

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

In Re: Proposed Amendment of) DOCKET NO. 950948-WS
Rule 25-30.140, F.A.C.,) ORDER NO. PSC-95-1365-FOF-WS
Depreciation) ISSUED: November 3, 1995
_____)

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

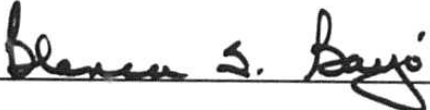
NOTICE OF ADOPTION OF RULE

NOTICE is hereby given that the Florida Public Service Commission, pursuant to Section 120.54, Florida Statutes, has adopted the amendments to Rule 25-30.140, Florida Administrative Code, relating to depreciation, with changes.

The rule was filed with the Department of State on November 1, 1995 and will be effective on November 21, 1995. A copy of the rule as filed with the Secretary of State is attached to this Notice.

This docket is closed upon issuance of this notice.

By ORDER of the Florida Public Service Commission, this 3rd day of November, 1995.



BLANCA S. BAYÓ, Director
Division of Records & Reporting

(S E A L)

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FPSC-RECORDS & REPORTING

25-30.140 Depreciation.

(1) For the purpose of the rule, the following definitions apply:

(a) Account - Water and wastewater plant accounts are defined in the NARUC Uniform System of Accounts adopted by Rule 25-30.115.

(b) Amortization - The gradual extinguishment of an amount in an account by distributing such amount over a fixed period.

(c) Asset - Any owned physical object (tangible) or right (intangible) having economic value to its owner.

(d) Average Remaining Life - The future expected service in years of the surviving plant at a given age.

(e) Average Service Life Depreciation Rate - The depreciation rate based on the expected average service to be experienced by the investment or account in question.

$$\text{A.S.L. Rate} = \frac{100\% - \text{Average Net Salvage } \%}{\text{Average Service Life}}$$

(f) Average Service Life - The economic service life that can be reasonably expected from the plant type in question. It is measured by the period of time the subject plant and its associated investment is included on the company's books as in service to the public. The average service life will typically be less than the potential physical life due to factors such as governmental requirements, growth or adverse operating conditions.

(g) Capitalization - Measures of the propriety of capitalization versus expensing as follows:

1. The addition of any retirement unit, or
2. Any replacement with a retirement unit that materially enhances the value, use, life expectancy, strength or capacity of the asset prior to replacement shall be capitalized.
3. The cost of incidental repairs that neither materially add to the value of the property nor appreciably prolong its life and that were made to keep the property in an ordinary efficient operating condition shall be accounted for as a maintenance expense.

(h) Cost of removal - The cost of demolishing, dismantling, tearing down or otherwise removing utility plant, including the cost of transportation and handling incidental thereto.

(i) Depreciation - As applied to depreciable utility plant, the loss in service value not restored by current maintenance incurred in connection with the consumption or prospective retirement of utility plant in the course of service from causes that are known to be in current operation and against which the utility is not protected by insurance. Among the causes to be given consideration are wear and tear, decay, action of the elements, inadequacy, obsolescence, changes in the art, changes in demand and requirements of public authorities. The intent of

depreciation per this rule is to provide for recovery of invested capital and to match this recovery as nearly as possible to the useful life of the depreciable investment.

(j) Function - defined as follows:

Water	Wastewater
Source of Supply (Accounts 304 to 309)	Collection Plant (Accounts 354 and 360 to 364)
Pumping Plant (Accounts 304,310,311)	Pumping Plant (Accounts 354, 370, 371)
Water Treatment Plant (Accounts 304,320)	Treatment & Disposal Plant (Accounts 354 and 380 to 389)
Transmission & Distribution Plant (Accounts 304 and 330 to 339)	General Plant (Accounts 354 and 390 to 398)
	General Plant (Accounts 304 and 340 to 348)

(k) Mortality Data - See plant activity data.

(l) Net Salvage - The salvage value of property retired less the cost of removal. This is expressed as a percent of retirements in the depreciation rate formula.

(m) Original Cost - As applied to utility plant, the cost of such property to the person first devoting it to public service.

(n) Plant Activity Data - Annual additions, retirements, adjustments or transfers, sales or purchases, and investment balances at end of year.

(o) Property Retired - As applied to utility plant, property that has been removed, sold, abandoned, destroyed or which has been withdrawn from service for any cause.

(p) Remaining Life Depreciation Rate - The depreciation rate based on the average remaining portion of the service life expected to be experienced by the investment or account in question and on the net unrecovered capital for that investment or account.

$$\text{R.L. Rate} = \frac{100\% - \text{Accumulated Reserve \%} - \text{Future Net Salvage \%}}{\text{Average Remaining Life}}$$

The average remaining life for an account or sub-account is a function of known planned retirement or of the average age of that account and its appropriate mortality table.

(q) Replacing or Replacement - The construction or installation of utility plant in place of property retired, together with the removal of the property retired.

(r) Reserve - The accumulated provision for depreciation. The accumulated depreciation reserve is the net of depreciation accruals (expenses) and retired investment as well as any appropriate adjustments or transfers.

