

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

In Re: Request for approval of) DOCKET NO. 940580-EI
1993 depreciation study for) ORDER NO. PSC-95-0226-FOF-EI
Fernandina Beach Division of) ISSUED: February 20, 1995
FLORIDA PUBLIC UTILITIES)
COMPANY.)
_____)

The following Commissioners participated in the disposition of this matter:

SUSAN F. CLARK, Chairman
J. TERRY DEASON
JOE GARCIA
JULIA L. JOHNSON
DIANE K. KIESLING

NOTICE OF PROPOSED AGENCY ACTION
ORDER APPROVING DEPRECIATION STUDY

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.

On May 23, 1994, Florida Public Utilities Company - Fernandina Beach Division (FPUC or company) filed its depreciation study in accordance with Rule 25-6.0436, Florida Administrative Code, which requires investor-owned electric utilities to file a comprehensive study at least once every four years. FPUC's current depreciation rates and amortization schedules were approved effective January 1, 1991.

The company proposed an implementation date for the new depreciation rates of January 1, 1995. Company data and related calculations adjoin the January 1, 1995 date, and therefore we find this the earliest and most practicable date for utilizing the revised rates and schedules.

Based upon our staff's comprehensive review of FPUC's depreciation study, we have made certain revisions to the currently prescribed depreciation rates. Attachment A, attached hereto and made a part hereof, reflects the lives, net salvages, reserves and resultant depreciation rates.

DOCUMENT NUMBER-DATE

01930 FEB 20 95

FPSC-RECORDS/REPORTING

We approve the agreement reached by our staff and the company regarding the lives, net salvages, and resultant depreciation rates for all the transmission and general plant accounts. Staff has rounded the remaining life to the nearest year when twenty years or more, and the depreciation rate to one decimal point.

With respect to distribution plant, we approve the agreement reached by our staff and the company regarding the lives, net salvages, and resultant depreciation rates, on all but three accounts. The three accounts over which staff and the company disagree are discussed below. The disagreement is attributed to the differences between FPUC's proposed curve shapes and the curve shapes recommended by staff. FPUC's curve shape proposals are based on the result of synthesization, while our staff's recommended curve shapes are based on the expected activity of an account, as well as industry analysis.

Account 360 - Land Rights - This account represents property installed on rights of way. In the last depreciation study, FPUC proposed a composite remaining life of Poles (Account 364) and Overhead Conductors (Account 365). In the current study, however, FPUC proposed an average remaining life equal to the remaining life of Account 364 only. FPUC did not provide data to support the reason for the change. Absent such documentation, we do not find grounds to justify approval of FPUC's proposed remaining life. Accordingly, we approve retention of a remaining life of 22 years.

Account 367 - Underground Conductors and Devices - This account currently has a 0% salvage factor. The company has proposed a negative 10% net salvage factor, but it did not provide supportive data to explain why a change was necessary. The current industry average for salvage is 0%, because underground conductors are normally abandoned in place, thus incurring little, if any, cost of removal. Absent any documentation for changing the salvage factor, we find the industry average is appropriate and approve retention of the currently prescribed net salvage factor of 0% for this account.

Account 369 - Services - The company proposes a decrease in average service life from 30 years to 22 years. Over the past 8 years, retirement activity has averaged less than 1%. This low level of retirements precludes any meaningful statistical analysis and makes reliance on industry averages necessary. Therefore, we approve retention of the currently prescribed 30 year average service life.

With regard to net salvage, FPUC has proposed a decrease from the currently prescribed negative 20% factor to a negative 5%. Again, the company did not provide any support for this change; therefore, we approve retention of the negative 20% net salvage factor for this account.

Revising a utility's depreciation rates usually results in a change in its rate of ITC amortization and a change in its flowback of excess deferred income taxes. FPUC is covered by Section 46(f)(2) of the Internal Revenue Code (IRC), which results in weighted cost ITCs in its capital structure and above-the-line amortization in its income tax expense. Pursuant to Section 46(f)(6) of the IRC, the amortization of ITCs should be determined by the period of time used in computing depreciation expense in order to reflect regulated operating results of the utility. Since we have revised FPUC's 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 excess protected (depreciation related) deferred taxes. In addition, Rule 25-14.013, Florida Administrative Code, "Accounting for Deferred Income Taxes under SFAS 109", prohibits, without good cause shown, excess deferred income taxes associated with temporary differences from being reversed any faster than allowed under either Section 203(e) of the TRA or Revenue Procedure 88-12. Consequently, the flowback of excess deferred taxes should be altered to comply with the TRA and Rule 25-14.013.

The company submitted detailed workpapers quantifying the impact of the proposed depreciation rates on the amortization of ITCs and the flowback of excess deferred income taxes. We have reviewed the calculations and agree with the methodology. The current amortization of ITCs and the flowback of excess deferred income taxes need to be revised, however, to reflect the approved depreciation rates and schedules. Therefore, the utility shall be required to file detailed calculations of the revised ITC amortization and flowback of excess deferred taxes at the time it files its March 1995 surveillance report.

