

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

In Re: Request for approval of) DOCKET NO. 960527-EI
site specific depreciation) ORDER NO. PSC-96-1367-FOF-EI
studies by Florida Power & Light) ISSUED: November 18, 1996
Company)
_____)

The following Commissioners participated in the disposition of this matter:

SUSAN F. CLARK, Chairman
J. TERRY DEASON
JOE GARCIA
JULIA L. JOHNSON
DIANE K. KIESLING

NOTICE OF PROPOSED AGENCY ACTION
ORDER APPROVING DEPRECIATION RATES AND AMORTIZATION PERIOD
FOR FLORIDA POWER & LIGHT COMPANY

BY THE COMMISSION:

NOTICE IS HEREBY GIVEN by the Florida Public Service Commission that the action discussed herein is preliminary in nature and will become final unless a person whose interests are substantially affected files a petition for a formal proceeding, pursuant to Rule 25-22.029, Florida Administrative Code.

On April 24, 1996, Florida Power & Light Company (FPL or Company) filed its updated site specific depreciation studies for its combined cycle units, Martin Unit No. 3 and 4, Ft. Lauderdale Units No. 4 and 5 and Putnam Units No. 1 and 2. FPL requested approval of new depreciation rates resulting from these studies, effective January 1, 1996 and approval to amortize Personal Computer Equipment over a three year period effective with all new purchases occurring on or after January 1, 1996. As requested by the Company, we granted preliminary implementation of the proposed rates by Order No. PSC-96-0841-FOF-EI, issued July 1, 1996.

Depreciation rates

As discussed below, we approve the proposed depreciation rates for FPL's investment relating in its combined cycle generating plants. The approved rates are listed on Attachment A, pages 7 - 9. In addition, we find that FPL should adjust the amortization of any related investment tax credit, or flowback of any deferred income tax credit.

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FPSC-RECORDS/REPORTING

The Company requested the change in depreciation rates in response to two developments. FPL has completed the process of classifying plant in service to the retirement unit level for each location. In addition, FPL's expectations for the performance and life characteristics relating to the combined cycle installations have changed as a result of actual operating experience.

The unitization process included physical verification of systems, as well as the reconciliation of indirect construction costs and overheads. This process supports a high level of confidence in the resulting account balances, which for some accounts differ significantly from the estimates previously available. The resulting records can provide a sound basis for assessment of future trends. Prior to the completion of this unitization project, the best available information was an estimate of investment by account, based on final construction reports obtained from contractors.

According to FPL, the actual operation of its combustion turbines and heat recovery steam generators have revealed advantages and disadvantages, compared to design projections. For example, the units have operated at higher capacity and lower heat rate than was expected. Using state-of-the-art design and materials, working temperatures in excess of 2300 degrees F have allowed the units to attain a net heat rate in the range of 7,100 BTU/KWH.

While achieving this efficiency, FPL has also experienced problems with the heat recovery steam boiler tubes, resulting from the impact of high temperature gas exhaust from the turbines. In addition, the row one turbine blades will require additional maintenance procedures, as compared to design planning. The boiler tube situation required retrofit design modifications soon after operation began, but unit function was restored.

Based on these developments, it cannot be ascertained whether these changes in life parameters and depreciation rates are adequate to match investment recovery with the life of the related equipment. Thus, FPL should monitor the activity and planning related to these installations so that appropriate action can be taken as soon as revisions in capital recovery needs are indicated. Monitoring should include not only maintenance and replacement records, but comparisons with newer technologies which may dictate obsolescence.

We believe that the depreciation rates proposed are a reasonable and conservative response to the developments cited by the Company. The components shown on Attachment A are those

proposed by FPL, including the book reserve percentage calculated to a single decimal place. Although it is our standard practice to use two decimal places for reserve percentage calculation, our review indicates that the proposed depreciation rates are reasonable and should be approved.

Revision of a utility's depreciation rates usually results in a change in its rate of Investment Tax Credit (ITC) amortization and flowback of excess deferred income taxes of the related investment. Section 46(f)(6) of the Internal Revenue Code (IRC) states that the amortization of ITC's should be determined by the period of time used in computing depreciation expense for purposes of reflecting regulated operating results of the utility. Therefore, it is also appropriate to change the amortization of ITC's, in those instances where amortization of ITC's exist.