(s) Reserve Activity Data - Annual depreciation expense, retirements, transfers or adjustments and end of year balance for the accumulated provision for depreciation.

(t) Retirement Units - Those items of utility plant which, when retired with or without replacement, are accounted for by crediting the book cost to the utility plant account in which it is included.

(u) Salvage Value - The amount received for property retired, less any expenses incurred in connection with the sale or in preparing the property for sale or, if retained, the amount at which the material recoverable is chargeable to materials and supplies or other appropriate account.

(2) The average service life and salvage components for each class of utility are as follows:

(a) Water System Guideline Average Service Lives

Account	Description	Large	Small	Small	Net Salvage %
		Utility (Class A& B)	Utility (Class C)	Utility Function Composite ³	
1.	Source of Supply			28	
304	Structures & Improvements	33 ¹	28 ¹		
	Frame	28	25		
	Masonry	30	27		
	Reinforced Concrete	40	37		
	Steel (tanks or sheds)	25	22		
	Fiberglass	20	18		

305	Collecting and Impounding Reservoirs	50	40	
306	Lake, River and Other Intakes	40	40	
307	Wells and Springs Drilled & Cased Well (Floridan or Non-Corrosive) Shallow Well (Sand Aquifer or Corrosive Water)	30 20	27 18	
308	Infiltration Galleries and Tunnels	40	N/A	
309	Supply Mains	35	32	
2.	Pumping Plant			20
304	Structures and Improve- ments (see "Source of Supply" for subcategory lives)	33 ¹	28 ¹	
310	Power Generation	20	17	
311	Pumping Equipment Electric Pumping Equip.	20 20	17 15	
3.	Water Treatment Plant			21
304	Structures & Improvements (See "Source of Supply" for sub-category lives)	33 ¹	28 ¹	
320	Water Treatment Equip. Chlorination Equip. <u>Membrane Elements</u> Other Mechanical Equip.	22 ¹ 10 <u>5</u> 25	17 ¹ 7 <u>5</u> 20	
4.	Transmission & Distribution Plant			36
304	Structures & Improvements (See "Source of Supply"	33 ¹	28 ¹	

	for sub-category lives)		
330	Distribution Reservoirs & Stand Pipes	37 ¹	33 ¹
	Steel Pneumatic Tank	35	30
	Concrete Ground Storage Reservoir	40	37
331	Transmission & Distribution Mains	43 ¹	38 ¹
	Galvanized Steel pipe & Fittings	35	33
	Black Steel Pipe	20	18
	Plastic Pipe ²	45	40
	Asbestos - Cement	40	35
	Cast Iron or Ductile Iron	40	35
	Valves & Valve Boxes	25	20
	Fire Mains	33	30
333	Services ²	40	35
334	Meters and Meter Installations	20	17
335	Hydrants	45	40
339	Other Plant and Miscellaneous Equip.	25	20
5. General Plant			
304	Structures & Improvements	40 ¹	35 ¹
	Reinforced Concrete Bldg.	45	40
	Masonry Building	40	35
	Wood Building	35	30
	Steel Building	40	35
	Tanks or Sheds	25	20
340	Office Furniture & Equip.	15	15

	Computers	6	6	
341	Transportation Equip.	6	6	10
342	Stores Equip.	18	N/A	14 (composite of 342-348)
343	Tools, Shop & Garage Equip.	16	15	
344	Laboratory Equip.	15	N/A	
345	Power Operated Equip.	12	10	5
346	Communication Equip.	10	N/A	10
347	Miscellaneous Equip.	15	N/A	
348	Other Tangible Plant	10	10	

(b) Wastewater System Guideline Average Services Lives

Salvage		Large Utility (Class	Small Utility (Class	Small Utility Function	Net
Account	Description	A& B)	C)	Composite ³	% ⁴
1.	Collection System			35	
354	Structures & Improvements	32 ¹	27 ¹		
	Above Grade				
	Reinforced concrete	38	35		
	Masonry	30	27		
	Frame	28	25		
	Steel	25	22		
	Below Grade				
	Concrete	35	32		
	Steel	22	20		
	Lift Stations	25	22		
360	Collection Sewers-Force ²	30 ¹	27 ¹		
361	Collection Sewers-Gravity ²	45	40		
	Manholes	30	27		

362	Special Collecting Structures	40	37	
363	Services to Customers ²	38	35	
364	Flow Measuring Devices	5	5	
365	Flow Measuring Installations	38	35	
2.	Pumping Plant			18
354	Structures & Improvements	32 ¹	27 ¹	
370	Receiving Wells	30	25	
	Pumping Equip.	N/A	15	
371	Pumping Equip.	18	N/A	
3.	Treatment and Disposal Plant			18
354	Structures & Improvements (see "Collection System" for Subcategory lives.)	32 ¹	27 ¹	
380	Treatment & Disposal Equip. Blowers, motors, pumps electric controls	18 ¹	15 ¹	
	Chlorination Equip.	15	12	
	Other Mechanical Equip.	10	7	
381	Plant Sewers	23	18	
382	Outfall Sewer Lines	35	32	
389	Other Plant and Miscellaneous Equip.	30	30	
		18	15	
4.	General Plant			
354	Structures & Improvements Reinforced Concrete Bldg. Masonry Building Wood Building Steel Building	40 ¹	35 ¹	
		45	40	
		40	35	
		35	30	
		40	35	

