

State of Florida



Public Service Commission
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TALLAHASSEE, FLORIDA 32399-0850

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DATE: OCTOBER 25, 2001

TO: DIRECTOR, DIVISION OF THE COMMISSION
ADMINISTRATIVE SERVICES (BAYÓ)

FROM: DIVISION OF ECONOMIC REGULATION (MEEKS, P. LEE, C. ROMIG,
VENDETTI) CN RMT DM
DIVISION OF LEGAL SERVICES (STERN) MKS RUF

RE: DOCKET NO. 010669-EI - REQUEST FOR APPROVAL OF
IMPLEMENTATION DATE OF JANUARY 1, 2002, FOR NEW
DEPRECIATION RATES FOR MARIANNA ELECTRIC DIVISION BY
FLORIDA PUBLIC UTILITIES COMPANY.

AGENDA: 11/06/01 - REGULAR AGENDA - PROPOSED AGENCY ACTION -
INTERESTED PERSONS MAY PARTICIPATE

CRITICAL DATES: NONE

SPECIAL INSTRUCTIONS: NONE

FILE NAME AND LOCATION: S:\PSC\ECR\WP\010669.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 May 2, 2001, Florida Public Utilities Company (FPU or the company) filed its regular depreciation study for the Marianna Division in accordance with this rule. Staff has completed its review of the depreciation study and presents its recommendation herein.

DOCUMENT NUMBER-DATE

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FPSC-COMMISSION CLERK

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. (MEEKS)

STAFF ANALYSIS: FPU's current depreciation rates were approved effective January 1, 1998. 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?

RECOMMENDATION: Staff recommends approval of the company's proposed January 1, 2002 date of implementation for the new depreciation rates. (MEEKS)

STAFF ANALYSIS: Company data and related calculations about the January 1, 2002 date. This is the recommended date of implementation, being the earliest practicable date for utilizing the revised rates.

ISSUE 3: Should any corrective reserve measures be made?

RECOMMENDATION: Yes. Staff's recommended corrective measures are shown on Attachment A (page 8). This action will bring each affected account's reserve more in line with its calculated theoretical level. (MEEKS)

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, a negative reserve balance exists for the Structures and Improvements account, Account 361. In 1999, the company performed an inventory verification and reconciliation between its continuing property records and actual physical plant in service which revealed a mismatch between the accounting records and the related physical assets. Apparently the physical plant in this account was retired during the early 1990's without the commensurate accounting retirement of the related investment. The negative reserve resulted when the corrective action was recorded. Since this negative reserve represents non-existent plant, there is a need for immediate corrective action. An apparent reserve surplus exists in the Station Equipment account, Account 362, that can be used to correct this deficiency.

Further, there is a perceived reserve deficiency in Account 371, Installation on Customers' Premises. Staff recommends the transfer of the apparent surpluses in Accounts 366 and 367, Underground Conduit and Underground Conductors and Devices to offset the reserve deficiency in Account 371.

Each of the General Plant accounts have either a perceived surplus or deficit in the reserve position. The existence of reserve surpluses and deficiencies in these accounts can cause abnormalities in the resulting depreciation rates. For this reason, staff recommends the reserve transfers as shown on Attachment A to bring each account's reserve more in line with its calculated theoretical level.

ISSUE 4: What are the appropriate depreciation rates?

RECOMMENDATION: The staff recommended lives, net salvages, reserves, and resultant depreciation rates are shown on Attachment B (page 9). Attachment C (page 10) shows an estimated resultant decrease in annual expenses of about \$2,600 based on January 1, 2002 estimated investments. (MEEKS)

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 proposed, and staff recommended rate parameters. Attachment C shows a comparison of resultant expenses based on estimated January 1, 2002 investments.

This filing was essentially a staff-assisted study. The company provided aged retirement data for the 1997-2000 period and forecasted 2001 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 represcription and/or changes in the associated reserve position. A change in salvage values for three plant accounts is also recommended. The recommended salvage values reflect a move more in line with company experience and industry expectations. A discussion of these accounts is presented below.

Overhead Conductors and Devices (Account 365)

The currently prescribed net salvage factor for this account is negative 15%. The removal of aerial plant is labor intensive and is reflected in the account's net salvage experience. With this in mind, a negative net salvage of 25% is recommended as being more in line with these trends.

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Street Lighting and Signal Systems (Account 373)

The currently prescribed net salvage factor for this account is negative 5%. During the 1997-2000 period, net salvage for this account averaged negative 18%. For this reason, staff recommends a net salvage of negative 10% as being more in line with the indicated experience of the account.

Power Operated Equipment (Account 396)

Since the last depreciation study, the company has determined that the bulk of this account's investment (\$22,978) should have been placed in Account 392.2, Transportation-Light Trucks. This reclassification left approximately \$5,000 in the account with an average age of 9.1 years. Taking into account the age of this investment, it is highly unlikely that any salvage other than scrap value will be realized upon retirement. Recognizing this, a net salvage of 5% is recommended as being more in line with current expectations than the currently prescribed 10% net salvage.