Both Section 203(e) of the Tax Reform Act of 1986 (TRA) and Rule 25-14.013, Accounting for Deferred Income Taxes under SFAS 109, Florida Administrative Code (F.A.C.) prohibit faster write-off of protected excess deferred taxes. Consequently, we believe that the flowback of excess deferred taxes should be altered to comply with the TRA and Rule 25-14.013, F.A.C. Thus, if FPL is currently amortizing ITC's and/or flowing back excess deferred income taxes related to its combined cycle units, the Company should make an adjustment to reflect the new depreciation rates. The adjustment to the amortization of ITC's and/or the flowback of excess deferred taxes should be reflected in the Company's next surveillance report.

Personal Computer Equipment Amortization

FPL currently amortizes all investment relating to computer equipment over a five year period. While this is considered adequate for mainframe type equipment, the Company's operations and planning imply an alternate pattern for personal computer equipment.

FPL continually updates the software packages it utilizes throughout its operations. The Company utilized 386 technology which was the standard for 1990, however that technology became obsolete with the introduction of 486 technology in 1992-1993. Rapid replacement of standard technology by the next generation, is expected to continue. Given this trend, we believe that the three year recovery period proposed by the Company is a reasonable match of recovery period with useful life. Therefore, we approve a three year amortization period for all personal computer equipment purchased on or after January 1, 1996.

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Based on the foregoing, it is

ORDERED by the Florida Public Service Commission that the depreciation rates for Florida Power & Light Company's combined cycle units are approved as discussed in the body of this Order. It is further

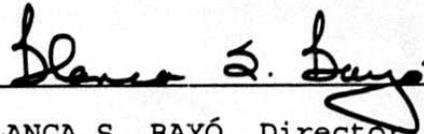
ORDERED that Florida Power & Light Company shall adjust its amortization of Investment Tax Credits and/or flowback of excess deferred taxes as discussed in the body of this Order. It is further

ORDERED that a three-year amortization period for personal computer equipment is approved as discussed in the body of this Order. It is further

ORDERED that the provisions of this Order, issued as proposed agency action, shall become final and effective unless an appropriate petition, in the form provided by Rule 25-22.036, Florida Administrative Code, is received by the Director, Division of Records and Reporting, 2540 Shumard Oak Boulevard, Tallahassee, Florida 32399-0850, by the close of business on the date set forth in the "Notice of Further Proceedings or Judicial Review" attached hereto. It is further

ORDERED that in the event this Order becomes final, this docket shall be closed.

By ORDER of the Florida Public Service Commission, this 18th day of November, 1996.



BLANCA S. BAYÓ, Director
Division of Records and Reporting

(S E A L)

VDJ

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

The action proposed herein is preliminary in nature and will not become effective or final, except as provided by Rule 25-22.029, Florida Administrative Code. Any person whose substantial interests are affected by the action proposed by this order may file a petition for a formal proceeding, as provided by Rule 25-22.029(4), Florida Administrative Code, in the form provided by Rule 25-22.036(7)(a) and (f), Florida Administrative Code. This petition must be received by the Director, Division of Records and Reporting, 2540 Shumard Oak Boulevard, Tallahassee, Florida 32399-0850, by the close of business on December 9, 1996.

In the absence of such a petition, this order shall become effective on the day subsequent to the above date as provided by Rule 25-22.029(6), Florida Administrative Code.

Any objection or protest filed in this docket before the issuance date of this order is considered abandoned unless it satisfies the foregoing conditions and is renewed within the specified protest period.

If this order becomes final and effective on the date described above, any party substantially affected may request judicial review by the Florida Supreme Court in the case of an electric, gas or telephone utility or by the First District Court of Appeal in the case of a water or wastewater 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 of the effective date 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.

