

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

In Re: 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. 900794-EI
_____)	
In Re: Request for change in depreciation rates for Putnam and St. Johns River Power Park Generating Stations by Florida Power and Light Company.)	DOCKET NO. 901001-EI
_____)	
In Re: 1991 Depreciation Study for Florida Power and Light Company.)	DOCKET NO. 910081-EI ORDER NO. PSC-92-0612-PHO-EI ISSUED: 7/7/92
_____)	

Pursuant to Notice, a Prehearing Conference was held on July 1, 1992, in Tallahassee, Florida, before Commissioner Thomas M. Beard, as Prehearing Officer.

APPEARANCES:

Greg N. Anderson, Esquire, Steel, Hector & Davis, 4000 Southeast Financial Center, Miami, Florida 33131-2398.
On behalf of Florida Power and Light Company.

M. Robert Christ, Esquire, Florida Public Service Commission, 101 E. Gaines Street, Tallahassee, Florida 32399-0863.
On behalf of the Commission Staff.

William E. Wyrrough, Jr., Esquire, Florida Public Service Commission, 101 E. Gaines Street, Tallahassee, Florida 32399-0862.
On behalf of the Commissioners.

DOCUMENT NUMBER-DATE

07226 JUL -7 1992

PREHEARING ORDER

I. CASE BACKGROUND

Docket No. 900794-EI was opened when Florida Power & Light Company ("FPL" or "the Company") filed site-specific depreciation studies for FPL's Martin and Turkey Point (Fossil) generating sites and requested Commission approval of the depreciation and dismantlement rates contained in the studies. Similarly, Docket No. 901001-EI was opened when the Company filed site-specific depreciation studies for FPL's Putnam and St. Johns River Power Park generating sites and requested approval of the depreciation and dismantlement rates contained in those studies.

Docket No. 910081-EI was opened in early 1991 when FPL filed with the Commission, its regular comprehensive quadrennial depreciation study ("the comprehensive study") pursuant to Rule 25-6.0436(b)(a), F.A.C. The comprehensive study included proposed depreciation rates for only the Company's Transmission, Distribution and General Plant functions. It did not contain any proposed changes in the depreciation rates for FPL's Production Plant sites that had previously been approved or were under consideration in the individual site-specific studies.

On February 25, 1991, the Commission issued Order No. 24161 in which it approved on an interim basis, subject to a subsequent true-up, the Company's proposed depreciation and dismantlement rates in each of the three dockets under consideration. The Commission also stated in the order that it agreed with the Staff that "a review may be warranted of FPL's production plants in light of any new information which may be available at this time considering FPL's most recent production plant depreciation and dismantlement rate proceedings." Order No. 24161 at 2.

On December 5, 1991, the Staff issued its recommendation in the three dockets under consideration. The Staff proposed rates, recovery schedules and reserve transfers that would result in an increase in FPL's annual depreciation expense by approximately \$19.3 million and that FPL's 1991 depreciation expense should be trued-up accordingly.

At the Agenda Conference held on January 14, 1992, the Company objected to the Staff's recommendation and requested that the Commission not approve the recommendation. The Company also requested that the Commission not enter an Order on Proposed Agency Action but simply notice the matter for hearing so as to avoid any further delay in resolving these dockets. Based on the Company's

representation that it intended to request a hearing regardless, the Commission voted that the dockets be sent directly to hearing.

II. PROCEDURE FOR HANDLING CONFIDENTIAL INFORMATION

A. Any information provided pursuant to a discovery request for which proprietary confidential business information status is requested shall be treated by the Commission and the parties as confidential. The information shall be exempt from Section 119.07(1), Florida Statutes, pending a formal ruling on such request by the Commission, or upon the return of the information to the person providing the information. If no determination of confidentiality has been made and the information has not been used in the proceeding, it shall be returned expeditiously to the person providing the information. If a determination of confidentiality has been made and the information was not entered into the record of the proceeding, it shall be returned to the person providing the information within the time periods set forth in Chapter 366, Florida Statutes.

B. It is the policy of the Florida Public Service Commission that all Commission hearings be open to the public at all times. The Commission also recognizes its obligation pursuant to Section 364.183, Florida Statutes, to protect proprietary confidential business information from disclosure outside the proceeding.