ISSUE 5: 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 quarter ending March 31, 2002. (C. ROMIG, VENDETTI)

STAFF ANALYSIS: In earlier issues, staff recommends revisions to the company's remaining lives, to be effective January 1, 2002. 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 the associated Treasury Regulations found in Sections 46, 167, and 168, IRC, and Sections 1.46, 1.67, and 1.68 of the Treasury Regulations, 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 Section 46, IRC, and Section 1.46 of the Treasury Regulations, 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, the 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. The utility should also produce work papers to show how the revisions were made.

ISSUE 6: Should this docket be closed?

RECOMMENDATION: If no person whose substantial interests are affected by the proposed agency action files a protest within 21 days of the issuance of the order, this docket should be closed upon the issuance of a consummating order. (STERN)

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

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Attachment A

**FLORIDA PUBLIC UTILITIES - MARIANNA ELECTRIC DIVISION
 DOCKET NO. 010669-EI
 2001 DEPRECIATION STUDY**

COMPANY/STAFF RECOMMENDED RESERVE TRANSFERS

ACCOUNT	ESTIMATED BOOK RESERVE	THEORETICAL RESERVE	IMBALANCE	RECOMMENDED TRANSFER AMOUNT	RESTATE RESERVE
DISTRIBUTION PLANT					
361 - Structures and Improvements	(\$5,205.00)	\$0.00	(\$5,205.00)	\$5,205.00	\$0.00
362 - Station Equipment	\$461,754.00	\$455,508.00	\$6,246.00	(\$6,246.00)	\$455,508.00
366 - Underground Conduit	\$28,748.00	\$25,048.00	\$3,700.00	(\$3,700.00)	\$25,048.00
367 - Underground Conductors & Dev.	\$145,610.00	\$124,021.00	\$21,589.00	(\$21,589.00)	\$124,021.00
371 - Installation on Cust. Premises	<u>\$210,539.00</u>	<u>\$299,055.00</u>	<u>(\$88,516.00)</u>	<u>\$26,330.00</u>	<u>\$236,869.00</u>
TOTAL	\$841,446.00	\$903,632.00	(\$62,186.00)	\$0.00	\$841,446.00
GENERAL PLANT					
390 - Structures and Improvements	\$175,448.00	\$153,255.00	\$22,193.00	(\$22,193.00)	\$153,255.00
392.1 - Transportation-Cars	\$5,999.00	\$9,295.00	(\$3,296.00)	\$3,296.00	\$9,295.00
392.2 - Transportation-L. Trucks & Vans	\$109,479.00	\$103,555.00	\$5,924.00	(\$5,924.00)	\$103,555.00
392.3 - Transportation-H. Trucks & Vans	\$401,159.00	\$462,699.00	(\$61,540.00)	\$22,123.00	\$423,282.00
392.4 - Transportation-Trailers	\$7,451.00	\$7,842.00	(\$391.00)	\$391.00	\$7,842.00
396 - Power Operated Equipment	<u>\$403.00</u>	<u>\$2,710.00</u>	<u>(\$2,307.00)</u>	<u>\$2,307.00</u>	<u>\$2,710.00</u>
TOTAL	\$699,939.00	\$739,356.00	(\$39,417.00)	\$0.00	\$699,939.00

FLORIDA PUBLIC UTILITIES - MARIANNA ELECTRIC DIVISION
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COMPARISON OF RATES AND COMPONENTS