FLORIDA POWER AND LIGHT COMPANY
 1996 DEPRECIATION STUDY
 COMBINED CYCLE INSTALLATIONS
 ESTIMATE OF EXPENSES

CURRENT APPROVED INTERIM
 COMPANY PROPOSED
 and STAFF RECOMMENDED

ACCOUNT	1-1-96 INVESTMENT \$	1-1-96 RESERVE \$	AVERAGE REMAINING LIFE (yrs)	NET SALVAGE (\$)	BOOK RESERVE (\$)	REMAINING LIFE RATE (\$)	EXPENSE (\$)
FORT LAUDERDALE COMBINED CYCLE							
Fort Lauderdale Common							
341 Structures and Improvements	73,301,663	2,941,373	19.6	(2)	4.0	5.0	3,665,083
342 Fuel Holders, Producers & Access	6,429,815	894,961	19.8	(2)	13.9	4.4	282,912
343 Prime Movers	15,313,434	1,526,807	3.1	(2)	10.0	29.7	4,548,090
344 Generators	313,512	39,506	20.0	(2)	12.6	4.5	14,108
345 Accessory Electric Equipment	11,573,974	1,035,521	22.0	(1)	8.9	4.2	486,107
346 Misc. Power Plant Equipment	1,286,865	302,385	12.4	(1)	23.5	6.3	81,072
Total	108,219,263	6,740,553					9,077,372
Fort Lauderdale Unit 4							
341 Structures and Improvements	4,654,679	2,828,818	22.0	(2)	60.8	1.9	88,439
342 Fuel Holders, Producers & Access	60,052	46,887	18.4	(2)	78.1	1.3	781
343 Prime Movers	146,645,610	14,288,859	12.6	(2)	9.7	7.3	10,705,130
344 Generators	24,581,760	2,141,946	22.0	(2)	8.7	4.2	1,032,434
345 Accessory Electric Equipment	26,470,589	3,407,503	21.0	(1)	12.9	4.2	1,111,765
346 Misc. Power Plant Equipment	2,192,007	326,784	13.3	(1)	14.9	6.5	142,480
Total	204,604,697	23,040,797					13,081,029
Fort Lauderdale Unit 5							
341 Structures and Improvements	2,887,727	915,092	22.0	(2)	31.7	3.2	92,407
342 Fuel Holders, Producers & Access	16,204	567	19.1	(2)	3.5	5.2	843
343 Prime Movers	144,381,613	16,599,570	12.3	(2)	11.5	7.4	10,684,239
344 Generators	24,986,360	3,502,717	22.0	(2)	14.0	4.0	999,454
345 Accessory Electric Equipment	22,135,721	3,472,999	22.0	(1)	15.7	3.9	863,293
346 Misc. Power Plant Equipment	1,732,515	77,015	13.7	(1)	4.4	7.1	123,009
Total	196,140,140	24,567,960					12,763,245
TOTAL FORT LAUDERDALE	508,964,100	54,349,310					34,921,646

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CURRENT APPROVED INTERIM
 COMPANY PROPOSED
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ACCOUNT	1-1-96 INVESTMENT \$	1-1-96 RESERVE \$	AVERAGE REMAINING LIFE (yrs)	NET SALVAGE (\$)	BOOK RESERVE (\$)	REMAINING LIFE RATE (\$)	EXPENSE (\$)
MARTIN COMBINED CYCLE							
Martin Common							
341 Structures and Improvements	40,057,273	6,584,184	20.0	(2)	16.4	4.3	1,722,463
342 Fuel Holders, Producers & Access	2,720,120	503,774	21.0	(2)	18.5	4.0	108,805
343 Prime Movers	24,197,451	4,811,722	5.1	(2)	19.9	16.1	3,895,790
344 Generators	0	0	0.0	0	0	0	0
345 Accessory Electric Equipment	4,580,781	844,768	24.0	(1)	18.4	3.4	155,747
346 Misc. Power Plant Equipment	4,079,523	688,490	11.1	(1)	16.9	7.6	310,044
Total	75,635,148	13,432,938					6,192,849
Martin Combined Cycle Unit 3							
341 Structures and Improvements	1,918,202	535,847	24.0	(2)	27.9	3.1	59,464
342 Fuel Holders, Producers & Access	867,282	49,963	19.4	(2)	5.8	5.0	43,364
343 Prime Movers	148,820,261	4,125,538	15.8	(2)	2.8	6.3	9,375,676
344 Generators	24,476,951	2,153,729	23.0	(2)	8.8	4.1	1,003,555
345 Accessory Electric Equipment	19,054,209	1,997,991	13.1	(1)	10.5	6.9	1,314,740
346 Misc. Power Plant Equipment	532,349	89,323	24.0	(1)	16.8	3.5	18,632
Total	195,669,254	8,952,391					11,815,431
Martin Combined Cycle Unit 4							
341 Structures and Improvements	1,873,410	492,139	24.0	(2)	26.3	3.2	59,949
342 Fuel Holders, Producers & Access	653,322	74,011	19.6	(2)	11.3	4.6	30,053
343 Prime Movers	144,813,816	10,510,583	16.4	(2)	7.3	5.8	8,999,201
344 Generators	29,263,816	2,412,954	23.0	(2)	8.2	4.1	1,199,816
345 Accessory Electric Equipment	15,198,695	1,410,576	13.1	(1)	9.3	7.0	1,063,909
346 Misc. Power Plant Equipment	475,879	74,851	24.0	(1)	15.7	3.6	17,132
Total	192,278,938	14,975,114					10,770,060
TOTAL MARTIN	463,583,340	37,360,443					28,778,340

