



Public Service Commission

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1999 APR - 8 AM 10:13
RECORDS AND REPORTING

DATE: APRIL 8, 1999

TO: DIRECTOR, DIVISION OF RECORDS AND REPORTING (BAYO)

FROM: DIVISION OF AUDITING AND FINANCIAL ANALYSIS (CAUSSEUX, LEE, SWAIN) *Pa ita*
DIVISION OF ELECTRIC AND GAS (COLSON)
DIVISION OF LEGAL SERVICES (PAUGH) *JPP RUE y*

RE: DOCKET NO. 980583-EI - 1998 DEPRECIATION STUDY BY FLORIDA PUBLIC UTILITIES COMPANY, FERNANDINA BEACH DIVISION. *199 JLC VTB RLT*

AGENDA: 04/20/99 - REGULAR AGENDA - PROPOSED AGENCY ACTION - INTERESTED PERSONS MAY PARTICIPATE

CRITICAL DATES: NONE

SPECIAL INSTRUCTIONS: NONE

FILE NAME AND LOCATION: S:\PSC\AFA\WP\980583.RCM

CASE BACKGROUND

Rule 25-6.0436, Florida Administrative Code, requires Investor Owned Utilities to file comprehensive depreciation studies at least once every four years. On April 27, 1998, Florida Public Utilities Company (FPU or the company) filed its regular depreciation study for the Fernandina Beach Division in accordance with this rule. Staff has completed its review of the depreciation study and presents its recommendation herein.

DISCUSSION OF ISSUES

ISSUE 1: Should the current depreciation rates for Florida Public Utilities Company - Fernandina Beach Electric Division (FPU or company) be changed?

RECOMMENDATION: Yes. A review of the company's plans and activity indicates the need for revising depreciation rates. (LEE)

STAFF ANALYSIS: FPU's current depreciation rates were approved effective January 1, 1995. The company has filed this current study in accordance with Rule 25-6.0436, Florida Administrative Code, which requires electric companies to file a comprehensive depreciation study at least once every four years from the submission date of the previous filed study. A review of the company's activity data indicates the need for revising depreciation rates.

ISSUE 2: What should be the implementation date for the recommended rates and recovery/amortization schedules?

RECOMMENDATION: Staff recommends approval of the company's proposed January 1, 1999 date of implementation for the new depreciation rates and amortization schedules. (LEE)

STAFF ANALYSIS: Company data and related calculations abut the January 1, 1999 date. This is the recommended date of implementation, being the earliest practicable date for utilizing the revised rates and schedules.

ISSUE 3: What are the appropriate depreciation rates and recovery/amortization schedules?

RECOMMENDATION: The staff recommended lives, net salvages, reserves, and resultant depreciation rates are shown on Attachment A, page 8. Attachment B, page 9, shows an estimated resultant increase in annual expenses of about \$77,000, based on January 1, 1999 investments. (LEE)

STAFF ANALYSIS: Staff's recommendations are the result of a comprehensive review of FPU's depreciation study. Attachment A shows a comparison of the currently approved, company proposed, and staff recommended rate parameters. Attachment B shows a comparison of resultant expenses based on estimated January 1, 1998 investments.

This filing was essentially a staff-assisted study. The company provided aged retirement data for the 1995-1997 period and forecasted 1998 data. The company also provided the average age distributions of the surviving investments for each account. Staff then worked with the company in developing appropriate life and salvage values. As a result of the review and analytical process, staff and the company agree on lives, net salvages, and resultant depreciation rates for all accounts.

The recommended changes in the transmission and general plant depreciation rates can be attributed mainly to two factors - updated account ages to reflect activity since the last rescription and/or changes in the associated reserve position. The recommended changes in the distribution depreciation rates reflect a move more in line with current industry expectations. The accounts with a substantial change in depreciation expense are discussed below.

Station Equipment (Account 362)

The currently prescribed net salvage factor for this account is 10%. Insufficient retirement activity has been experienced upon which to rely for the determination of life or salvage. A negative net salvage of 5% indicates a move more in line with current industry expectations.

Poles, Towers, and Fixtures (Account 364)

The retirement rate for Poles, Towers, and Fixtures (Account 364) has averaged about 1% during the 1990-1997 period. Taking into consideration the account average age of 12.5 years, a life of about 30 years is more indicative of future expectations than the current 26 year service life.

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The removal of equipment in this account is labor intensive. Recent net salvage experience in this account as well as a review of other company expectations, indicate a more negative net salvage of 30% is appropriate.

