FLORIDA PUBLIC SERVICE COMMISSION
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MEMORANDUM

NOVEMBER 20, 1997

TO: DIRECTOR, RECORDS AND REPORTING (BAYO)

FROM: DIVISION OF Auditing & Financial Analysis (LEE, L. ROMIG)
DIVISION OF LEGAL SERVICES (KEATING)

RE: DOCKET NO. 970537-EI - FLORIDA PUBLIC UTILITIES COMPANY - 1997 DEPRECIATION STUDY BY FLORIDA PUBLIC UTILITIES COMPANY, MARIANNA DIVISION

AGENDA: 12/02/97 - REGULAR AGENDA - PROPOSED AGENCY ACTION - INTERESTED PERSONS MAY PARTICIPATE

CRITICAL DATES: NONE

SPECIAL INSTRUCTIONS: S:\PSC\AFA\WP\970537.RCM
R:\PSC\AFA\123\FPUC.WK4

DISCUSSION OF ISSUES

ISSUE 1: Should the current depreciation rates for Florida Public Utilities Company - Marianna 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, 1994. 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.

DOCUMENT NUMBER-DATE
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FPSC-RECORDS/REPORTING

ISSUE 2: What should be the implementation date for the recommended rates?

RECOMMENDATION: Staff recommends approval of the company's proposed January 1, 1998 date of implementation for the new rates. (LEE)

STAFF ANALYSIS: Company data and related calculations have been submitted to abut the January 1, 1998 date. This is the recommended date of implementation, being the earliest practicable date for utilizing the revised rates.

ISSUE 3: Should any corrective reserve transfers be made?

RECOMMENDATION: Yes. Staff recommended corrective measures are shown on Attachment A, page 13. This action will bring each affected account's reserve more in line with its calculated theoretical level. (LEE)

STAFF ANALYSIS: Reserve imbalances are primarily a matter of differences in current and past projections. Staff believes that such deficiencies should be recovered as fast as possible, unless such recovery prevents the company from earning a fair and reasonable return on its investments. In the case of FPU, there is a reserve deficiency in the Overhead Conductors and Devices account, Account 365. The reserve surpluses existing in the Automobiles account, Account 392.1, the Heavy Trucks account, Account 392.3, the fixed Stores account, Account 393.1, and the remaining investment in the Communication account, Account 397, can be transferred to help correct the deficiency. This action will bring each affected account's reserve more in line with its calculated theoretical level.

In light of the possible impact on cost allocations, the company should make corresponding entries to the related depreciation expense accounts.

ISSUE 4: What are the appropriate recovery schedules?

RECOMMENDATION: The staff recommended recovery schedule is shown on Attachment C, page 15. This three-year schedule is designed to recover the net investment associated with the company's 2-way communication equipment planned for retirement by December 31, 2000. (LEE)

STAFF ANALYSIS: During the period 1998-2000, the company plans to replace its 2-way communication equipment. The associated investment and estimated reserve as of January 1, 1998 are $60,592 and $60,101, respectively. A three-year recovery schedule is therefore recommended to address the recovery of the $491 net investment over the equipment's remaining service life.

ISSUE 5: What are the appropriate depreciation rates?

RECOMMENDATION: The staff and company recommended lives, net salvages, reserves, and resultant depreciation rates are shown on Attachment B, page 14. The result is an increase in annual depreciation expense of approximately $79,000, based on estimated January 1, 1998 investments as shown on Attachment C, page 15. (LEE)

STAFF ANALYSIS: Staff's recommendations are the result of a comprehensive review of FPU's depreciation study. Attachment B shows a comparison of the currently approved, company revised proposed, and staff recommended rate parameters. Attachment C 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 1994 - 1996 period and forecasted 1997 data. Staff determined the average age and worked with the company in developing 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 depreciation rates can be attributed mainly to two factors - updated ages to reflect activity since the last represcription, and/or changes in the reserve position. The accounts with a substantial change in depreciation expense are outlined below.

Poles, Towers, and Fixtures (Account 364) - The removal of poles is very labor intensive as evidenced by the 1993-1996 recorded negative net salvage of 77%. Other Florida regulated electric companies have net salvage factors for this account ranging from negative 10% to negative 50%, averaging about negative 30%. The recommended net salvage of negative 25% gives recognition to these recent labor trends.

Overhead Conductors and Devices (Account 365) - Net salvage for this account has averaged negative 95% over the 1993-1996 period. A retirement ratio of less than 1% for the same period of time makes reliance on industry averages necessary. For other Florida companies, net salvage ranges from negative 10% to negative 35%, averaging negative 20%. The recommended net salvage of negative 15% is a move toward the industry average and recognizes increased removal costs.