In the event it becomes necessary to use confidential information during the hearing, the following procedures will be observed:

- 1) Any party wishing to use any proprietary confidential business information, as that term is defined in Chapter 366, Florida Statutes, shall notify the Prehearing Officer and all parties of record by the time of the Prehearing Conference, or if not known at that time, no later than seven (7) days prior to the beginning of the hearing. The notice shall include a procedure to assure that the confidential nature of the information is preserved as required by statute.
- 2) Failure of any party to comply with 1) above shall be grounds to deny the party the opportunity to present evidence which is proprietary confidential business information.
- 3) When confidential information is used in the hearing, parties must have copies for the

Commissioners, necessary staff, and the Court Reporter, in envelopes clearly marked with the nature of the contents. Any party wishing to examine the confidential material that is not subject to an order granting confidentiality shall be provided a copy in the same fashion as provided to the Commissioners, subject to execution of any appropriate protective agreement with the owner of the material.

- 4) Counsel and witnesses are cautioned to avoid verbalizing confidential information in such a way that would compromise the confidential information. Therefore, confidential information should be presented by written exhibit when reasonably possible to do so.
- 5) At the conclusion of that portion of the hearing that involves confidential information, all copies of confidential exhibits shall be returned to the proffering party. If a confidential exhibit has been admitted into evidence, the copy provided to the Court Reporter shall be retained in the Commission Clerk's confidential files.

III. PREFILED TESTIMONY AND EXHIBITS

Testimony of all witnesses to be sponsored by the parties and Staff has been prefiled. All testimony which has been prefiled in this case will be inserted into the record as though read after the witness has taken the stand and affirmed the correctness of the testimony and associated exhibits. All testimony remains subject to appropriate objections. Each witness will have the opportunity to orally summarize his or her testimony at the time he or she takes the stand. Upon insertion of a witness' testimony, exhibits appended thereto may be marked for identification. After all parties and Staff have had the opportunity to object and cross-examine, the exhibit may be moved into the record. All other exhibits may be similarly identified and entered into the record at the appropriate time during the hearing.

Witnesses are reminded that, on cross-examination, responses to questions calling for a simple yes or no answer shall be so answered first, after which the witness may explain his or her answer.

IV. ORDER OF WITNESSES

<u>Witness</u>	<u>Appearing For</u>	<u>Issues #</u>
<u>Direct</u>		
E. L. Hoffman	FPL	1, 4, 5, 7-10, 12, 14, 15, 21, 22
A. P. Farinelli	FPL	4, 5, 8-10, 12, 13, 14-16
H. A. Gower	FPL	4, 5, 7-10, 12, 14, 15, 21
M.C. Wilkerson	Staff	1-23
<u>Rebuttal</u>		
H. A. Gower	FPL	4, 5, 7-15, 21
E. L. Hoffman	FPL	1, 4, 5, 7-15, 17, 21, 22, 23

V. BASIC POSITIONS

FLORIDA POWER AND LIGHT COMPANY (FPL): FPL's proposed depreciation rates approved by the Commission on an interim basis in Order no. 24161 should be approved without change in this proceeding. These rates will provide for the systematic capital recovery of FPL's prudently incurred investment in plant and equipment. They were developed and calculated by properly utilizing the remaining life group-depreciation methodology ("Remaining Life Methodology") as that methodology is meant to be used. Moreover, utilizing the Remaining Life Methodology in the manner FPL utilizes the methodology achieves consistency, stability and symmetry -- all generations of FPL's customers, the Company, and the Company's investors are treated fairly.

The capital recovery schedules and reserve transfers proposed by the Staff as a result of anticipated near-term retirements of assets are inconsistent with proper application of the Remaining Life Methodology, and they will cause inequities. The costs of the assets being retired due to the planned reliability overhauls and

asbestos abatement program will be fully recovered by the time of retirement through the normal depreciation process. Moreover, proper application of the Remaining Life Methodology prospectively accounts for any theoretical reserve differences which result from periodic and normal revisions in estimates. The Staff, therefore, is wrong in suggesting that it is properly applying the Remaining Life Methodology in these dockets by proposing capital recovery schedules and reserve transfers. Likewise, the Staff's proposed curves and average service lives for a number of the accounts in the Transmission and Distribution functions will produce inaccurate and unreliable results because they ignore the Company's actual experience, its future plans, as well as the professional judgment of its engineers as to how equipment will perform prospectively. Being required to implement the Staff's proposals in developing future depreciation studies will create substantial, complex and unnecessarily burdensome administrative and accounting problems for FPL.