	Tanks or Sheds	25	20	
390	Office Furniture & Equip.	15	15	
	Computers	6	6	
391	Transportation Equip.	6	6	10
392	Stores Equip.	18	N/A	14 (composite of 392-398)
393	Tools, Shop & Garage Equip.	16	15	
394	Laboratory Equip.	15	N/A	
395	Power Operated Equip.	12	10	5
396	Communication Equip.	10	N/A	10
397	Miscellaneous Equip.	15	N/A	
398	Other Tangible Plant	10	10	

(c) For the purposes of paragraphs (2)(a) and (b), the following apply:

1. ¹Denotes composite life.
2. ²Plastic pipe footnote - assumes use of AWWA standard pipe only. Assumes AWWA DR18 used for all mains of 6" or more.
3. ³To be used only when acceptable company plant balances are not available for developing composites using account lives.
4. ⁴Net Salvage zero except as indicated.

(3) Except as listed in Sections (5) and (6) of this rule average service life depreciation rates based on the guideline lives and salvages shall be used in any proceeding rate proceedings before this Commission that involves the setting of rates. A

utility shall also implement the applicable guideline rates for any new plant to be placed in service.

(4) (a) All Class A and B utilities shall maintain depreciation rates and reserve activity by account as prescribed by this Commission.

(b) All Class C utilities shall maintain depreciation rates and reserve activity data by total depreciable plant, function or account as prescribed by this Commission.

(5) (a) At the time a utility applies for a change in its revenue rates and charges, it may also petition for average service life depreciation rates different from those in the above schedule if it can justify the service lives that the utility is proposing in lieu of the guideline lives. That justification should be in the form of historic data, technical information or utility planning for the affected accounts or sub-accounts. Common causes of need for different depreciation rates include composition of account, adverse environmental conditions, high growth or regulatory changes.

(b) A utility filing for such a revision of depreciation rates shall submit ten copies of the filing to the office of the Commission Clerk.

(c) For each account or function of depreciable plant addressed in the filing, the following shall be included:

1. A comparison of current and proposed depreciation rates and service lives. The proposed effective date of the new rates shall be identified.

2. A comparison of depreciation expenses resulting from current rates with those produced by the proposed rates. Plant balances used in this calculation shall be those as of the effective date of the proposed rates.

3. A general narrative defining the service environment of the applicant utility and the factors (e.g., composition of account, growth, environmental conditions, regulatory changes) leading to the present application for a revision in rates in the affected accounts.

4. Any statistics, data, analyses or calculations used in the development of the proposed average service lives.

(6) A utility may apply for guidelines for a proposal for implementation of remaining life depreciation rates under the following conditions:

(a) A Class A or B utility has maintained both plant activity data by account and accumulated provision for depreciation (reserve) data by account, function or total depreciable plant generally in accord with the Uniform System of Accounts for either at least ten years or since the inception of the utility, whichever is less.

(b) A Class C utility has maintained both plant activity data and accumulated provision for depreciation (reserve) data by account, function or total depreciable plant generally in accord with the Uniform System of Accounts for either at least ten years or since the inception of the utility, whichever is less.

(c) To provide time for study development, any application for remaining life guidelines should be submitted at least six months before the filing for a test year in connection with a request for a revenue rate increase.

(7) Prior to the date of retirement of major installations, the Commission may approve capital recovery schedules to correct associated calculated deficiencies in recovery where a utility demonstrates that retirement of the installation or group of installations is prudent and the associated investment will not be recovered by the time of retirement through the normal depreciation process.

(8) (a) Contributions in Aid of Construction - Adequate records to account for CIAC must be maintained by the utility. Where adequate records separating CIAC from utility investments are maintained by account, depreciation rates shall be applied separately to contributed and non-contributed plant with the resulting amortization of contributed plant not considered an expense for ratemaking purposes. Where CIAC records are not kept by account, the depreciation rates shall be applied to the entire

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depreciable plant. The CIAC plant shall then be amortized either by account, function or bottom line depending on availability of supporting information. The amortization rate shall be that of the appropriate account or function where supporting documentation is available to identify the account or function of the related CIAC plant. Otherwise, the composite plant amortization rate shall be used. The depreciation expense then is the net of depreciation expense for total plant less the amortization of CIAC plant. The non-CIAC depreciation reserve is the net of depreciation reserve for total plant less the accumulated amortization of CIAC plant.

Specific Authority: 350.127(2), F.S.

Law Implemented: 350.115, 367.121(c), F.S.

History: New 3/22/84, formerly 25-10.32, Transferred from 25-10.032 and Amended 11/9/86, 5/8/88, 11/21/95.