STATE OF FLORIDA

TIMOTHY DEVLIN, DIRECTOR
AUDITING & FINANCIAL ANALYSIS
(850) 413-6480

Public Service Commission

September 11, 1997

Florida Public Utilities Company
ATTN: Mrs. Cheryl Martin
P.O. Box 3395
West Palm Beach, Florida 33402-3395

RE: DOCKET NO. ~~970537-EI~~ - 1997 DEPRECIATION STUDY FOR MARIANNA ELECTRIC DIVISION OF FLORIDA PUBLIC UTILITIES

Dear Mrs. Martin:

Staff is in the process of reviewing Florida Public Utilities Company's first in-house depreciation study filed in the above referenced docket. Our standard review of submitted depreciation studies includes issuing an initial review letter followed by a staff report and finally a staff recommendation. In this instance, however, there are only a few accounts for which we have questions or concern. The initial review and staff report are therefore being combined.

In order to make the December 2, 1997 Agenda, please provide your responses and comments by October 17, 1997. Should you have any questions, please do not hesitate to contact me at 850-413-6453.

Sincerely,

Patricia S. Lee

Patricia S. Lee
Utility Systems Engineer Supervisor

PSL

cc: Division of Records and Reporting
Division of Electric and Gas
Division of Legal Services
Office of Public Counsel

Florida Public Utilities Company
Docket No. 970537-EI
September 11, 1997

Attachment

INITIAL REVIEW
FPU MARIANNA REPRESCRIPTION

1. Are there any major rebuilds or other major retirements planned for the 1998 - 2001 period? If so, please provide the accounts, investments, reserve amounts, and any anticipated net salvage associated with this planning for each year.

2. A negative adjustment of $1,837 was booked to Account 330 in 1995. This entry had the effect of zeroing out the account balance. What was the nature and cause for this adjustment?

3. The removal of poles, Account 364, 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 currently prescribed net salvage factor is negative 20%. Staff, therefore, proposes a net salvage factor of negative 30% in recognition of recent labor trends.

4. Account 365, Overhead Conductors and Devices
   a. An adjustment to plant and reserve is shown for 1996. The reserve adjustment, however, is 130% of the plant adjustment amount. Please explain how the adjustment to the reserve was determined.

   b. Exhibit F, for the 1994 and 1995 activity, shows different retirements for this account than shown on Exhibits B and C for the same years. Please reconcile.

   c. 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%. Staff proposes a net salvage factor of negative 15% as a move more toward the industry average and in recognition of increased removal costs.

5. Please explain the nature and cause of the negative 1996 additions booked to Account 366.

6. For Account 367, what was the nature and cause for the large gross salvage of $20,076 realized from the $822 retirement incurred in 1995? If this salvage represents a reimbursement, please provide the reimbursed amount and a description of the related activity.

7. Account 368, Line Transformers
   a. The 1996 activity shows an adjustment of investment being made into the account and a transfer of investment being made out of the account. The reserve activity only shows an adjustment into the account and it is about 128% of the plant investment adjustment amount. Please explain the nature and cause for an adjustment of more reserve than plant and also why there is no transfer of reserve associated with the transfer of investment.

   b. The accounting treatment for line transformers is cradle-to-grave. In other words, the cost of the transformer is immediately capitalized into plant at the time it is purchased and not retired until final disposition. The costs of removing and resetting line transformers are expensed. As such, one would expect very little net salvage to be incurred upon retirement unless there are disposition costs. We notice in FPU's case, net salvage has been increasing more negative. In fact, over the 1994 - 1996 period, net salvage has averaged negative 21%. What is the cause for this negative salvage?

8. Account 369, Services
   a. The activity for 1996 shows an adjustment of reserve without a commensurate adjustment of investment. Please explain.

   b. What portion of the 1/1/97 investment in Account 369, Services, is overhead versus underground?

   c. Net salvage has averaged negative 33% over the 1994-1997 period. Although retirements have not been significant during the same period (less that 1%), if the increase in removal costs is indicative of the future, they should then be considered in the development of a net salvage parameter. We would like your input on how indicative you believe recent removal costs are of future conditions.