FLORIDA POWER AND LIGHT COMPANY
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 ESTIMATE OF EXPENSES

CURRENT APPROVED INTERIM
 COMPANY PROPOSED
 and STAFF RECOMMENDED

ACCOUNT	1-1-96 INVESTMENT \$	1-1-96 RESERVE \$	AVERAGE REMAINING LIFE (yrs)	NET SALVAGE (%)	BOOK RESERVE (%)	REMAINING LIFE RATE (%)	EXPENSE (\$)
PUTNAM COMBINED CYCLE							
Putnam Common							
341 Structures and Improvements	11,296,271	6,669,915	10.7	(2)	59.0	4.0	451,851
342 Fuel Holders, Producers & Access.	7,458,083	3,950,215	11.8	(2)	53.0	4.2	313,239
343 Prime Movers	10,039,430	5,461,852	11.8	(2)	54.4	4.0	401,577
344 Generators	36,487	28,535	12.5	(2)	78.2	1.9	693
345 Accessory Electric Equipment	1,721,222	886,280	11.5	(1)	51.5	4.3	74,013
346 Misc. Power Plant Equipment	1,081,079	731,898	10.2	(1)	67.7	3.3	35,676
Total	31,632,572	17,728,695					1,277,049
Putnam Unit 1							
341 Structures and Improvements	34,624	24,564	12.5	(2)	70.9	2.5	866
342 Fuel Holders, Producers & Access.	61,742	25,842	8.4	(2)	41.9	7.2	4,445
343 Prime Movers	48,779,325	17,201,390	11.5	(2)	35.3	5.8	2,829,201
344 Generators	5,382,575	3,739,686	12.3	(2)	69.5	2.6	139,947
345 Accessory Electric Equipment	6,509,413	4,276,893	11.3	(1)	65.7	3.1	201,792
346 Misc. Power Plant Equipment	387,624	264,064	12.5	(1)	68.1	2.6	10,078
Total	61,155,303	25,532,439					3,186,329
Putnam Unit 2							
341 Structures and Improvements	34,624	25,018	11.5	(2)	72.3	2.6	900
342 Fuel Holders, Producers & Access.	61,685	27,675	8.2	(2)	44.9	7.0	4,318
343 Prime Movers	49,241,908	18,623,840	10.6	(2)	37.8	6.1	3,903,756
344 Generators	5,382,575	3,802,317	11.3	(2)	70.6	2.8	150,712
345 Accessory Electric Equipment	6,663,199	4,263,877	10.3	(1)	64.0	3.6	239,875
346 Misc. Power Plant Equipment	373,512	250,923	11.5	(1)	67.2	2.9	10,832
Total	61,757,503	26,993,650					3,410,393
TOTAL PUTNAM	154,545,378	70,254,784					7,873,771
TOTAL COMBINED CYCLE INSTALLATIONS	1,127,092,818	161,964,537					