Addressing the issue of costs associated with the silicone injection process for direct buried underground cable, FPL submits that these costs are appropriately capitalized and recovered over the remaining life of the cable.

For these reasons, and without even considering the significant impact of the Staff's proposals on the Company's financial condition and its efforts to defer having to file for rate relief, FPL requests that the Commission approve the Company's proposed depreciation rates.

STAFF: The studies filed in these dockets address FPL's regular quadrennial depreciation study as required by Rule 25-6.0436, Florida Administrative Code, and site-specific studies for four production plants. Preliminary implementation of FPL proposed depreciation rates and provision for dismantlement were ordered in Order No. 24161 with implementation January 1, 1991. Expenses resulting from this preliminary implementation were to be trued-up upon final action by this Commission.

For production plants, the full study proposes to maintain the rates approved in the individual site-specific studies since the last full review in 1987. In other words, FPL has proposed no change in depreciation or provision for dismantlement as a result of the regular full study. Staff believes that known changes of plans (major overhauls, asbestos removal) since the ordering of the various site-specific rates as well as a review of the possibility of reserve transfers between sites should be considered and addressed in this review.

For the transmission, distribution and general plant accounts, the full study represents a review of the life, salvage, and reserve components for each account and sub-account.

Staff believes that the appropriate depreciation rates and recovery schedules to implemented January 1, 1991 are those shown on MCW-1 and MCW-2 attached to staff witness Wilkerson's prefiled testimony.

VI. ISSUES AND POSITIONS

ISSUE 1: What is the appropriate accounting treatment for costs associated with silicone injection for direct buried underground cable (Account 367.7)?

FPL: Costs associated with silicone injection for direct buried underground cable should be capitalized and recovered over the remaining life of the cable. If, however, the Commission determines that these costs are not capital costs, then (1) the costs previously capitalized should remain capitalized, and (2) the costs incurred after the date of the final order in these dockets should be treated as extraordinary maintenance and recovered over 10 years (the length of the Dow Corning warranty on the injection). (HOFFMAN)

STAFF: Costs associated with silicone injection should be expensed. (WILKERSON)

STIPULATED

ISSUE 2: Should FPL be ordered to perform an inventory of its Official Communications Account (Account 397.3)?

FPL: Yes. FPL agrees that an inventory of Account 397.3 should be performed.

STAFF: Yes and to the extent that all equipment cannot be located, an inventory adjustment should be made to correct the records.

STIPULATED

ISSUE 3: Is it reasonable for FPL to calculate the depreciation rates for each of its units using the Remaining Life Technique-Locations Life Basis, Straight Line Method, Broad Group Procedure ("Remaining Life Methodology")?

FPL: Yes. Use of the Remaining Life Methodology correctly matches depreciation expense with the service lives of the assets being depreciated. It is the most commonly used methodology in the utility industry, and the methodology most readily accepted by the FERC. Most important, the Commission has approved the use of the Remaining Life Methodology by FPL since 1987, as well as by the other major electric utilities in Florida.

STAFF: FPL is calculating depreciation rates correctly.

ISSUE 4: Does the Remaining Life Methodology that FPL proposes to use account for the effects of the near-term retirements resulting from the planned overhauls of various production units and FPL's asbestos abatement program?

FPL: Yes. The cost and timing of the anticipated near-term retirements are included in the determination of the average service lives of each facility being studied. Moreover, anticipated removal costs and salvage costs are included in the net salvage component of the depreciation rate calculation. Any unrecovered costs associated with near-term retirements are therefore already included in the calculation of depreciation rates using the Remaining Life Methodology and recovered over the remaining life of the plant. (HOFFMAN, FARINELLI, GOWER)

STAFF: While it is true that the mechanics of Remaining Life Methodology, if regularly monitored, will fully recover the related capital over the remaining life of the group, the installation or the system, to the extent investments are subject to near-term retirement, they should be withdrawn and recovered over the remaining period in service to the public. (WILKERSON)

ISSUE 5: Is the amortization of the unrecovered portion of near-term major retirements over their remaining period of service in conflict with the Remaining Life Methodology?

FPL: Yes. The Remaining Life Methodology accounts for the unrecovered portion of the costs associated with near-term retirements without any adjustments being necessary. Since FPL's depreciation rates already account for the effects of the near-term retirements under consideration, the recovery of costs is achieved over the remaining service life of these shorter-lived assets and results in the correct matching of depreciation expense with service life.

