

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

In Re: Request to establish) DOCKET NO. 961164-EI
reserves for nuclear refueling) ORDER NO. PSC-96-1421-FOF-EI
outage incremental maintenance) ISSUED: November 21, 1996
costs by Florida Power & Light)
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 REQUEST TO ESTABLISH RESERVES FOR
NUCLEAR REFUELING OUTAGE INCREMENTAL MAINTENANCE COSTS

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.

Florida Power & Light Company (FPL) currently operates four nuclear generating units, namely Turkey Point Units 3 and 4, and St. Lucie Units 1 and 2. Normally, each unit is scheduled for a nuclear refueling outage approximately every 18 months on a staggered basis. Currently, all maintenance costs during the nuclear refueling outage are charged to expense as incurred. Due to variations in the scheduling and duration of the refueling outages, two, three, or four units may have outages during a given year. FPL has requested that it be allowed to establish a maintenance reserve for each of its nuclear generating units to levelize its annual expenses.

During a nuclear refueling outage, FPL incurs maintenance costs specifically related to the refueling. These maintenance costs are in addition to the normal O&M expenses associated with the running of the nuclear generating units. Due to the number of nuclear units that FPL operates, the number of refueling outages in a given year can range from two to four. As a result, the nuclear

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refueling outage expenses can vary widely in any given year. Based on the costs incurred during 1994, the annual expense could range from \$44 million to \$88 million. These types of fluctuations can materially affect the Company's earnings on a year-to-year basis.

At the current time, Florida Power Corporation (FPC), the only other Florida utility that owns and operates a nuclear unit, has a refueling and maintenance reserve. This reserve was established in FPC's rate case in Docket No. 820100-EU, Order No. 11628, issued February 17, 1983. Although FPC only has one nuclear unit, its refueling cycle is longer than one year. As a consequence, zero expenses were being recorded in one year, while the total amount of expenses were being recorded during the following year. For ratemaking purposes, this can cause a serious distortion of expenses during a test year. A test year that included a refueling outage would reflect an unreasonably high level of expenses on an annual basis, and a test year in which no refueling was done would reflect an unusually low level of expenses. The use of a nuclear refueling outage maintenance reserve would levelize the amount of these expenses for both financial and ratemaking purposes.

Because of the potential for distortions created by the current procedure of recording nuclear refueling outage maintenance expenses on a pay-as-you-go basis, we find that FPL shall be authorized to establish an unfunded Nuclear Maintenance Reserve for each of its nuclear generating units. Therefore, we find that FPL's request to establish separate reserves for the incremental maintenance costs incurred during the refueling outages of each of its nuclear generating units is approved, effective January 1, 1996.

As a result of switching from a pay-as-you-go basis to an accrual basis, combined with the staggered refueling cycles of the four nuclear units, the reserve will initially be underaccrued for a portion of those units refueled prior to the establishment of the reserve. Based on the actual end of the prior refueling outages and the best estimate of maintenance costs (\$22 million per unit), the underaccrued amount is \$35.8 million due to the change in accounting principle. FPL has proposed that this amount be amortized over a maximum period of five years, beginning January 1, 1996. FPL would have the discretion to amortize more than one-fifth annually, based on its earnings level each year. We believe that FPL's request is appropriate. Therefore, we find that FPL's request to annually amortize at least one-fifth of the \$35.8 million attributable to the change in accounting principle beginning January 1, 1996 is approved.

Rule 25-6.0143(4)(a), F.A.C., requires that the reserve level and annual accrual are to be evaluated during rate proceedings and adjusted as necessary. However, a utility may file a petition to revise the level or accrual outside of a rate proceeding. FPL is requesting that this requirement be waived as it concerns the nuclear refueling reserve. Under its proposal, FPL will be reevaluating both the reserve level and annual accrual amount for each of its units based on the actual expenses incurred subsequent to each refueling outage. This could result in numerous petitions being filed on an annual basis.

Per Rule 25-6.0143(4)(b), F.A.C., expenses are to be charged to the reserve regardless of the existing balance in the reserve. FPL is requesting that any expenses incurred that exceed the level of the reserve be charged directly to expense. In establishing the annual accrual to the reserve, FPL would estimate a "normal" or expected level of expenses associated with the maintenance to be performed during the refueling outage. Due to unforeseen circumstances, such as federal regulatory requirements or problems discovered once the unit is taken off line, the actual expenses incurred could exceed the level of the reserve. If this occurs, the level of the reserve would become negative. This negative amount would then be included in the determination of the revised accrual amount for the next refueling outage, thereby increasing the accrual amount above the estimated cost of the future refueling outage. FPL's request would allow it to charge the "excess" costs directly to expense, rather than creating a negative reserve amount.

We believe a formal review of each revision to the reserve level or annual accrual amount is not necessary. This review can be accomplished through the Commission's earnings surveillance procedures or by specific request in both formal or informal investigations. Because of the relatively unique nature of nuclear refueling outages, we believe FPL's proposal to charge any costs that exceed the reserve level directly to expense is appropriate. This does not change the total amount of costs that would ultimately be charged to expense. It only alters the timing of when those costs are actually recorded as expenses. Therefore, we find that FPL's requests for waivers from the requirements of Rule 25-6.0143(4)(a) and 25-6.0143(4)(b), Florida Administrative Code, to allow the charging of excess costs to expense and to not require that a petition be filed each time the annual accrual amount and reserve level are revised is approved.

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Based on the foregoing, it is

ORDERED by the Florida Public Service Commission that FPL's request to establish separate reserves for the incremental maintenance costs incurred during the refueling outages of each of its nuclear generating units is approved, effective January 1, 1996. It is further

ORDERED that FPL's request to annually amortize at least one-fifth of the \$35.8 million attributable to the change in accounting principle beginning January 1, 1996 is approved. It is further

ORDERED that FPL's requests for waivers from the requirements of Rule 25-6.0143(4)(a) and 25-6.0143(4)(b), Florida Administrative Code, to allow the charging of excess costs to expense and to not require that a petition be filed each time the annual accrual amount and reserve level are revised is approved. 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 21st day of November, 1996.

BLANCA S. BAYÓ, Director
Division of Records and Reporting

by: Kay Dejean
Chief, Bureau of Records

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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 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 12, 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.