      FPU's currently prescribed net salvage factor is negative 15% with other companies in the State ranging from negative 20% to negative 60%. Staff proposes a net salvage of negative 20% as a move toward the average and also to recognize the labor intensiveness of the account.

d. With the general lack of retirement activity, a longer service life appears to be indicated. Lives from other companies in the State range from 27 years to 36 years, averaging 32 years. Staff proposes a 30 year service life as moving in the direction of the average. Using an S4 curve shape and an age of 10.6 years will result in an average remaining life of 19.4 years.

9. Account 370, Meters, is also accounted for as cradle-to-grave. With this in mind, staff is curious as to the nature and cause for the incurred removal costs.

10. Net salvage for Account 371, Installations on Customers Premises, averaged 7% over the 1994-1996 period. The currently prescribed net salvage factor is 20%. Staff proposes a 10% net salvage factor as being more in line with the account's experience.

11. Account 373, Street Lighting

a. There is an adjustment of plant shown for Account 373 for 1996 with a commensurate adjustment of reserve in the same amount. How was the adjustment to the reserve determined?

b. The retirement ratio for this account averaged 3.2% over the 1993-1997 period and 0.41% over the 1986-1992 period. The recent activity is indicative of a shortening of life. Currently, FPU Marianna has the longest service life of any Florida electric company. Lives generally range from 13 years to 29 years, averaging about 21 years. Staff proposes an average service life of 25 years bringing the account more in line with other companies in the State. Using an R1 curve shape with an average age of 17.1 years results in an average remaining life of 13.5 years.

c. The currently prescribed net salvage factor for this account is 5%. During the 1993-1996 period, net salvage for this account averaged negative 18%. For this reason, staff proposes a negative net salvage of negative 15% as being more in line with the indicated experience of the account.

12. Account 392, Transportation

a. An adjustment to the reserve for Account 392.1 is shown for 1996 without a commensurate adjustment of plant. Please explain.

b. The 1996 activity for Account 392.1 indicates that about 72% of the beginning of year plant balance retired without realizing any gross salvage. If this anomaly is simply due to a lag in accounting, please provide the amount of gross salvage

incurred and the date Otherwise, please help us understand why no salvage was realized either through trade-in allowances or sales.

c. Please help us understand why no gross salvage was realized from the $88,760 retirements of Light Trucks in 1996.

d. The activity for Account 392.3, Transportation-Heavy Trucks, shows net salvage realized in 1995 without any commensurate retirements and retirements incurred in 1996 without any commensurate salvage. Since it is improbable for salvage to be realized prior to the associated retirement, please help us understand what caused this situation.

e. For each of your motor vehicle accounts, please provide a listing of retirements for each year 1994-1996 by vehicle showing the date of retirement, the salvage realized, the in-service date, and the original cost for each. Also, what policy does FPU have regarding the retirement of your motor vehicles (i.e., mileage, age, etc.)?

13. Please provide a description of the equipment comprising Account 397, Communication Equipment. With the rapid technological changes taking place in the telecommunications industry, we would expect new additions to this account to experience a life shorter than 20 years. We would appreciate your input regarding this concern.

Florida Public Utilities Company
Docket No. 970537-EI
September 11, 1997

Attachment

RESERVE TRANSFERS

As was pointed out in the submitted study, there is a need for corrective reserve measures. Staff has reviewed the reserve position for each account and our proposed reserve transfers are shown below. These transfers will bring each affected account's reserve more in line with its theoretically correct position.