While the Commission's Depreciation Rule does indicate that prior to the retirement of major installations the Commission may approve capital recovery schedules to correct associated deficiencies, the rule states that this should be done when a utility demonstrates that the replacement of an installation or group of installations is prudent, and the associated investment will not be recovered by the time of retirement through the normal depreciation process. FPL submits that capital recovery schedules should only be used where there are reserve surpluses or deficiencies at the time the last unit at a Production Plant site is retired, or when major installations are retired because of technological obsolescence.

In these dockets, however, FPL has not proposed capital recovery schedules and the cost of the assets being retired will be recovered by the time of retirement through the normal depreciation process. The indiscriminate use of capital recovery schedules such as those proposed by the Staff will create substantial, complex and burdensome administrative and accounting problems for FPL. (HOFFMAN, FARINELLI, GOWER)

STAFF: No. The recovery of capital over the remaining period it is expected to serve the public is not in conflict with the Remaining Life concept - it is the Remaining Life concept. (WILKERSON)

STIPULATED

ISSUE 6: Will future FPL customers benefit from the planned overhauls and asbestos abatement program under consideration in this docket?

FPL: Yes.

STAFF: Yes.

ISSUE 7: From the standpoint of FPL's customers, does the Remaining Life Methodology or the rapid amortization methodology better achieve the goal of intergenerational equity in this docket?

FPL: The Remaining Life Methodology better achieves the goal of intergenerational equity than the use of the Staff's proposed recovery schedules because it balances the needs of current and future customers with the needs of the Company and its investors. The Remaining Life Method provides for systematic capital recovery of prudently incurred investment in plant and equipment.

The use of broad group average service lives in determining Remaining Life depreciation rates effectively handles any under-recoveries for assets in the group retiring earlier than the average, as well as any over-recoveries for assets in the group retiring later than the average. The process is symmetrical, treating under-recoveries and over-recoveries consistently, and therefore treating all generations of customers fairly. If FPL is required to strip out assets on the under-recovered side of the equation, as the Staff proposes, and rapidly amortize these costs using the Staff's proposed capital recovery schedules, the symmetry is destroyed and dramatically unstable depreciation expense patterns are created. Future generations of customers get the benefits of all over-recoveries, while the Company and its investors suffer the consequences of any under-recovery even though the investment was prudent. (HOFFMAN, GOWER)

STAFF: Recovery over the remaining period of service is not "rapid" recovery - recovery over less than that period would be rapid - over longer than the period of service would be slow. The driver behind this concept is "intergenerational equity". (WILKERSON)

ISSUE 8: Should the Commission require FPL to use the rapid amortization methodology or capital recovery schedules to recover the unrecovered costs associated with the near-term retirements resulting from the planned overhauls and asbestos abatement program under consideration in this docket? If so, what are the appropriate recovery schedules and recovery periods, and when should the schedules be implemented?

FPL: No. Refer to FPL's position on issue nos. 4-7.

If, however, the Commission does approve the use of capital recovery schedules, the amortization period should be over a reasonable period of time so as to balance the issue of intergenerational equity with the financial integrity of the Company, while not creating rate instability. A short amortization period outside of a rate case where no imprudence on the part of the Company has been found, results in the equivalent of a write-off. For these reasons, the minimum acceptable amortization period should not be less than five years. And because implementation of the Staff's proposed changes to FPL's depreciation rates could result in the need for FPL to seek rate relief earlier than would otherwise be necessary, any approved capital recovery schedules should not be implemented by FPL until new base rates are set in the Company's next rate case. (HOFFMAN, FARINELLI, GOWER)

STAFF: The Commission should require the use of capital recovery schedules to recover, during their period of service to the public, the unrecovered portion of major assets scheduled for near-term retirement. The appropriate recovery schedules, for implementation as of January 1, 1991, are as shown in Exhibit MCW 1 attached to witness Wilkerson's prefiled direct testimony. The annual expense impact over the four year period covered by the recovery schedules would be zero dollars due to the recommended reserve transfers. (WILKERSON)

ISSUE 9: Is it appropriate to make reserve transfers between sites and functions in this docket?