In consideration of the foregoing, it is

ORDERED by the Florida Public Service Commission that the depreciation study submitted by Florida Public Utilities Company - Fernandina Beach Division is approved as set forth in the body of this Order. It is further

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ORDERED that each of the findings made in the body of this Order is hereby approved in every respect. It is further

ORDERED that all matters contained in the schedules attached hereto are by reference incorporated herein. It is further

ORDERED that the new depreciation rates shall be implemented as of January 1, 1995. It is further

ORDERED that Florida Public Utilities Company - Fernandina Beach Division shall file detailed calculations of the revised ITC amortization and flowback of excess deferred taxes at the time it files its March 1995 surveillance report. It is further

ORDERED that the provisions of this Order, issued as proposed agency action, shall become final and effective unless an appropriate petition, in the form provided by Rule 25-22.036, Florida Administrative Code, is received by the Director, Division of Records and Reporting, 101 East Gaines Street, Tallahassee, Florida 32399-0870, by the close of business on the date set forth in the "Notice of Further Proceedings or Judicial Review" attached hereto. It is further

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

By ORDER of the Florida Public Service Commission, this 20th day of February, 1995.

BLANCA S. BAYÓ, Director
Division of Records and Reporting

by: Kay Jeyan
Chief, Bureau of Records

(S E A L)

VDJ

Commissioner Deason dissents as to the depreciation rates for Account 367 and for Account 369. Commissioner Deason believes, that the company proposed salvage factors and service lives for these accounts should be approved.

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.

The action proposed herein is preliminary in nature and will not become effective or final, except as provided by Rule 25-22.029, Florida Administrative Code. Any person whose substantial interests are affected by the action proposed by this order may file a petition for a formal proceeding, as provided by Rule 25-22.029(4), Florida Administrative Code, in the form provided by Rule 25-22.036(7)(a) and (f), Florida Administrative Code. This petition must be received by the Director, Division of Records and Reporting, 101 East Gaines Street, Tallahassee, Florida 32399-0870, by the close of business on March 13, 1995.

In the absence of such a petition, this order shall become effective on the day subsequent to the above date as provided by Rule 25-22.029(6), Florida Administrative Code.

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.

If this order becomes final and effective on the date described above, any party substantially affected may request judicial review by the Florida Supreme Court in the case of an electric, gas or telephone utility or by the First District Court of Appeal in the case of a water or wastewater utility by filing a notice of appeal with the Director, Division of Records and Reporting and filing a copy of the notice of appeal and the filing fee with the appropriate court. This filing must be completed within thirty (30) days of the effective date of this order, pursuant to Rule 9.110, Florida Rules of Appellate Procedure. The notice of appeal must be in the form specified in Rule 9.900(a), Florida Rules of Appellate Procedure.

FLORIDA PUBLIC UTILITIES – FERNANDINA BEACH DIVISION
 1994 STUDY

ACCOUNT	COMMISSION APPROVED RATES			REMAINING LIFE RATE (%)
	AVERAGE REMAINING LIFE (YRS.)	NET SALVAGE (%)	ESTIMATED 1/1/95 RESERVE (%)	
TRANSMISSION PLANT				
350.1 – Land Rights	28.0	0.0	33.5	2.4
352 – Structures and Improvements	28.0	0.0	55.1	1.6
353 – Station Equipment	29.0	10.0	25.8	2.2
354 – Towers and Fixtures	32.0	(10.0)	53.9	1.8
355 – Poles and Fixtures	28.0	(20.0)	26.6	3.3
356 – Overhead Conductors and Devices	28.0	(10.0)	30.9	2.8
359 – Roads and Trails	24.0	0.0	77.1	1.0
DISTRIBUTION PLANT				
360.1 – Land Rights	22.0	0.0	36.2	2.9
361 – Structures and Improvements	30.2	0.0	43.4	1.9
362 – Station Equipment	19.9	10.0	37.4	2.6
364 – Poles, Towers, and Fixtures	19.0	(10.0)	33.0	4.1
365 – Overhead Conductors & Devices	24.0	(15.0)	28.0	3.6
366 – Underground Conduit	43.2	0.0	14.7	2.0
367 – Underground Conductors & Devices	23.0	0.0	29.4	3.1
368 – Line Transformers	21.0	(35.0)	35.9	4.7
369 – Services	24.0	(20.0)	29.0	3.8
370 – Meters	20.0	(20.0)	45.6	3.7
371 – Installation on Customers' Premises	10.3	10.0	32.0	5.6
373 – Street Lighting & Signal Systems	15.0	0.0	38.2	4.1
GENERAL PLANT				
390 – Structures & Improvements	35.0	0.0	32.95	1.9
392.1 – Transportation – Cars	2.5	15.0	25.05	24.0
392.2 – Transportation – Light Trucks & Vans	3.0	10.0	77.75	4.1
392.3 – Transportation – Heavy Trucks	5.4	10.0	50.03	7.4
392.4 – Transportation – Vans	17.4	0.0	51.60	2.8
393.1 – Stores Equipment – Fixed	13.4	0.0	46.78	4.0
394.1 – Tools, Shop & Garage Equipment	23.0	0.0	30.92	3.0
395.1 – Laboratory Equipment	21.0	0.0	23.46	3.6
396 – Power Operated Equipment	6.9	5.0	68.85	3.8
397 – Communication Equipment	7.3	0.0	22.23	10.7
391.1 – Office Furniture and Equipment		7 Yr Amortization		
391.2 – Office Machines		7 Yr Amortization		
391.3 – EDP Equipment – Pre 1988		5 Yr Amortization		
393.2 – Stores Equipment – Port Handling		7 Yr Amortization		
394.2 – Tools, Shop & Garage Equipment – (Port.)		7 Yr Amortization		
395.2 – Laboratory Equipment – (Portable)		7 Yr Amortization		
398 – Miscellaneous Equipment		7 Yr Amortization		

**Denotes restated reserve