PROPOSED RESERVE TRANSERS					
	Est. Book Reserve	Theoretical Reserve	Imbalance	Transfer	Restated Reserve
	($)	($)	($)	($)	($)
365 OH Conductors	1,878,734	2,384,979	(506,245)	21,951	1,900,685
392.1 Automobiles	19,494	8,161	11,333	(11,333)	8,161
397 Communication Equipment	67,139	56,521	10,618	(10,618)	56,521

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

ACCOUNT	1/1/98 INVESTMENT (Estimated) ($000)	1/1/98 RESERVE (Estimated) ($000)	CURRENT: AVERAGE SERVICE LIFE (YRS.)	CURRENT: AVERAGE REMAINING LIFE (YRS.)	CURRENT: NET SALVAGE (%)	CURRENT: AGE (YRS.)	CURRENT: CURVE	COMPANY PROPOSED: AVERAGE SERVICE LIFE (YRS.)	COMPANY PROPOSED: AVERAGE REMAINING LIFE (YRS.)	COMPANY PROPOSED: NET SALVAGE (%)	COMPANY PROPOSED: AGE (YRS.)	COMPANY PROPOSED: CURVE	[illegible]: AVERAGE SERVICE LIFE (YRS.)	[illegible]: AVERAGE REMAINING LIFE (YRS.)	[illegible]: NET SALVAGE (%)	[illegible]: AGE (YRS.)	[illegible]: CURVE
HYDRAULIC PRODUCTION PLANT																	
331 Structures & Improvements	0	0															
332 Reservoirs, dams, and waterways	0	0			6 Year Recovery Schedule												
333 Wheels, turbines and generators	0	0															
334 Accessory electric equipment	0	0															
335 Miscellaneous power plant	0	0															
Total [illegible] Assets	0	0															
DISTRIBUTION PLANT																	
360.1 Land Rights	16	2	56.0	42.0	0.0	14.1	R3	56.0	50.0	0.0	6.5	SQ	56.0	50.0	0.0	6.5	[illegible]
361 Structures and Improvements	9	3	45.0	34.0	0.0	11.1	SQ	45.0	39.0	0.0	16.1	SQ	45.0	39.0	0.0	16.1	[illegible]
362 Station Equipment	839	345	38.0	25.0	(10.0)	13.5	R3	38.0	23.0	(10.0)	16.4	R3	38.0	23.0	(10.0)	16.4	[illegible]
364 Poles, Towers, and Fixtures	4,292	1,670	33.0	23.0	(20.0)	12.1	R2.5	33.0	21.0	(20.0)	11.6	R2.5	33.0	21.0	[illegible]	13.6	R2.5
365 Overhead Conductors & Devices	4,700	1,879	34.0	22.0	(10.0)	14.0	R3	34.0	18.9	(10.0)	16.3	R3	34.0	18.9	[illegible]	16.3	R3
366 Underground Conduit	98	21	50.0	45.0	0.0	4.8	R3	50.0	41.0	0.0	9.6	R3	50.0	41.0	0.0	9.6	R3