ISSUE 6: 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?

RECOMMENDATION: Yes. The current amortization of ITCs and the flowback of excess deferred income taxes should be revised to reflect the approved depreciation rates and recovery schedules. Also, the utility should be required to file detailed calculations of the revised ITC amortization and flowback of excess deferred taxes at the same time it files its December 1998 surveillance report. (CAUSSEAUX)

STAFF ANALYSIS: In issues previously addressed, staff recommends revisions to FPUC's depreciation rates and capital recovery schedules, to be effective January 1, 1998. Revising a utility's depreciation rates usually results in a change in its rate of ITC amortization and flowback of excess deferred income taxes.

Section 46(f)(6) of the Internal Revenue Code (IRC) states that the amortization of ITCs should be determined by the period of time used in computing depreciation expense for purposes of reflecting regulated operating results of the utility. Since staff is recommending a change in depreciation rates, it is also appropriate to change the amortization of ITCs.

Section 203(e) of the Tax Reform Act of 1986 (TRA) prohibits rapid write-back of protected (depreciation related) deferred taxes. In addition, Rule 25-14.013, Accounting for Deferred Income Taxes under SFAS 109, Florida Administrative Code (F.A.C.), prohibits, without good cause shown, excess deferred income taxes associated with temporary differences from being reversed any faster than allowed under Section 203(e). Therefore, both the TRA and Rule 25-14.013, F.A.C., prohibit faster write-off of protected excess deferred taxes. Consequently, Staff believes that the flowback of excess deferred taxes should be altered to comply with the TRA and Rule 25-14.013, F.A.C.

Staff recommends that the current amortization of ITCs and the flowback of excess deferred income taxes be revised to reflect the approved depreciation rates and recovery schedules. Also, the utility should be required to file detailed calculations of the revised ITC amortization and flowback of excess deferred taxes at the time it files its December 1998 surveillance report.

ISSUE 7: Should FPU's request to amortize the net gain associated with the sale of its warehouse and associated land over a period of four years be approved?

RECOMMENDATION: Yes. Staff recommends that the net gain of $41,554 be amortized over four years beginning January 1, 1998. Further, staff recommends that $2,446 of the sale proceeds be recorded as gross salvage against the retirement of the retiring warehouse building. (LEE, L. ROMIG)

STAFF ANALYSIS: Late in 1997, or early 1998, the company's land and warehouse building at 406 South Green Street in Marianna will be sold for $50,000. Based on an independent appraisal, the majority of the selling price of the property represents the value of the land.

The investment associated with the building is $22,750. Staff has calculated the related reserve to be $20,304. Staff recommends that $2,446 of the sales proceeds be recorded as gross salvage to recover the net unrecovered amount of the building. This will result in a net gain of $41,554 from the sale as shown below.

	Sale Price	$50,000
Less	Cost of Sale	5,000
	Net Proceeds	$45,000
Less	Cost of Land	1,000
	Net Unrecovered Amount of Building	2,446
	Net Gain	$41,554

Due to the finality of the sales transaction, FPU has requested that the net gain be amortized over four years beginning January 1, 1998. The amortization period represents the time span between depreciation studies. Staff recommends approval of this request.

ISSUE 8: Should FPU's request to amortize the gain from the sale of its hydraulic plant over a four year period be approved?

RECOMMENDATION: Yes. The net gain of $18,005 should be amortized over four years beginning January 1, 1998. (LEE, L. ROMIG)

STAFF ANALYSIS: FPU sold its remaining hydraulic production plant in 1997 for $70,500. The composition of the net gain is as follows:

	Sales Price	$70,500
Less	Cost of Sale	1,240
	Net Proceeds	$69,260
Less	Plant (Land)	1,837
	Gross Gain	$67,423
	Reserve @12/97	4,599
	Net Gain	$72,022

The reserve amount consists of the unrecovered costs incurred to dismantle the hydro plant offset by the reimbursement from the Florida Game and Fresh Water Fish Commission for FPU reconstructing the dam, and salvage from the 1994 sale of the hydro generator. Staff recommends approval of FPU's request to amortize the $72,022 net gain over a period of four years beginning January 1, 1998. The amortization period represents the time period between depreciation studies.

ISSUE 9: Should this docket be closed?

RECOMMENDATION: Yes. If no person whose substantial interests are affected by the Commission's proposed agency action, timely files a protest withing twenty-one days of the issuance of this Order, this docket should be closed. (KEATING)

STAFF ANALYSIS: If no person whose substantial interests are affected, files a timely request for a Section 120.57, Florida Statutes, hearing within twenty-one days of the issuance of this Order, no further action will be required and this docket should be closed.