Overhead Conductors & Devices (Account 365)

The retirement rate for this account has averaged less than 1% during the 1994-1998 period. This type of activity makes reliance on industry averages necessary. Other companies in the State indicate lives ranging from 27 years to 34 years. Recognizing an average age of 13.9 years and the general lack of retirement activity, a 34 year life appears reasonable.

The removal of this equipment is also labor intensive. Other companies in the State are estimating net salvage values ranging from negative 10% to negative 50%. A negative 30% net salvage is in line with the account's experience and the industry range.

Underground Conductors & Devices (Account 367)

A 35 year average service life is more in line with the retirement experience and average age of this account than the current 32 year life.

Line Transformers (Account 368)

Other than FPU, no other company in the State has a net salvage value more than negative 25%. A negative 20% net salvage is a move more in line with other companies.

Services (Account 369)

Retirements have been insufficient in this account to rely on for life and salvage determination. This makes reliance on industry average necessary. A 34 year average life with a negative 30% net salvage are more in line with industry expectations than the currently approved values. Further, a 34 year life is reasonable considering the lack of retirement activity and the account's age.

Meters (Account 370)

The accounting treatment for this account is "cradle-to-grave". Meters are capitalized as soon as they are purchased and are not retired as they move from location to location. Retirement occurs when the meter can no longer be refurbished and is finally junked. Accordingly, one would expect very little gross salvage and removal cost to be realized upon retirement unless there are special conditions. A negative 10% net salvage is more in line

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with expectations for this type of plant than the currently prescribed negative 20% net salvage.

Transportation-Light Trucks

Generally, life expectations for light trucks are in the range of 7 years. For FPU, however, a 9 year life is indicated by the retirement data.

Transportation-Heavy Trucks

A 13 year life is more in line with FPU and industry expectations for this type of plant than the currently prescribed 11 year life.

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ISSUE 4: Should the current amortization of investment tax credits (ITCs) and the flowback of excess deferred income taxes be revised to reflect the approved depreciation rates and recovery schedules?

RECOMMENDATION: Yes. The current amortization of ITCs and the flowback of excess deferred income taxes (EDIT) should be revised to match the actual recovery periods for the related property. The utility should file detailed calculations of the revised ITC amortization and flowback of EDIT at the same time it files its surveillance report covering the period ending December 31, 1999. (CAUSSEAU)

STAFF ANALYSIS: In earlier issues, staff recommends revisions to the company's remaining lives, to be effective January 1, 1999. Revising a utility's book depreciation lives generally results in a change in its rate of ITC amortization and flowback of EDIT in order to comply with the normalization requirements of the Internal Revenue Code (IRC) and underlying Regulations (REGs) found in Sections 46, 167, and 168 and 1.46, 1.67, and 1.68, respectively.

Section 46(f)(6), IRC, states that the amortization of ITCs should be determined by the period of time actually used in computing depreciation expense for rate making purposes and on the regulated books of the utility. Since staff is recommending a change in remaining lives, it is also important to change the amortization of ITCs to avoid violation of the provisions of sections 46 and 1.46, IRC and REGs, respectively.

Section 203(3) of the Tax Reform Act of 1986 (the Act) prohibits rapid flowback of depreciation related (protected) EDIT. Further, Rule 25-14.013, Accounting for Deferred Income Taxes Under SFAS 109, Florida Administrative Code, generally prohibits EDIT from being written off any faster than allowed under the Act. The Act, SFAS 109, and Rule 25-14.013, Florida Administrative Code regulate the flowback of EDIT. Therefore, staff recommends that the flowback of EDIT be adjusted to comply with the Act, SFAS 109, and Rule 25-14.013, Florida Administrative Code.

Staff, Internal Revenue Service, and independent outside auditors look to a company's books and records and at the orders and rules of the jurisdictional regulatory authorities to determine if the books and records are maintained in the appropriate manner and to determine the intent of the regulatory bodies in regard to normalization. Therefore, staff recommends that the current amortization of ITCs and the flowback of EDIT be revised to reflect the approved remaining lives. In order for there to be a clear audit trail, a prudent utility will revise ITCs and EDIT amortization and produce work papers to show how the revisions were made.

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ISSUE 5: Should this docket be closed?

RECOMMENDATION: This docket should be closed if no person whose interests are substantially affected by the proposed action files a protest within the 21-day protest period. (PAUGH)

STAFF ANALYSIS: At the conclusion of the protest period, if no protest is filed, this docket should be closed.

