cognizant that this subject matter is in its formative stages and as we progress through this and subsequent dockets we hope to learn from updated site specific dismantlement costs, updated studies, improvement in technology and possible regulatory changes as well as reevaluating alternative methodologies and updated inflation rate forecasts.

The dismantlement cost studies submitted in this proceeding are premised on the concept of ultimate physical removal, disposal, and site restoration, minus any attendant gross salvage upon final retirement of the site or unit from service. Future studies should be revised to conform to the reality, which then may exist.

There was no basic disagreement among the parties regarding the definition of dismantlement as used in this proceeding. As indicated earlier the studies were predicated upon the premise of final removal, disposal, and site restoration less any attendant gross salvage. While the timing of ultimate removal certainly could remain a question there will undoubtedly come a time this action will be necessary and site restoration will likewise be required. These related costs are the subject of dismantlement.

Currently, a provision for dismantlement cost recovery is included in the basic depreciation rates for Gulf Power Company (Gulf) and Tampa Electric Company (TECO). There are separate rates for dismantlement costs for the sites and units of FPC and FPL.

In reviewing the individual utilities cashflow for dismantlement for each year for existing fossil units, we have no specific criticism of the projected cash outflows for each utility, however the escalation rate used by each utility varies. We agree with staff's recommendation that each utility should use the same set of indices to escalate labor, materials and supplies, disposal and salvage. Specifically we find it appropriate to use the

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Compensation Per Hour Index for labor, the Intermediate Materials, Supplies and Component Index for materials, supplies, and salvage and the GNP Price Deflator Index for disposal. These indices should come from the most current "DRI Review of the U.S. Economy" that is available. However, we are willing to accept evidence from a utility that adjustments may be necessary to the escalation rates.

Having reviewed the record we find that it is in the best interest of the utility and its ratepayer to continue to provide for this dismantlement cost for the investor own utilities in this docket as an unfunded reserve. With this determination a number of the ancillary issues involved in this proceeding are rendered moot. In determining the annual dismantlement accrual for each utility we find that it should be based on a fixed dollar amount as opposed to a rate applied to plant investment. The fixed amount should be based on a four-year average of the accruals related to the years between depreciation study reviews. The accruals should be based upon the current cost estimates contained in the dismantlement studies, escalated to future costs through the time of dismantlement. The future costs less amounts recovered to date should then be discounted in a manner that accrues the costs over the remaining life span of the plant.

As a result of our actions herein, we are requiring that each investor utility provide updated dismantlement studies for our review at least once every four years in connection with each utility's depreciation study. These studies shall be site specific where possible and shall reflect changes in estimates, inflation, in regulatory or environmental requirements, and any newly discovered public health and safety risks. In addition the study should include cost recover information for combustion turbine (peaking) units, each utility is responsible for justifying the scope and assumptions underlying its study. We further find that the currently prescribed dismantlement rates for FPC be reviewed and revised as necessary in connection with its next rate proceeding as approved in Docket No. 910154-EI. For FPL we find that any revisions to its currently approved dismantlement rates be made effective January 1, 1991 with new depreciation rates currently under review in Docket No. 910081-EI. For Gulf and for TECO, we find that the current approved provisions for dismantlement be reviewed and revised as necessary in connection with the upcoming depreciation rate review studies.

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In consideration of the foregoing,

It is ORDERED by the Florida Public Service Commission that the dismantlement studies and associated costs for fossil-fueled units filed by Gulf Power Company, Tampa Electric Company, Florida Power Corporation and Florida Power & Light Company are hereby approved as described in the body of this Order. It is further

ORDERED that Gulf Power Company, Tampa Electric Company, Florida Power Corporation and Florida Power & Light Company shall file with this Commission a least once every four years, in connection with the utilities' depreciation studies, updated studies as described in, and consistent with the findings in the body of this Order. It is further

ORDERED that this Order shall become final unless an appropriate petition for reconsideration is timely filed herein. It is further

By ORDER of the Florida Public Service Commission, this
1st day of July, 1991.



STEVE TRIBBLE, Director
Division of Records and Reporting

(S E A L)

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NOTICE OF FURTHER PROCEEDINGS OR JUDICIAL REVIEW

The Florida Public Service Commission is required by Section 120.59(4), Florida Statutes, to notify parties of any administrative hearing or judicial review of Commission orders that is available under Sections 120.57 or 120.68, Florida Statutes, as well as the procedures and time limits that apply. This notice

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should not be construed to mean all requests for an administrative hearing or judicial review will be granted or result in the relief sought.

Any party adversely affected by the Commission's final action in this matter may request: 1) reconsideration of the decision by filing a motion for reconsideration with the Director, Division of Records and Reporting within fifteen (15) days of the issuance of this order in the form prescribed by Rule 25-22.060, Florida Administrative Code; or 2) judicial review by the Florida Supreme Court in the case of an electric, gas or telephone utility or the First District Court of Appeal in the case of a water or sewer utility by filing a notice of appeal with the Director, Division of Records and Reporting and filing a copy of the notice of appeal and the filing fee with the appropriate court. This filing must be completed within thirty (30) days after the issuance of this order, pursuant to Rule 9.110, Florida Rules of Appellate Procedure. The notice of appeal must be in the form specified in Rule 9.900 (a), Florida Rules of Appellate Procedure.