BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

In re: Proposed amendment of Rule 25-30.140, F.A.C., Depreciation.	DOCKET NO. 030715-WS ORDER NO. PSC-03-1308-FOF-WS ISSUED: November 17, 2003

The following Commissioners participated in the disposition of this matter:

LILA A. JABER, Chairman
J. TERRY DEASON
BRAULIO L. BAEZ
RUDOLPH "RUDY" BRADLEY
CHARLES M. DAVIDSON

NOTICE OF ADOPTION OF RULE AMENDMENT

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, without changes.

The rule amendments were filed with the Department of State on November 14, 2003 and will be effective on December 4, 2003. A copy of the rule as filed with the Department is attached to this Notice.

This docket is closed upon issuance of this notice.

By ORDER of the Florida Public Service Commission, this 17th day of November, 2003.

BLANCA S. BAYÓ, Director
Division of the Commission Clerk
and Administrative Services

By: Kay Flynn
Kay Flynn, Chief
Bureau of Records and Hearing
Services

(S E A L)

CTM

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.~~

~~A.S.L. Rate = 100% - Average Net Salvage %~~
~~Average Service Life~~

(e)~~(f)~~ Average Service Life - The period of ~~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.

(f) ~~(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.

A.S.L. Rate = 100% - Average Net Salvage %
Average Service Life

(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) Continuing Property Record (CPR) - A perpetual collection of records required by the NARUC Uniform System of Accounts showing the detailed original costs, quantities, and locations of plant in service. Generally, a CPR should contain 1) an inventory of property record units which can be readily checked for proof of physical existence, 2) the association of costs with such property

record units to ensure accurate accounting for retirements, and 3) the dates of installation and removal of plant to provide data for use in connection with depreciation studies.

~~(j)~~ ~~(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.

(k) Depreciation Accounting - The process of charging the book cost of depreciable property, adjusted for net salvage, to operations over the associated useful life.

(l) Depreciation Expense - The periodic charge to expense to allocate the original cost of a depreciable group of assets over the life of those assets.

(m) Depreciable Group - A homogeneous grouping of assets expected to experience similar life and salvage patterns. Unless otherwise ordered by the Commission, depreciable groups are the

accounts defined in the NARUC Uniform System of Accounts adopted by Rule 25-30.115.

(n) ~~(j)~~ Function - defined as follows:

Water	Wastewater
Source of Supply (Accounts 304 to 311, ~~309~~ and 339)	Collection Plant (Accounts 354, 355, and 360 to 367 ~~364~~)
~~Pumping Plant~~ ~~(Accounts 304, 310, 311)~~	Pumping Plant (Accounts 354, 355, 370, 371)
Water Treatment Plant (Accounts 304, 310, 311, 320, and 339)	Treatment & Disposal Plant (Accounts 354 and 380 to 389)
	Reclaimed Water Treatment Plant (Accounts 354, 355, 371, 374, 380, 381, 389)
Transmission & Distribution Plant (Accounts 304 310, 311, and 330 to 339)	
	Reclaimed Water Distribution Plant (Accounts 354, 355, 366, 367, 371, 375, 389)
General Plant (Accounts 304 and 340 to 348)	
	General Plant (Accounts 354 and 390 to 398)

(o) Group Depreciation - An accounting procedure under which depreciation charges are accrued on the basis of the original cost of all property included in each depreciable group. Under the group concept, no attempt is made to keep track of the accumulated provision for depreciation applicable to individual assets of property, in view of the many items making up a utility system. The group approach recognizes that some assets within the group may live longer or shorter than the average life of the group but the

group is expected to live the average service life. Every item in the group is assumed to be fully depreciated at retirement.

(p) ~~(k)~~ Mortality Data - See plant activity data.

(q) ~~(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.

