

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

In re: Depreciation study by  
Florida Public Utilities  
Company.

DOCKET NO. 990302-GU  
ORDER NO. PSC-00-1082-PAA-GU  
ISSUED: June 5, 2000

The following Commissioners participated in the disposition of this matter:

JOE GARCIA, Chairman  
J. TERRY DEASON  
SUSAN F. CLARK  
E. LEON JACOBS, JR.  
LILA A. JABER

NOTICE OF PROPOSED AGENCY ACTION  
ORDER APPROVING THE FLORIDA PUBLIC UTILITIES COMPANY'S 1999  
DEPRECIATION STUDY

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.

I. CASE BACKGROUND

Rule 25-7.045(8)(a), Florida Administrative Code, requires gas utilities to file comprehensive depreciation studies at least once every five years. On March 10, 1999, Florida Public Utilities Company (FPUC), filed its regular depreciation study in accordance with this rule. Commission staff assisted FPUC with this study.

A review of the company's current capital recovery position and its activity data show a need to revise depreciation rates. FPUC proposed January 1, 2000 as the implementation date for new depreciation rates. All supportive data and calculations in the

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study are based on this date, and we approve the revisions described in this order, effective January 1, 2000.

## II. CORRECTIVE RESERVE TRANSFERS

We find that the corrective reserve transfers shown in Attachment A to this Order are appropriate and should be made. This action will bring each affected account's reserve more in line with its calculated theoretical level.

We analyzed the reserve status of all accounts to determine the need for corrective reserve measures of major imbalances generally brought about by past missed estimates of life and salvage factors. Reserve deficiencies exist in the following accounts: 1) Services - Other Than Plastic, Account 380.2; 2) Structure & Improvements, Account 390; 3) Office Furniture, Account 391.1; 4) Tools, Shop, Garage Equipment, Account 394; 5) Laboratory Equipment, Account 395; and, 6) Communication Equipment, Account 397. The reserve surpluses existing in the following accounts can be transferred to help correct deficiencies: 1) Mains - Other Than Plastic, Account 376.2; 2) Transportation Equipment - Autos, Account 392.1; and, 3) Transportation Equipment-Light Trucks, Account 392.2. FPUC proposes that the surpluses be transferred to accounts with deficiencies, as shown in Attachment A. FPUC believes the transfer will help correct the deficiencies and will bring each affected account's reserve more in line with its calculated theoretically correct level.

## III. DEPRECIATION RATES AND RECOVERY SCHEDULES

FPUC provided actual aged retirement data for the 1995-1999 period, and on that basis, the appropriate life and salvage values for all accounts were developed. The approved depreciation rates generated from this analysis are in Attachment B. The approved depreciation rates reflect the corrective reserve transfers described in Part II of this Order.

The changes in the distribution and general plant depreciation rates can be attributed primarily to updated account ages to reflect activity since the last rescription, and changes in the associated reserve position. The changes in the net salvage values are more in line with current industry expectations.

The accounts with a substantial change in depreciation expenses are: 1) Mains, Account 376; 2) Services, Account 380; 3) Computers, Account 391.3; and, 4) Transportation Equipment, Account 392. These accounts are discussed in greater detail below. We find that the study supports the depreciation rates shown in Attachment B, and therefore approve the proposed depreciation rates.

#### A. Mains and Services

The Mains and Services accounts historically experienced minimal retirement activity, necessitating reliance on industry averages for life and salvage values. The proposed remaining lives reflect an update of activity since FPUC's last depreciation study.

The primary concern with these accounts is the cost of abandoning the main or service. The cost of removing or abandoning a main involves travel time with a crew, digging down to the pipe, cutting and capping, refilling the hole, and restoring the roadway. Restoring the roadway becomes significant if the main or service is located under pavement. Assuming the actual removal costs relating to plant in service are correct and these costs will continue over the remaining lives of the mains and services accounts, a negative 15% net salvage results for plastic and steel mains, a negative 15% for plastic services, and a negative 80% for steel services.

#### B. Computers

FPUC's computers have a current age of 5.2 years and the company has no near term plans for retirement. Therefore an increase in the currently prescribed 7-year service life is indicated. A 10-year service life and an S4 mortality dispersion are more in line with the activity of the account. The decrease in net salvage recognizes that there will be little resale value at retirement due to the age of the equipment.

#### C. Transportation

Increases in the currently prescribed average service lives for the automobiles and light trucks transportation accounts are needed given the average ages of the vehicles retired during the last five years. An 8-year service life is recommended for the

automobile account and an 11-year service life is recommended for the light trucks account. The net salvage recommendations reflect that these vehicles are expected to experience longer lives, thereby reducing any realized salvage.

IV. AMORTIZATION OF INVESTMENT TAX CREDITS AND FLOWBACK OF EXCESS DEFERRED INCOME TAXES

Revising a utility's book depreciation lives generally results in a change in its rate of amortization of investment tax credits (ITCs) and flowback of excess deferred income taxes (EDIT) in order to comply with the normalization requirements of the Internal Revenue Code (IRC).

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. Because the remaining lives of plant must be revised, it is also important to change the amortization of ITCs to avoid violation of Section 46, IRC.

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, we find that the flowback of EDIT must be adjusted to comply with the Act, SFAS 109, and Rule 25-14.013, Florida Administrative Code. In addition, we find that the current amortization of ITCs and the flowback of EDIT must be revised to reflect the approved remaining lives and to provide a clear audit trail.