ACCOUNT	CURRENT				COMPANY/STAFF RECOMMENDED			
	AVERAGE REMAINING LIFE (YRS.)	NET SALVAGE (%)	1/1/97 RESERVE (%)	REMAINING LIFE RATE (%)	AVERAGE REMAINING LIFE (YRS.)	NET SALVAGE (%)	ESTIMATED 1/1/02 RESERVE (%)	REMAINING LIFE RATE (%)
DISTRIBUTION PLANT								
360.1 - Land Rights	50.0	0.0	9.7	1.8	46.0	0.0	14.6	1.9
361 - Structures and Improvements	29.0	0.0	35.1	2.2	45.0	0.0	0.0 **	2.2 *
362 - Station Equipment	23.0	(10.0)	41.1	3.0	21.0	(10.0)	49.1	2.9
364 - Poles, Towers, and Fixtures	21.0	(25.0)	38.9	4.1	21.0	(25.0)	43.7	3.9
365 - Overhead Conductors & Devices	18.9	(15.0)	40.5	3.9	17.8	(25.0)	48.9	4.3
366 - Underground Conduit	41.0	0.0	21.0	1.9	39.0	0.0	22.0 **	2.0
367 - Underground Conductors & Devices	27.0	0.0	22.8	2.9	26.0	0.0	24.6 **	2.9
368 - Line Transformers	16.0	(10.0)	43.1	4.2	14.5	(10.0)	51.9	4.0
369 - Services	19.4	(20.0)	37.1	4.3	17.4	(20.0)	43.8	4.4
370 - Meters	13.8	(10.0)	51.6	4.2	13.0	(10.0)	61.3	3.7
371 - Installation on Customers' Premises	9.4	15.0	18.6	7.1	8.9	15.0	27.1 **	6.5
373 - Street Lighting & Signal Systems	13.5	(5.0)	27.8	5.7	13.9	(10.0)	33.4	5.5
GENERAL PLANT								
390 - Structures & Improvements	44.0	(5.0)	8.7	2.2	42.0	(5.0)	16.8 **	2.1
392.1 - Transportation-Cars	2.0	15.0	51.0	17.0	2.7	15.0	39.1 **	17.0
392.2 - Transportation-Light Trucks & Vans	3.5	10.0	41.3	13.9	3.0	10.0	51.3 **	12.9
392.3 - Transportation - Heavy Trucks & Vans	7.5	10.0	28.5	8.2	4.9	10.0	45.6 **	9.1
392.4 - Transportation - Trailers	18.6	5.0	29.1	3.5	14.7	5.0	39.1 **	3.8
396 - Power Operated Equipment	7.8	10.0	34.4	7.1	4.9	5.0	61.7 **	6.8

* Denotes Whole Life Rate.

** Denotes restated reserve after corrective measures.

**FLORIDA PUBLIC UTILITIES - MARIANNA ELECTRIC DIVISION
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 2001 DEPRECIATION STUDY**

COMPARISON OF EXPENSES

<u>ACCOUNT</u>	<u>1/1/02 ESTIMATED INVESTMENT</u>	<u>1/1/02 ESTIMATED RESERVE</u>	<u>CURRENT</u>		<u>COMPANY/STAFF RECOMMENDED</u>		
			<u>RATE</u>	<u>EXPENSES</u>	<u>RATE</u>	<u>ESTIMATED EXPENSES</u>	<u>CHANGE IN EXPENSES</u>
	<u>(\$)</u>	<u>(\$)</u>	<u>(%)</u>	<u>(\$)</u>	<u>(%)</u>	<u>(\$)</u>	<u>(\$)</u>
DISTRIBUTION PLANT							
360.1 - Land Rights	16,000	2,337	1.8	288	1.9	304	16
361 - Structures and Improvements	0	0*	2.2	0	2.2*	0	0
362 - Station Equipment	927,714	455,508*	3.0	27,831	2.9	26,904	(927)
364 - Poles, Towers, and Fixtures	5,218,848	2,281,894	4.1	213,973	3.9	203,535	(10,438)
365 - Overhead Conductors & Devices	5,369,761	2,626,206	3.9	209,421	4.3	230,900	21,479
366 - Underground Conduit	113,855	25,048*	1.9	2,163	2.0	2,277	114
367 - Underground Conductors & Devices	504,149	124,021*	2.9	14,620	2.9	14,620	0
368 - Line Transformers	5,062,368	2,624,812	4.2	212,619	4.0	202,495	(10,124)
369 - Services	2,593,358	1,136,301	4.3	111,514	4.4	114,108	2,594
370 - Meters	1,019,241	624,991	4.2	42,808	3.7	37,712	(5,096)
371 - Installation on Customers' Premises	872,643	236,869*	7.1	61,958	6.5	56,722	(5,236)
373 - Street Lighting & Signal Systems	270,331	90,176	5.7	15,409	5.5	14,868	(541)
TOTAL DISTRIBUTION PLANT	21,988,268	10,228,163		912,604		904,445	(8,159)
GENERAL PLANT							
390 - Structures & Improvements	912,235	153,255*	2.2	20,069	2.1	19,157	(912)
392.1 - Transportation-Cars	23,772	9,295*	17.0	4,041	17.0	4,041	0
392.2 - Transportation-Light Trucks & Vans	201,861	103,555*	13.9	28,059	12.9	26,040	(2,019)
392.3 - Transportation - Heavy Trucks & Vans	928,742	423,282*	8.2	76,157	9.1	84,516	8,359
392.4 - Transportation - Trailers	20,035	7,842*	3.5	701	3.8	761	60
396 - Power Operated Equipment	4,393	2,710*	7.1	312	6.8	299	(13)
TOTAL GENERAL PROPERTY	2,091,038	699,939		129,339		134,814	5,475
TOTAL RATES	24,059,306	10,928,102		1,041,943		1,039,259	(2,684)
TOTAL PLANT	24,059,306	10,928,102		1,041,943		1,039,259	(2,684)

* Denotes Whole Life Rate.

** Denotes restated reserve after corrective measures.