(r) ~~(m)~~ Original Cost - The cost of acquiring an asset and placing it into service for first utility use. This includes the direct costs of acquiring the asset and the cost of labor, materials, and associated costs of installation to prepare the asset for first utility use. The cost is used in the computation of depreciation expense. In the event that an asset is acquired that is already in public service, the original historic cost of the asset should be recorded in plant in service, and the historic accumulated depreciation should be charged to the accumulated depreciation account. In the event the historic cost of an asset that is already in utility service cannot be determined, an independent engineer's evaluation based on an original cost study may be used. ~~Original Cost - As applied to utility plant, the cost of such property to the person first devoting it to public service.~~

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

(t) ~~(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.

(u) ~~(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.

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

(w) ~~(r)~~ Reserve - The accumulated provision for depreciation. The accumulated depreciation reserve is the net of depreciation accruals (expenses) and retired investment with related gross salvage and cost of removal as well as any appropriate adjustments or transfers.

(x) ~~(s)~~ Reserve Activity Data - Annual depreciation expense, retirements, transfers or adjustments, gross salvage realized, cost of removal, and end of year balance for the accumulated provision for depreciation.

(y) ~~(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.

(z) ~~(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.

(aa) Straight-Line Method - A depreciation method by which the service value of a depreciable group is charged to depreciation expense (or a clearing account) and credited to the accumulated provision for depreciation account through equal annual charges over the service life of the group.

(bb) Unit Depreciation - An accounting procedure under which the original cost, depreciation expense, and accumulated provision for depreciation, and all associated activity are maintained for each individual asset. Service life and salvage parameters are estimated for each individual asset with a depreciation rate designed to recover each asset's original cost over its related life. If the asset lives longer than its expected life, depreciation expense stops accruing when the asset is fully recovered. If the asset retires earlier than its expected service life, the associated unrecovered amount is immediately written-off as a loss.

(cc) Unrecovered Amount - Original cost less the accumulated provision for depreciation less expected net salvage.

(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 Utility (Class A & B)	Small Utility (Class C)	Small Utility Function Composite[3]	Net Salvage %[4]
1. Intangible Plant				
351 Organization	40	40		
352 Franchise Cost	40[5]	40[5]		
2.~~1~~. Source of Supply			28	
304 [1]Structures & Improvements	32[1]	27		
Wood ~~Frame~~	28	25		
Masonry	30	27		
Reinforced Concrete	40	37		
Steel Building~~(tanks or sheds)~~	40	35		
Tanks or Sheds	25	20		
Fiberglass	20	18		
305 Collecting and Impounding Reservoirs	50	40		
306 Lake, River and Other Intakes	40	40		
307 Wells and Springs	~~30~~	~~27~~		
Drilled & Cased Well	30	27		
(Floridan or Non-Corrosive)				
Shallow Well	20	18		
(Sand Aquifer or Corrosive Water)				
308 Infiltration Galleries				
and Tunnels	40	N/A		

309 Supply Mains	35	32		
310 Power Generation Equip.	20	17		
311 Pumping Equipment	20[1]	17[1]		
Pumping Equip. Electric	20	15		
Pumping Equip. Chemical	8	6		
339 Other Miscellaneous Equip.	18	15		
3. Water Treatment Plant			21	
~~2. Pumping Plant~~			~~20~~	
304 Structures and Improvements (see "Source of Supply" for subcategory lives)	32[1]	27[1]		
310 Power Generation Equipment	20	17		
311 Pumping Equipment	20[1]	17[1]		
Pumping Equipment-Electric	20	15		
~~Electric Pumping Equip.~~	~~20~~	~~15~~		
Pumping Equipment-Chemical	8	6		
320 Water Treatment Equip.	22[1]	17[1]		
Chlorination Equip.	10	7		
Membrane Elements	5	5		
Other Mechanical Equip.	25	20		
339 Other Miscellaneous Equip.	18	15		
4. Transmission & Distribution Plant			36	
304 Structures & Improvements (See "Source of Supply" for subcategory lives)	32[1]	27[1]		
310 Power Generation Equip.	20	17		
311 Pumping Equipment	20[1]	17[1]		
Pumping Equipment-Electric	20	15		
Pumping Equipment-Chemical	8	6		
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 Installation	20	17		
335 Hydrants	45	40		
336 Backflow Prevention Devices	15	10		
339 Other Plant and Miscellaneous Equipment	25	20		
5. General Plant				
304 Structures & Improvements	40[1]	35[1]		
Wood Building	35	30		
~~Reinforced Concrete Bldg.~~	~~45~~	~~40~~		
Masonry Building	40	35		
Reinforced Concrete Bldg.	40	37		
~~Wood Building~~	~~35~~	~~30~~		
Steel Building	40	35		
Tanks or Sheds	25	20		
340 Office Furniture & Equip.	15	15		
Computers	6	6		
341 Transportation Equipment	6	6		10
342 Stores Equipment	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