FPL: No. The Remaining Life Methodology used by FPL to develop its depreciation studies already incorporates a reserve-correcting element in the formula. The Remaining Life Methodology, by its very nature, will therefore

prospectively account for any theoretical reserve differences which result from periodic and normal revisions in estimates. Moreover, use of reserve transfers such as those proposed by the Staff are inconsistent with GAAP and, in the opinion of the Chief Accountant of FERC, inappropriate. For these reasons, the Staff's proposed reserve transfers are unnecessary and will cause inequities to individual groups of customers resulting in customers paying for the same equipment twice. (HOFFMAN, FARINELLI, GOWER)

STAFF: Yes. (WILKERSON)

ISSUE 10: Is the use of reserve transfers in conflict with the Remaining Life Methodology?

FPL: Yes. Refer to FPL's position on issue no. 9.

Reserve transfers may be appropriate in limited situations: (1) when there is a switch from Whole Life to Remaining Life depreciation rates; (2) when assets are transferred from one site or function to another site or function, the depreciation reserves must follow the assets; and (3) between units at a production site where such transfers do not impact customer rates, as is the policy of FPL. Indiscriminate reserve transfers, however, are in conflict with the Remaining Life Methodology, they result in inequities, and they should be avoided. (HOFFMAN, FARINELLI, GOWER)

STAFF: No. Reserve transfers are inherent in the remaining life methodology. (WILKERSON)

ISSUE 11: Is the use of reserve transfers involving generation sites in conflict with the historically accrued recovery and with the concept of recovery during the period of service of the assets and intergenerational equity?

FPL: This is a Staff issue. FPL submits that, based on its understanding of the issue, the answer to the issue is yes. (HOFFMAN, GOWER)

STAFF: No. Reserve levels as they currently stand are not the result of historically accrued recovery, but are the result of allocations which were made in the last depreciation study. Since that time, there have been

changes in projections of life and salvage components. Transfers of reserve, like adjustments in these projected components, are made to better permit recovery patterned to the expected period of service and to enhance intergenerational equity. (WILKERSON)

ISSUE 12: Are the curves used by FPL to calculate the depreciation rates for each of its transmission, distribution and general plant accounts in this docket reasonable?

FPL: Yes. In order to estimate the average service life of the property in these accounts, FPL utilizes, to the fullest extent possible, the actual history of the transactions in the accounts in question (i.e., the Company's actual historical experience) to establish its survivor curves. The actuarial data used includes data concerning the history of additions to, and retirements from, plant accounts -- information which comes directly from the Company's Property Records System. Moreover, using the Company's actual historical data is consistent with, and indeed required by, the Depreciation Rule.

FPL's method of selecting curves will provide more accurate and more reliable results than the Staff's proposed method based on the use of industry averages and prior approved depreciation rates. (HOFFMAN, FARINELLI, GOWER)

STAFF: Some certainly are reasonable; others may be questionable. (WILKERSON)

ISSUE 13: How useful for the estimation of future lives is the historic pattern of life of overhead plant during the 1941-90 period?

FPL: Very Useful. The use of specific data based on the actual historical experience of overhead plant between 1941 and 1990 incorporates the effects of actual wear and tear, deterioration, or inadequacy of plant and equipment, and it accounts for the effects of temperature, humidity, rainfall and lightning occurrences -- factors which can have a significant impact on the reliability of plant and equipment. As noted in FPL's position on issue no. 12, FPL is also required by the Depreciation Rule to consider the historical experience of overhead plant in developing its depreciation studies.

Furthermore, any current pressures against the continued use of overhead plant in the future by FPL will not require the premature replacement of the existing plant. (HOFFMAN, FARINELLI, GOWER)

STAFF: Statistical analysis is useful only to the extent the history being analyzed is expected to be representative of the future. Where overhead plant is concerned, it would not seem that analysis of 1941-90 data would be meaningful in estimating the life pattern for use in the future. (WILKERSON)

ISSUE 14: Are FPL's proposed depreciation rates under consideration in this docket reasonable?

FPL: Yes. They were calculated using methods and techniques accepted by this Commission and FERC, and they are based on the best information available to the Company. FPL's studies were thorough, technically sound and were founded on both historical experience and future expectations of Company engineers knowledgeable about the specifics of the property under study. For these reasons, and the reasons set forth in FPL's responses to the preceding issues, the Commission should approve the service lives and depreciation rates proposed by FPL. (HOFFMAN, FARINELLI, GOWER)

STAFF: No, the depreciation rates that the Commission should approve are those shown on Exhibit MCW 2, attached to the prefiled direct testimony of Mr. Wilkerson. (WILKERSON)

ISSUE 15: Should the preliminary depreciation rates approved by the Commission in Order No. 24161 be changed?