367 Underground Conductors & Devices	430	98	35.0	30.0	0.0	5.7	R2	35.0	27.0	0.0	8.7	R2.5	35.0	27.0	0.0	8.7	R2.5
368 Line Transformers	6,433	1,910	29.0	17.9	(10.0)	11.8	R3	29.0	16.0	(10.0)	14.0	R3	29.0	16.0	[illegible]	14.0	R3
369 Services	2,063	706	27.0	18.5	(15.0)	8.5	S4	27.0	16.4	(15.0)	10.6	S4	[illegible]	[illegible]	[illegible]	10.6	S4
370 Meters	963	497	30.0	15.2	(10.0)	16.2	R1	30.0	13.8	(10.0)	17.9	R1	30.0	13.8	(10.0)	17.9	R3
371 Installations on Customers' Premises	649	121	15.0	10.2	20.0	6.6	L2	15.0	9.4	20.0	6.3	L2	15.0	9.4	[illegible]	6.3	L2
373 Street Lighting & Signal Systems	234	65	29.0	18.6	5.0	20.8	R1	29.0	17.3	5.0	17.1	R1	[illegible]	[illegible]	[illegible]	17.1	R3
Total Distribution Assets	[illegible]	[illegible]															
GENERAL PLANT																	
390 Structures & Improvements	934	98	50.0	49.0	(5.0)	1.4	SQ	50.0	44.0	(5.0)	5.7	S6	50.0	44.0	(5.0)	5.7	[illegible]
392.1 Transportation-Cars	16	20	5.0	1.7	15.0	4.3	S2	5.0	2.0	15.0	3.5	S2	5.0	2.0	15.0	3.5	S2
392.2 Transportation-Light Trucks & Vans	173	71	7.0	3.7	10.0	3.8	S2	7.0	3.5	10.0	3.8	S2	7.0	3.5	10.0	3.8	S2
392.3 Transportation - Heavy Trucks	776	230	11.0	6.8	10.0	4.3	R4	11.0	7.5	10.0	3.5	R4	11.0	7.5	10.0	3.5	[illegible]
392.4 Transportation - Vans	22	6	25.0	22.0	5.0	3.5	S6	25.0	18.6	5.0	6.4	S6	25.0	18.6	5.0	6.4	[illegible]
393.1 Stores Equipment-Fixed	63	22	30.0	15.8	0.0	14.2	S6	30.0	22.0	0.0	8.4	S6	30.0	22.0	0.0	8.4	[illegible]
394.1 Tools, Shop & Garage Equipment	16	6	20.0	10.5	0.0	8.7	R4	26.0	14.9	0.0	11.3	R4	26.0	14.9	0.0	11.3	[illegible]
395.1 Laboratory Equipment	17	8	30.0	19.6	0.0	10.7	R5	30.0	14.3	0.0	15.7	R5	30.0	14.3	0.0	15.7	[illegible]
396 Power Operated Equipment	20	9	14.0	12.5	10.0	6.9	SQ	14.0	7.7	10.0	6.2	SQ	14.0	7.8	10.0	6.2	SQ
397 Communication Equipment	66	67	20.0	4.7	0.0	15.1	S6	20.0	3.3	0.0	16.8	S6	20.0	3.3	0.0	16.8	[illegible]
Total General Plant Assets	[illegible]	[illegible]															
GRAND TOTAL	[illegible]	[illegible]															