We therefore find that the current amortization of ITCs and the flowback of EDIT should be revised to match the actual recovery periods for the related property. FPUC must 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, 2000.

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Based on the foregoing, it is

ORDERED by the Florida Public Service Commission that the recommended corrective reserve transfers shown on Attachment A of this Order are approved and effective as of January 1, 2000. It is further

ORDERED that recommended values for net salvage, reserve, average remaining life, and remaining life, shown on Attachment B of this Order, are approved and effective as of January 1, 2000. It is further

ORDERED that the amortization of investment tax credits, and the flowback of excess deferred income taxes be revised to match the actual recovery periods for the related property. It is further


ORDERED that the Florida Public Utilities Company shall file detailed calculations of the revised amortization of investment tax credits, and the flowback of excess deferred income taxes when it files its surveillance report for the period ending December 31, 2000. It is further

ORDERED that the provisions of this Order, issued as proposed agency action, shall become final and effective upon the issuance of a Consummating Order unless an appropriate petition, in the form provided by Rule 28-106.201, 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" attached hereto. It is further

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

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By ORDER of the Florida Public Service Commission this 5th  
day of June, 2000.

  
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BLANCA S. BAYÓ, Director  
Division of Records and Reporting

( S E A L )

MKS

NOTICE OF FURTHER PROCEEDINGS OR JUDICIAL REVIEW

The Florida Public Service Commission is required by Section 120.569(1), Florida Statutes, to notify parties of any administrative hearing that is available under Section 120.57, 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 will be granted or result in the relief sought.

Mediation may be available on a case-by-case basis. If mediation is conducted, it does not affect a substantially interested person's right to a hearing.

The action proposed herein is preliminary in nature. Any person whose substantial interests are affected by the action proposed by this order may file a petition for a formal proceeding, in the form provided by Rule 28-106.201, 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 June 26, 2000.

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In the absence of such a petition, this order shall become final and effective upon the issuance of a Consummating Order.

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.

ATTACHMENT A

	<b>Book Reserve</b>	<b>Approved</b>	<b>Restated</b>
	<b>01/01/00</b>	<b>Transfer</b>	<b>Reserve</b>
	<b>(\$)</b>	<b>(\$)</b>	<b>(\$)</b>
Mains - Other Than Plastic	10,009,548	(1,455,005)	8,554,543
Services - Other Than Plastic	540,927	1,455,005	2,217,047
Structures & Improvements	471,486	72,386	543,872
Office Furniture	(7,541)	43,882	36,341
Transportation Equip. - Autos	380,060	(179,668)	200,392
Transportation Equip. - Light Trucks	1,134,715	(80,043)	707,117
Tools, Shop, Garage Equipment	52,522	84,981	137,503
Laboratory Equipment	(2,692)	2,692	0
Communication Equipment	51,548	55,770	107,318
<b>Total</b>	<b>12,630,573</b>	<b>0</b>	<b>12,504,133</b>



2000 DEPRECIATION STUDY  
 APPROVED RATES AND COMPONENTS

FLORIDA PUBLIC UTILITIES COMPANY - GAS DIVISION

ACCOUNT	COMMISSION APPROVED					
	Average		Remaining	Remaining		
			Net/1/100Life	ReserveRate		
			(Yrs)(%)(%)(%)	(%)		
<b>DISTRIBUTION ASSETS</b>						
375.0	Structures & Improvements	17.5	0.0	48.96	2.9	
376.1	Mains - Plastic	38.0	(15.0)	21.76	2.5	
376.2	Mains - Other Than Plastic	27.0	(15.0)	44.80 *	2.6	
378.0	M&R Equipment - General	23.0	0.0	15.94	3.7	
379.0	M&R Equipment - City Gate	21.0	0.0	23.42	3.6	
380.1	Services - Plastic	28.0	(15.0)	18.37	3.5	
380.2	Services - Other Than Plastic	11.9	(80.0)	108.48 *	6.0	
381.0	Meters	19.0	0.0	36.30	3.4	
382.0	Meter Installations	24.0	(5.0)	27.98	3.2	
383.0	House Regulators	18.2	0.0	34.57	3.6	
384.0	Regulator Installations	25.0	(5.0)	27.23	3.1	
385.0	Industrial M&R Station Equipment	17.2	0.0	32.46	3.9	
387.0	Other Equipment	21.0	0.0	18.70	3.9	
<b>GENERAL PLANT</b>						
390.0	Structures & Improvements	31.0	0.0	22.50 *	2.5	
391.1	Office Furniture	9.3	0.0	55.36 *	4.8	
391.2	Office Machines & Equipment	7.3	0.0	44.08	7.7	
391.3	Computers	4.8	0.0	61.10	8.1	
392.0	Transportation Equip. - Autos	3.9	10.0	45.93 *	11.3	
392.2	Transportation Equip. - Light Trucks	5.6	10.0	65.75 *	4.3	
392.4	Transportation Equip. - Trailers	6.0	0.0	83.79	2.7	
393.0	Stores Equipment	4.5	0.0	73.97	5.8	
394.0	Tools, Shop, Garage Equipment	6.5	0.0	56.45 *	6.7	
395.0	Laboratory Equipment	20.0	0.0	0.00 *	5.0	**
396.0	Power Operated Equipment	7.9	5.0	47.54	6.0	
397.0	Communication Equipment	8.3	0.0	41.07 *	7.1	
398.0	Misc. Equipment	14.4	0.0	28.23	5.0	

\*Denotes restated reserve after corrective transfers  
 \*\* Denotes whole life rate