FPL: No, for the reasons set forth in FPL's responses to the preceding issues. (HOFFMAN, FARINELLI, GOWER)

STAFF: Yes, as discussed in Issues 14 and 16. (WILKERSON)

ISSUE 16: What are the appropriate depreciation rates to be used by FPL?

FPL: In Exhibit 9, (APF-9), FPL witness A. P. Farinelli, Jr., has prepared a summary schedule for each of the Production Plant properties and a summary schedule for

the Transmission, Distribution and General Plant functions. Each schedule contains the appropriate rates of depreciation that should be approved by this Commission. (FARINELLI)

STAFF: The appropriate depreciation rates are those shown on Exhibit MCW 2, attached to the prefiled direct testimony of Mr. Wilkerson. (WILKERSON)

ISSUE 17: If the Commission determines that any final rates or interim rates previously approved for FPL should be adjusted pursuant to this docket, when should the adjustment(s) be implemented?

FPL: As stated, the Commission should not approve any adjustments to the final rates and interim rates previously approved by it. If, however, the Commission does determine that changes to the Company's depreciation rates are necessary, or that capital recovery schedules and reserve transfers should be used, those changes should not be implemented until the time new base rates are set in FPL's next rate case. The Staff's recommended adjustments would have a substantial impact on the Company, and, for each year that is affected by the change, the Company's earned return would be impacted materially. Implementation of the Staff's proposed changes to FPL's depreciation rates outside of a rate case could, because of the magnitude, result in the need to have a rate case earlier than would otherwise be necessary, or ultimately require the need for an additional case. Additionally, it would be impractical to implement rates retroactive to January 1, 1991. (HOFFMAN)

STAFF: Implementation should be January 1, 1991. (WILKERSON)

STIPULATED

ISSUE 18: Should the preliminary provision for dismantlement approved by the Commission in Order No. 24161 be changed?

FPL: Yes.

STAFF: Yes.

STIPULATED

ISSUE 19: What is the appropriate provision for dismantlement for FPL?

FPL: The annual accrual is \$9,937,565.

STAFF: The annual accrual is \$9,937,565.

STIPULATED

ISSUE 20: What should be the implementation date for the new provision for dismantlement for FPL?

FPL: January 1, 1991, as proposed in the Staff's Recommendation dated December 5, 1991.

STAFF: January 1, 1991.

ISSUE 21: In this docket, is it appropriate for the Commission to re-review those site-specific studies which it has already reviewed in the past four year period, and for which studies it has already entered final orders?

FPL: No. Those depreciation studies filed by FPL which the Commission has already approved, and which are the subject of final orders, should not be re-reviewed in these dockets. Each study was filed within four years of the Company's last approved depreciation rates on January 21, 1987 as required by the Depreciation Rule, and each was prepared at the level of detail required by the Depreciation Rule. Staff has encouraged FPL to file Production Plant site studies on a staggered basis, and it has complemented the Company on the clarity of its studies, the manner in which the studies have been put together and for bringing them in for review ahead of time. To re-review these site-specific studies for which final orders have been received, absent new facts and circumstances which would substantially change the results of those studies, removes the incentive for FPL to continue preparing site-specific studies on an interim basis. Moreover, it is unnecessary. (HOFFMAN, GOWER; this issue is also a legal issue)

STAFF: Yes, it is appropriate, and not unusual, for the Commission to review matters on which it has previously issued final orders. (WILKERSON)

ISSUE 22: What part should the presumed perception of the financial community play in the determination of depreciation requirements?

FPL: A significant part. Depreciation expense is the Company's third largest expense after Operation and Maintenance ("O&M") expenses and fuel costs. As such, depreciation expense has a significant effect on the Company's earnings and standing in the financial community. Any significant swings in this presumably stable cost can have a substantial impact on the perception of the Company by the financial community, and any unjustified recovery disallowances would be perceived as a confiscation of the shareholders' investment.
(HOFFMAN)

STAFF: The depreciation mechanism should be designed and implemented to distribute the depreciation-related expenses associated with plant serving the public as evenly as possible across the period of that service. Earnings level is a more proper concern in revenue requirement proceedings than in a depreciation study.
(WILKERSON)

ISSUE 23: If FPL continues to file separate depreciation studies for each of its sites or functions at least once every four years for the Commission to review, is FPL in compliance with Rule 25-6.0436(8)(a), F.A.C.?