Attachment A

RECOMMENDED RESERVE TRANSFERS					
	Est. Book Reserve	Theoretical Reserve	Imbalance	Transfer	Restated Reserve
	($)	($)	($)	($)	($)
365 OH Conductors	1,878,734	2,384,979	(506,245)	25,652	1,904,386
392.1 Automobiles	19,494	8,161	11,333	(11,333)	8,161
392.3 Heavy Trucks	229,642	221,299	8,343	(8,343)	221,299
393.1 Stores Equip. - Fixed	22,043	17,178	4,865	(4,865)	17,178
397 Remaining Communication Equip.	7,038	5,927	1,111	(1,111)	5,927

FLORIDA PUBLIC UTILITIES - MARIANNA ELECTRIC DIVISION
DOCKET # 970537-EI
1997 DEPRECIATION STUDY

COMPARISON OF RATES AND COMPONENTS

CURRENT				COMPANY REVISED PROPOSAL				STAFF RECOMMENDED			
AVERAGE REMAINING LIFE (YRS.)	NET SALVAGE (%)	1/1/94 RESERVE (%)	REMAINING LIFE RATE (%)	AVERAGE REMAINING LIFE (YRS.)	NET SALVAGE (%)	ESTIMATED 1/1/98 RESERVE (%)	REMAINING LIFE RATE (%)	AVERAGE REMAINING LIFE (YRS.)	NET SALVAGE (%)	ESTIMATED 1/1/98 RESERVE (%)	REMAINING LIFE RATE (%)
42.0	0.0	3.7	2.3	50.0	0.0	9.7	1.8	50.0	0.0	9.7	1.8
34.0	0.0	26.2	2.2	29.0	0.0	35.1	2.2	29.0	0.0	35.1	2.2
25.0	(10.0)	37.2	2.9	23.0	(10.0)	41.1	3.0	23.0	(10.0)	41.1	3.0
23.0	(20.0)	39.3	3.5	21.0	(25.0)	38.9	4.1	21.0	(25.0)	38.9	4.1
22.0	(10.0)	36.6	3.3	18.9	(15.0)	40.5*	3.9	18.9	(15.0)	40.5*	3.9
45.0	0.0	11.6	2.0	41.0	0.0	21.0	1.9	41.0	0.0	21.0	1.9
30.0	0.0	16.4	2.8	27.0	0.0	22.8	2.9	27.0	0.0	22.8	2.9
17.9	(10.0)	38.2	4.0	16.0	(10.0)	43.1	4.2	16.0	(10.0)	43.1	4.2
18.5	(15.0)	30.1	4.6	19.4	(20.0)	37.1	4.3	19.4	(20.0)	37.1	4.3
15.2	(10.0)	48.4	4.1	13.8	(10.0)	51.6	4.2	13.8	(10.0)	51.6	4.2
10.2	20.0	22.0	5.7	9.4	15.0	18.6	7.1	9.4	15.0	18.6	7.1
18.6	5.0	40.7	2.9	13.5	(5.0)	27.8	5.7	13.5	(5.0)	27.8	5.7
49.0	(5.0)	3.6	2.1	44.0	(5.0)	8.7	2.2	44.0	(5.0)	8.7	2.2
1.7	15.0	34.1	29.9	2.0	15.0	51.0*	17.0	2.0	15.0	51.0*	17.0
3.7	10.0	41.7	13.0	3.5	10.0	41.3	13.9	3.5	10.0	41.3	13.9
6.8	10.0	43.0	6.9	7.5	10.0	28.5*	8.2	7.5	10.0	28.5*	8.2
22.0	5.0	32.8	2.8	18.6	5.0	29.1	3.5	18.6	5.0	29.1	3.5
15.8	0.0	16.7	5.3	22.0	0.0	27.4*	3.3	22.0	0.0	27.4*	3.3
19.5	0.0	25.9	3.8	14.9	0.0	37.1	4.2	14.9	0.0	37.1	4.2
19.6	0.0	34.2	3.4	14.3	0.0	47.8	3.6	14.3	0.0	47.8	3.6
12.5	10.0	10.0	6.4	7.8	10.0	34.4	7.1	7.8	10.0	34.4	7.1
4.7	0.0	59.4	8.6	3.1	0.0	83.5*	5.3	3.1	0.0	83.5*	5.3
4.7	0.0	59.4	8.6	3 YEAR RECOVERY SCHEDULE				3 YEAR RECOVERY SCHEDULE			
				10.0**	0.0		10.0	10.0**	0.0		10.0

* Denotes restated reserve after corrective transfers.
** Denotes average service life.