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FULLSUN PUBLIC UTILITIES - PERMISSIBLE BRANCH DIVISION
 DOCKET # 980583-EI
 1998 DEPRECIATION STUDY
 COMPARISON OF RATES AND COMMENTS

ACCOUNT NUMBER	COMPANY				COMPANY RETIRED DEPRECIATION				COMPANY REFINANCED			
	AMORTIZATION	NET BALANCE	L/1/Y4 RESERVE	REGULATION	AMORTIZATION	NET BALANCE	L/1/Y4 RESERVE	REGULATION	AMORTIZATION	NET BALANCE	L/1/Y4 RESERVE	REGULATION
TRANSMISSION												
350 - Line Rights	28.0	0.0	33.8	2.4	27.0	0.0	42.7	2.1	27.0	0.0	42.7	2.1
352 - Structures and	28.0	0.0	35.1	1.4	22.0	0.0	34.4	2.1	22.0	0.0	34.4	2.1
353 - Station Equipment	29.0	1.0	25.8	2.2	23.0	1.0	31.7	2.5	23.0	1.0	31.7	2.5
354 - Towers & Poles	28.0	(10.0)	53.8	1.8	39.0	(10.0)	58.8	1.8	39.0	(10.0)	58.8	1.8
355 - Poles & Flashes	28.0	(20.0)	34.4	3.3	27.0	(20.0)	24.4	3.4	27.0	(20.0)	24.4	3.4
356 - Overhead Conductors &	28.0	(10.0)	38.9	2.8	23.0	(10.0)	38.8	3.1	23.0	(10.0)	38.8	3.1
359 - Ropes & Tails	24.0	0.0	77.1	1.0	18.0	0.0	24.6	3.0	18.0	0.0	24.6	3.0
DEPRECIATION												
360 - Land Rights	22.0	0.0	34.2	2.9	13.0	0.0	0.0	0.0	13.0	0.0	0.0	0.0
361 - Structures and	30.2	0.0	43.4	1.9	23.0	0.0	50.5	2.2	23.0	0.0	50.5	2.2
362 - Station Equipment	13.0	10.0	37.4	2.6	17.7	(5.0)	34.6	3.9	17.7	(5.0)	34.6	3.9
364 - Poles, Towers, and	13.0	(10.0)	33.0	4.1	18.3	(10.0)	38.5	4.9	18.3	(10.0)	38.5	4.9
365 - Overhead Conductors &	24.0	(13.0)	28.0	3.6	21.0	(10.0)	34.4	4.5	21.0	(10.0)	34.4	4.5
366 - Underground Conduct	43.2	0.0	14.7	2.0	40.0	0.0	20.3	2.0	40.0	0.0	20.3	2.0
367 - Underground Conductors	23.0	0.0	28.4	3.1	23.0	0.0	35.4	2.8	23.0	0.0	35.4	2.8
368 - Line Transformers	21.0	(18.0)	35.9	4.7	17.0	(20.0)	42.4	4.4	17.0	(20.0)	42.4	4.4
369 - Services	24.0	(20.0)	29.0	3.8	25.0	(20.0)	34.4	3.8	25.0	(20.0)	34.4	3.8
370 - Meters	29.0	(20.0)	65.8	3.7	16.0	(15.0)	26.4	3.5	16.0	(15.0)	26.4	3.5
371 - Installation on	18.3	14.0	32.0	5.6	7.4	10.0	43.8	6.1	7.4	10.0	43.8	6.1
373 - Street Lighting &	15.0	0.0	38.2	4.1	15.3	0.0	34.5	4.3	15.3	0.0	34.5	4.3
GENERAL EQUIPMENT												
390 - Structures &	36.0	0.0	33.0	1.9	22.0	0.0	38.8	2.0	22.0	0.0	38.8	2.0
392.1 - Transportation-Cars	2.5	15.0	28.1	24.0	4.2	15.0	36.3	6.1	4.2	15.0	36.3	6.1
392.2 - Transportation-Light	3.0	10.0	77.8	4.1	2.9	10.0	82.3	13.0	2.9	10.0	82.3	13.0
392.3 - Transportation -	9.4	10.0	80.0	7.4	9.5	10.0	18.8	9.4	9.5	10.0	18.8	9.4
392.4 - Transportation -	17.4	0.0	81.8	2.8	12.4	0.0	62.9	2.6	12.4	0.0	62.9	2.6
393.1 - Stores Equipment-	12.4	0.0	44.8	4.0	8.5	0.0	43.0	4.4	8.5	0.0	43.0	4.4
394.1 - Tools, Shop & Garage	23.0	0.0	30.9	3.0	26.0	0.0	8.7	3.3	26.0	0.0	8.7	3.3
395.1 - Laboratory Equipment	21.0	0.0	23.0	3.6	22.0	0.0	23.7	3.5	22.0	0.0	23.7	3.5
396 - Power Operated Equipment	4.9	5.0	68.9	3.8	9.3	5.0	72.8	4.2	9.3	5.0	72.8	4.2
397 - Communication Equipment	7.3	0.0	32.2	10.7	6.4	0.0	64.2	7.1	6.4	0.0	64.2	7.1