FPL: Yes. However, FPL submits that this is a legal issue.
(HOFFMAN; this issue is also a legal issue)

STAFF: Filing separate studies for each of its production sites does not relieve FPL from the requirement of filing a study covering all depreciable plant categories at least once every four years from the submission date of the last such filed study. A comprehensive study is the only opportunity to look across all categories and to measure their reserve position and requirement at a given time.
(WILKERSON)

VII. EXHIBIT LIST

<u>Witness</u>	<u>Proffered By</u>	<u>I.D. No.</u>	<u>Description</u>
Hoffman	FPL	ELH-1	FPL's Comments in Response to Order No. 23916 Prescribing Depreciation and Dismantlement Rates for Cape Canaveral Generating Station
Hoffman	FPL	ELH-2	Breakdown of Staff's proposed adjustments per year based on Staff's August 6, 1991 Report
Hoffman	FPL	ELH-3	FPL's cover letter to Staff expressing FPL's concerns with Staff's August 6, 1991 Report
Hoffman	FPL	ELH-4	Breakdown of Staff's proposed adjustments per year based on Staff's December 5, 1991 Recommendation
Hoffman	FPL	ELH-5	Letter to FPC from Russell E. Faudree, Jr. Chief Accountant of the FERC regarding reserve transfers
Hoffman	FPL	ELH-6	Analysis of Capital Recovery and Reserve Transfer Decisions in FPSC Orders Affecting Electric & Gas Utilities
Hoffman	FPL	ELH-7	FPL Observed Life Tables (Graphs)
Hoffman	FPL	ELH-8	FPL Summary of All Property; Comparison of Life Characteristics and Accruals
Hoffman	FPL	ELH-9	Briefing Paper prepared by Price Waterhouse addressing the accounting requirements for the silicone cable injection costs

<u>Witness</u>	<u>Proffered By</u>	<u>I.D. No.</u>	<u>Description</u>
Hoffman	FPL	ELH-10	Diagram of Components of a Boiler
Hoffman	FPL	ELH-11	Cumulative Impact of Approved Changes on FPL's Depreciation/Decommissioning Expense Since 1985 -- FPL's Last Rate Case
Hoffman	FPL	ELH-12	Estimated Impact of the Staff's Proposed Changes on FPL's Depreciation Expense for 1991-1994
Farinelli	FPL	N/A	FPL's site-specific depreciation studies under consideration
Farinelli	FPL	N/A	FPL's comprehensive depreciation study under consideration
Farinelli	FPL	APF-1	List of 19 depreciation studies filed by FPL since 1987
Farinelli	FPL	APF-2	Methods, procedures and techniques used in depreciation studies
Farinelli	FPL	APF-3	Forecast analysis schedule (Schedule VII in FPL's studies)
Farinelli	FPL	APF-4	Reserve allocation worksheet (Schedule V in FPL's studies)
Farinelli	FPL	APF-5	Actuarial Analysis worksheet and glossary of terms
Farinelli	FPL	APF-6	Indicated Survivor Curve Method worksheet
Farinelli	FPL	APF-7	Timeline and Summary of past reserve positions

<u>Witness</u>	<u>Proffered By</u>	<u>I.D. No.</u>	<u>Description</u>
Farinelli	FPL	APF-8	Explanation of the remaining life and whole life rate formulas
Farinelli	FPL	APF-9	Summary Schedules supporting current rates
Farinelli		APF-10	FPL's and Staff's Proposed Curves Since 1985 for Certain Accounts in the Transmission and Distribution Functions
Gower	FPL	HAG-1	Service life differences and their effect on annual depreciation expenses
Gower	FPL	HAG-2	Production sites and transmission and distribution primary accounts affected by reserve transfers
	FPL	N/A	Wilkerson's Depo. Exh. 1, page 1; Depreciation Staff Site visits
	FPL	N/A	Wilkerson's Depo. Exh. 2; Number of hours worked by Staff in reviewing FPL's Depreciation Utilities
Wilkerson Staff		MCW-1	FPL Schedule for Asbestos Abatement
Wilkerson Staff		MCW-2	FPL Fossil Fuel Stream Prod. Depreciation Rates and Components
Wilkerson Staff		MCW-3	Fossil Fuel Plants Dismantlement Cost
	Staff	N/A	Hoffman's Deposition Transcript, pgs. 1-77, dated 6/11/92