DOCKET NO. 970537-EI
DATE: NOVEMBER 20, 1997

ATTACHMENT B
PG. 1 of 1

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FLORIDA PUBLIC UTILITIES - MARIANNA ELECTRIC DIVISION
DOCKET # 970537-EI
1997 DEPRECIATION STUDY

COMPARISON OF EXPENSES

ACCOUNT	1/1/98 ESTIMATED INVESTMENT	1/1/98 ESTIMATED RESERVE	CURRENT RATE	CURRENT EXPENSES	COMPANY REVISED PROPOSAL RATE	COMPANY REVISED PROPOSAL ESTIMATED EXPENSES	COMPANY REVISED PROPOSAL CHANGE IN EXPENSES	STAFF RECOMMENDED RATE	STAFF RECOMMENDED ESTIMATED EXPENSES	STAFF RECOMMENDED CHANGE IN EXPENSES
DISTRIBUTION PLANT										
360.1 - Land Rights	16,000	1,553	2.3	368	1.8	288	(80)	1.8	288	(80)
361 Structures and Improvements	8,614	3,022	2.2	190	1.2	190	0	2.2	190	0
362 Station Equipment	839,406	345,280	2.9	24,343	3.0	25,182	839	3.0	25,182	839
364 Poles, Towers, and Fixtures	4,292,069	1,670,423	3.5	150,222	4.1	175,975	25,753	4.1	175,975	25,753
365 Overhead Conductors & Devices	4,700,392	1,904,386 *	3.3	155,113	3.9 *	183,315	28,202	3.9 *	183,315	28,202
366 Underground Conduit	98,266	20,633	2.0	1,965	1.9	1,867	(98)	1.9	1,867	(98)
367 Underground Conductors & Devices	429,945	97,809	2.8	12,038	2.9	12,468	430	2.9	12,468	430
368 Line Transformers	4,432,387	1,910,066	4.0	177,295	4.2	186,160	8,865	4.2	186,160	8,865
369 Services	2,063,452	765,814	4.6	94,919	4.3	88,728	(6,191)	4.3	88,728	(6,191)
370 Meters	963,338	496,687	4.1	39,497	4.2	40,460	963	4.2	40,460	963
371 Installations on Customers' Premises	649,330	120,989	5.7	37,012	7.1	46,102	9,090	7.1	46,102	9,090
373 Street Lighting & Signal Systems	233,563	64,910	2.9	6,773	5.7	13,313	6,540	5.7	13,313	6,540
[illegible]	[illegible]	[illegible]		[illegible]		274,046	74,313		274,046	74,315
GENERAL PLANT										
390 Structures & Improvements	901,367	78,117	2.1	18,929	2.2	19,830	901	2.2	19,830	901
392.1 Transportation-Cars	16,001	8,161 *	29.9	4,784	17.0 *	2,720	(2,064)	17.0 *	2,720	(2,064)
392.2 Transportation-Light Trucks & Vans	172,499	71,201	13.0	22,425	13.9	23,977	1,552	13.9	23,977	1,552
392.3 Transportation - Heavy Trucks	776,489	221,299 *	6.9	53,578	8.2 *	63,672	10,094	8.2 *	63,672	10,094
392.4 Transportation - Vans	21,733	6,328	2.8	609	3.5	761	152	3.5	761	152
393.1 Stores Equipment Fixed	62,694	17,178 *	5.3	3,323	3.3 *	2,069	(1,254)	3.3 *	2,069	(1,254)
394.1 Tools, Shop & Garage Equipment	16,319	6,051	3.8	620	4.2	685	65	4.2	685	65
395.1 Laboratory Equipment	16,904	8,085	3.4	575	3.6	609	34	3.6	609	34
396 Power Operated Equipment	27,535	9,466	6.4	1,762	7.1	1,955	193	7.1	1,955	193
397 Communication Equipment	7,098	5,927 *	8.6	610	5.3 *	376	(234)	5.3 *	376	(234)
397-New Communication Equipment	0	0	10.0	0	10.0	0	0	10.0	0	0
[illegible]	[illegible]	[illegible]		[illegible]		116,654	9,430		116,654	9,439
TOTAL [illegible]	[illegible]	[illegible]		[illegible]		890,702	83,752		890,702	[illegible]
Recovery Schedule										
Ret. Comm Equip. (1998 - 2000)	60,593	60,101	8.6	5,211	3 Yr. Amort.	164	(5,047)	3 Yr. Amort.	164	(5,047)
TOTAL PLANT	20,805,994	7,893,486		812,161		890,866	78,705		890,866	78,705

*Denotes restated reserve after corrective transfers