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 1998 DEPRECIATION STUDY
 COMPARISON OF EXPENSES

ACCOUNT NUMBER	1/1/98		1/1/99		CURRENT ESTIMATED DEPRECIATION EXPENSES		CURRENT ESTIMATED DEPRECIATION EXPENSES		CURRENT ESTIMATED DEPRECIATION EXPENSES	
	EXPENSES	RELATIVE	EXPENSES	RELATIVE	RATE	EXPENSES	RATE	EXPENSES	RATE	EXPENSES
TRANSMISSION										
304 31 - Lead Rights	54,519	24,154			2.4	1,187	2.1	1,187	2.1	(1,689)
302 - Structures and Improvements	30,053	12,205			1.6	630	2.1	630	2.1	156
303 - Station Equipment	1,840,576	817,877			2.2	42,840	2.3	42,840	2.3	48,714
304 - Towers & Poles	243,782	143,257			1.8	4,388	1.8	4,388	1.8	4,388
305 - Poles & Structures	1,734,184	680,615			3.3	57,326	3.8	57,326	3.8	63,898
306 - Overhead Conductors & Devices	159,264	381,728			2.8	28,431	3.1	28,764	3.1	29,704
307 - Roads & Trails	4,788	1,829			1.6	245	1.6	245	1.6	187
TOTAL TRANSMISSION PLANT	4,879,132	1,629,289				130,798		130,798		17,889
DISPATCHING										
306 1 - Lead Rights	188	0			0.0	0	0.0	0	0.0	0
301 - Structures and Improvements	33,577	18,347			2.2	730	2.2	730	2.2	121
302 - Station Equipment	1,095,635	684,347			3.0	79,320	3.0	79,320	3.0	24,643
304 - Poles, Towers, and Structures	1,535,141	807,033			4.1	82,842	4.9	79,223	4.9	12,281
305 - Overhead Conductors & Devices	2,894,051	844,377			4.5	114,750	4.5	114,750	4.5	23,352
306 - Underground Conductors	1,164,400	236,628			2.0	23,290	2.0	23,290	2.0	0
307 - Underground Conductors & Devices	2,169,334	763,683			2.6	69,495	2.8	69,495	2.8	16,482
308 - Line Transformers	4,949,023	2,197,079			4.4	219,104	4.4	219,104	4.4	14,904
309 - Services	2,899,448	868,122			3.8	116,180	3.8	116,180	3.8	11,280
370 - Meters	1,087,149	628,271			3.7	86,662	3.5	86,662	3.5	99,082
371 - Installation on Customers'	247,219	197,761			6.1	15,844	6.1	15,844	6.1	1,234
372 - Street Lighting & Signal	442,382	152,442			5.6	13,844	5.6	13,844	5.6	1,234
TOTAL DISPATCHING PLANT	20,889,080	7,684,790				779,355		779,355		37,801
GENERAL PLANT										
300 - Structures and Improvements	442,112	199,253			1.9	8,442	2.0	8,442	2.0	6,442
301 1 - Transportation-Cars	50,809	29,149			24.0	3,103	6.1	3,103	6.1	(9,104)
302 2 - Transportation-Light Trucks &	278,116	145,321			4.1	12,482	13.0	36,155	13.0	24,732
302 3 - Transportation - Heavy Trucks	772,216	143,790			7.4	87,144	8.4	84,866	8.4	64,866
302 4 - Transportation - Trailers	14,075	8,247			2.8	268	2.8	268	2.8	268
303 1 - Storage Equipment-Flam	20,488	12,809			4.0	820	4.4	901	4.4	901
304 1 - Tools, Shop & Storage	41,041	5,805			3.0	2,138	3.5	2,138	3.5	304
305 1 - Laboratory Equipment	35,334	8,439			3.6	1,244	3.5	1,244	3.5	(381)
306 - Power Operated Equipment	69,844	59,241			3.8	2,800	4.2	2,800	4.2	274
307 - Communication Equipment	64,323	69,100			10.7	7,400	8.1	7,400	8.1	(2,489)
TOTAL GENERAL PLANT	1,039,879	624,962				138,205		138,205		21,942
TOTAL ASSETS	21,427,628	8,089,782				1,050,319		1,050,319		77,313