<u>Witness</u>	<u>Proffered By</u>	<u>I.D. No.</u>	<u>Description</u>
Staff		N/A	Hoffman's Depo. Exh. 1; FERC-Cited Cases Regarding Depreciation Restatements, pgs. 1-10
Staff		N/A	Hoffman's Depo. Exh. 2; Precedent for Five-year Amortizations, pgs. 1-20
Staff		N/A	Hoffman's Depo. Exh. 3; Interim Retirement Rates Used by FPL in 1987 Depreciation Study, pg. 1 of 1
Staff		N/A	Hoffman's Depo. Exh. 4; Calculation of One Percent, pgs. 1-3
Staff		N/A	Hoffman's Depo. Exh. 5; REPOL Process Start Date & Dollars Capitalized to Date, pg. 1
Staff		N/A	Hoffman's Depo. Exh. 6; Projected Costs for Silicone Injections for 1992, 1993 & 1994, pg. 1
Staff		N/A	Hoffman's Exh. 7; Transcript of Agenda Conference, pgs. 1-17
Staff		N/A	Farinelli's Deposition Transcript, pgs. 1-27, dated 6/12/92
Staff		N/A	Farinelli's Depo. Exh. 1; Approval of Reserve Reallocation 1972, pg. 1
Staff		N/A	Farinelli's Depo. Exh. 2; Order to Amortize Differences, pgs. 1-4
Staff		N/A	Gower's Deposition Transcript, pgs. 1-46, dated 6/24/92

<u>Witness</u>	<u>Proffered By</u>	<u>I.D. No.</u>	<u>Description</u>
Staff		N/A	Gower's Depo. Exh. 1; List of the Studies Performed, on pgs. 1-2
Staff		N/A	Gower's Depo. Exh. 2; Working Papers Attempting to Reconcile Wilkerson's Exhibits, pgs. 1-3
Staff		N/A	Gower's Depo. Exh. 3; Letter of Understanding, pg. 1
Staff		N/A	Gower's Depo. Exh. 4; Work Papers Showing Why Mr. Wilkerson's Calculations are Incorrect, pgs. 1-3
Staff		N/A	Gower's Depo. Exh. 5; Effect of Reserve Transfers on Jurisdictional Separations, pg. 1
Staff		N/A	Staff Recommendation, dated 12/5/91, pgs. 5&6, and Attachment 1, pgs. 1-3
Staff		N/A	Hearing Transcript, dated 8/19/82, Volume I, pg. 20; Adoption of Rule 25-6.0436, F.A.C.
Staff		N/A	Initial Review Letter, dated 4/29/91
Staff		N/A	FPL Response to Staff's Initial Review Letter, dated 5/31/91
Staff		N/A	Staff Recommendation on Preliminary Implementation of Depreciation Rates, dated 2/7/91
Staff		N/A	Staff Report, dated 8/6/91
Staff		N/A	FPL Response to Staff Report, dated 9/27/91

Parties and Staff reserve the right to identify additional exhibits for the purpose of cross-examination.

VIII. PROPOSED STIPULATIONS

The following issues have been stipulated: 2, 3, 6, 18, 19, and 20.

IX. PENDING MOTIONS

There are no pending motions at this time.

It is therefore,

ORDERED by Chairman Thomas M. Beard, as Prehearing Officer, that this Prehearing Order shall govern the conduct of these proceedings as set forth above unless modified by the Commission.

By ORDER of Chairman Thomas M. Beard, as Prehearing Officer, this 7th day of July, 1992.


THOMAS M. BEARD, Chairman
and Prehearing Officer

(S E A L)

MRC:bmi

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.

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Any party adversely affected by this order, which is preliminary, procedural or intermediate in nature, may request: 1) reconsideration within 10 days pursuant to Rule 25-22.038(2), Florida Administrative Code, if issued by a Prehearing Officer; 2) reconsideration within 15 days pursuant to Rule 25-22.060, Florida Administrative Code, if issued by the Commission; or 3) 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 wastewater utility. A motion for reconsideration shall be filed with the Director, Division of Records and Reporting, in the form prescribed by Rule 25-22.060, Florida Administrative Code. Judicial review of a preliminary, procedural or intermediate ruling or order is available if review of the final action will not provide an adequate remedy. Such review may be requested from the appropriate court, as described above, pursuant to Rule 9.100, Florida Rules of Appellate Procedure.