Account Description	Large Utility (Class A & B)	Small Utility (Class C)	Small Utility Function Composite[3]	Net Salvage %[4]
1. Intangible Plant				
351 Organization	40	40		
352 Franchise Cost	40[5]	40[5]		
2. ~~1.~~ Collection System			35	
354 Structures & Improvements	32[1]	27[1]		
Above Grade				
Wood	28	25		
~~Reinforced Concrete Bldg.~~	~~38~~	~~35~~		
Masonry	30	27		
Reinforced Concrete~~Frame~~	38 ~~28~~	35 ~~25~~		
Steel	25	22		
Below Grade				
Concrete	35	32		
Steel	22	20		
Lift Stations	25	22		
355 Power Generation Equipment	20	17		
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		
389 Other Miscellaneous Equip.	18	15		
3.~~2.~~ Pumping Plant			18	
354 Structures & Improvements	32[1]	27[1]		
355 Power Generating Equipment	20	17		
370 Receiving Wells	30	25		
~~Pumping Equip.~~	~~N/A~~	~~15~~		
371 Pumping Equipment	18	15		
~~371 Pumping Equip.~~	~~18~~	~~N/A~~		
Pumping Equipment -Electric	18	15		
Pumping Equipment - Chemical	7	5		
389 Other Miscellaneous Equip.	18	15		
4.~~3.~~ Treatment and Disposal Plant			18	
354 Structures & Improvements (see "Collection System" for subcategory lives)	32[1]	27[1]		
355 Power Generating Equipment	20	17		
371 Pumping Equipment	18[1]	15[1]		
Pumping Equipment - Electric	18	15		
Pumping Equipment - Chemical	7	5		
380 Treatment & Disposal Equip.	18[1]	15[1]		
Blowers, Motors, Pumps, Electric Controls	15	12		
Chlorination Equipment	10	7		
Other Mechanical Equipment	23	18		
381 Plant Sewers	35	32		
382 Outfall Sewer Lines	30	30		
389 Other Plant and Miscellaneous Equipment	18	15		
5. Reclaimed Water Treatment Plant			21	
354 Structures & Improvements (see "Collection System" for subcategory lives)	32[1]	27[1]		
355 Power Generating Equipment	20	17		

371 Pumping Equipment	18[1]	15[1]		
Pumping Equipment-Electric	18	15		
Pumping Equipment-Chemical	7	5		
374 Reuse Distribution				
Reservoirs	37[1]	33[1]		
Steel Pneumatic Tank	35	30		
Concrete Ground Storage Reservoir	40	37		
380 Treatment & Disposal Equip.	18[1]	15[1]		
Blowers, Motors, Pumps, Electric Controls	15	12		
Chlorination Equipment	10	7		
Other Mechanical Equipment	23	18		
381 Plant Sewers	35	32		
389 Other Plant and Miscellaneous Equipment	18	15		
6. Reclaimed Water Distribution Plant			36	
354 Structures & Improvements (see "Collection System" for subcategory lives	32[1]	27[1]		
355 Power Generating Equipment	20	17		
366 Reuse Services	40	35		
367 Reuse Meters and Meter Installation	20	17		
371 Pumping Equipment	18[1]	15[1]		
Pumping Equipment-Electric	18	15		
Pumping Equipment-Chemical	7	5		
375 Reuse Transmission & Distribution System	43[1]	38[1]		
Plastic Pipe[2]	45	40		
Valves & Valve Boxes	25	20		
Fire Mains	33	30		
389 Other Plant and Miscellaneous Equipment	18	15		

7.~~4.~~ General Plant				
354 Structures & Improvements	40[1]	35[1]		
Wood Building	35	30		
Masonry Building	40	35		
Reinforced Concrete Bldg.	45	40		
Steel Building	40	35		
Tanks or Sheds	25	20		
390 Office Furniture & Equip.	15	15		
Computers	6	6		
391 Transportation Equipment	6	6		10
392 Stores Equipment	18	N/A	14(composite of 392-398)	
393 Tools, Shop & Garage Equip.	16	15		
394 Laboratory Equipment	15	N/A		
395 Power Operated Equipment	12	10		5
396 Communication Equipment	10	N/A		10
397 Miscellaneous Equipment	15	N/A		
398 Other Tangible Plant	10	10		

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

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

5. [5]Franchise costs shall be amortized over a period of 40 years unless a specific time period is designated in the utility franchise agreement.

(3)(a) Average service life depreciation rates based on guideline lives and salvages shall be used in any Commission proceeding in which depreciation rates are addressed, except for those utilities using depreciation rates in accordance with the requirements listed in Subsections (6) and (7) of this rule. ~~Except as listed in Subsections (5) and (6) of this rule average service life depreciation rates based on the guideline lives and salvages shall be used in any proceeding 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.

(b) A utility may implement applicable guideline rates without specific approval by the Commission. Guideline rates, if implemented for any account, must be implemented for all accounts. If a utility implements applicable guideline rates outside of a rate proceeding, the utility shall provide written notification to the Director of Economic Regulation within 30 days of such implementation.

(c) If guideline depreciation rates have been implemented, the rates shall not be changed unless approved by the Commission.

(4)(a) All Class A and B utilities shall maintain depreciation rates and reserve activity data 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) Computation of depreciation expense. Regulatory book depreciation expense shall be computed on a monthly basis in conformity with group depreciation accounting procedures.

(6)(a) ~~(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 Director of the Commission Clerk and Administrative Services ~~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.

(7) ~~(6)~~ (a) A Class A, B, or C utility may apply for guidelines for a proposal for implementation of remaining life depreciation rates if the ~~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.~~

(b) ~~(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.

(8) ~~(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.

(9)(a) Beginning with the year ending December 31, 2003, all Class A and B utilities shall maintain separate sub-accounts for: (1) each type of Contributions-in-Aid-of-Construction (CIAC) charge collected including, but not limited to, plant capacity, meter installation, main extension or system capacity; (2) contributed plant; (3) contributed lines; and (4) other contributed plant not mentioned previously. Establishing balances for each new

sub-account may require an allocation based upon historical balances. Each CIAC sub-account shall be amortized in the same manner that the related contributed plant is depreciated. Separate sub-accounts for accumulated amortization of CIAC shall be maintained to correspond to each sub-account for CIAC. Each sub-account shall be maintained so as to maximize compliance with Treasury Regulation 1.118-2.

(b) Beginning with the year ending December 31, 2003, for Class C utilities, where adequate CIAC records are maintained in sub-accounts, by type of charge or contributed plant, CIAC amortization rates shall be applied separately to each sub-account. Where CIAC records are not kept by sub-account, a composite depreciation rate for total plant, excluding general plant, shall be applied to the entire CIAC account. CIAC records shall be maintained so as to maximize compliance with Treasury Regulation 1.118-2.

(c) Any composite rate used shall be recalculated each year based on the applicable plant balances and depreciation rates.

~~(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 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), 367.121(1), F.S.

Law Implemented: 350.115, 367.081(1)(2), 367.121(1), F.S.

History: New 3/22/84, Formerly 25-10.32, 25-10.032, Amended 11/9/86, 5/8/88, 11/21/95, 12/04/03.