Denotes difference from Company proposal

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

COMPARISON OF RATES AND COMPONENTS

ACCOUNT	CURRENT AVERAGE REMAINING LIFE (YRS.)	CURRENT NET SALVAGE (%)	CURRENT 1/1/96 RESERVE (%)	CURRENT REMAINING LIFE RATE (%)	COMPANY PROPOSED AVERAGE REMAINING LIFE (YRS.)	COMPANY PROPOSED NET SALVAGE (%)	COMPANY PROPOSED ESTIMATED 1/1/98 RESERVE (%)	COMPANY PROPOSED REMAINING LIFE RATE (%)	STAFF PROPOSED AVERAGE REMAINING LIFE (YRS.)	STAFF PROPOSED NET SALVAGE (%)	STAFF PROPOSED ESTIMATED 1/1/98 RESERVE (%)	STAFF PROPOSED REMAINING LIFE RATE (%)
DISTRIBUTION PLANT												
360.1 Land Rights	42.0	0.0	3.7	2.3	50.0	0.0	12.5	1.8	50.0	0.0	12.5	1.8
361 Structures and Improvements	36.0	0.0	20.2	2.2	26.0	0.0	33.3	2.3	29.0	0.0	33.3	2.3
362 Station Equipment	25.0	(10.0)	37.2	2.9	23.0	(10.0)	41.1	3.0	23.0	(10.0)	41.1	3.0
364 Poles, Towers, and Fixtures	23.0	(20.0)	39.3	3.5	21.0	(20.0)	38.9	3.9	21.0	**(30.0)**	38.9	**6.3**
365 Overhead Conductors & Devices	22.0	(10.0)	30.6	3.3	18.9	(10.0)	40.0	3.7	18.9	**(15.0)**	40.4 *	**3.9**
366 Underground Conduit	45.0	0.0	11.6	2.0	41.0	0.0	21.4	1.9	41.0	0.0	21.4	1.9
367 Underground Conductors & Devices	30.0	0.0	10.4	2.8	27.0	0.0	22.8	2.9	27.0	0.0	22.8	2.9
368 Line Transformers	17.9	(10.0)	38.2	4.0	16.0	(10.0)	43.1	4.2	16.0	[illegible]	43.1	[illegible]
369 Services	18.5	(15.0)	30.1	4.6	16.4	(15.0)	37.1	4.7	**19.6**	**(20.0)**	37.1	[illegible]
370 Meters	15.2	(10.0)	48.4	4.1	13.8	(10.0)	51.6	4.2	13.8	(10.0)	51.6	4.2
371 Installations on Customer Premises	10.2	30.0	22.0	5.7	9.4	30.0	18.6	6.5	9.4	**10.0**	18.6	**7.6**
373 Street Lighting & Signal Systems	18.6	5.0	40.7	2.9	17.3	5.0	27.8	3.9	**13.5**	**(15.0)**	27.8	**6.5**
GENERAL PLANT												
390 Structures & Improvements	49.0	(5.0)	3.6	2.1	44.0	(5.0)	10.6	2.1	44.0	(5.0)	10.6	2.1
392.1 Transportation - Cars	1.7	15.0	34.1	29.9	2.0	15.0	125.0	(30.0)	2.0	15.0	51.0 *	17.0
392.2 Transportation - Light Trucks & Vans	3.7	10.0	41.7	13.0	3.5	10.0	41.0	14.0	3.5	10.0	41.0	14.0
392.3 Transportation - Heavy Trucks	6.8	10.0	43.0	6.9	7.5	10.0	29.6	8.0	7.5	10.0	29.6	8.0
392.4 Transportation - Trailers	22.0	5.0	32.8	2.8	18.6	5.0	27.3	3.6	18.6	5.0	27.3	3.6
393.1 Stores Equipment Fixed	15.8	0.0	16.7	5.3	22.0	0.0	34.9	3.0	22.0	0.0	34.9	3.0
394.1 Tools, Shop & Garage Equipment	19.5	0.0	25.9	3.8	14.9	0.0	37.5	4.2	14.9	0.0	37.5	4.2
395.1 Laboratory Equipment	19.6	0.0	36.2	3.4	14.3	0.0	47.1	3.7	14.3	0.0	47.1	3.7
396 Power Operated Equipment	12.5	10.0	10.0	6.4	7.8	10.0	32.1	7.4	7.8	10.0	32.1	7.4
397 Communication Equipment	4.7	0.0	90.4	8.6	3.3	0.0	98.5	0.4	3.3	0.0	83.5 *	5.0

Denotes difference from Company proposal.
* Denotes estimated reserve after corrective transfers.

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		COMPANY PROPOSED			STAFF PROPOSED		
			RATE	EXPENSES	RATE	ESTIMATED EXPENSES	CHANGE IN EXPENSES	RATE	ESTIMATED EXPENSES	CHANGE IN EXPENSES
DISTRIBUTION PLANT										
360.1 - Land Rights	16	2	2.3	0	1.8	0	0	1.8	0	0
361 Structures and Improvements	9	1	2.2	0	2.3	0	0	2.3	0	0
362 Station Equipment	839	345	2.9	24	3.0	25	1	3.0	25	1
364 Poles, Towers, and Fixtures	4,292	1,670	3.5	150	3.9	167	17	4.3	185	35
365 Overhead Conductors & Devices	4,700	1,901 *	3.3	155	3.7	174	19	3.9 *	183	28
366 Underground Conduit	98	21	2.0	2	1.9	2	0	1.9	2	0
367 Underground Conductors & Devices	430	98	2.8	12	2.9	12	0	2.9	12	[illegible]
368 Line Transformers	4,433	1,910	4.0	177	4.2	186	9	3.6	160	[illegible]
369 Services	2,063	706	4.6	95	4.7	97	2	4.3	89	(6)
370 Meters	963	497	4.1	39	4.2	40	1	4.2	40	1
371 Installations on Customers' Premises	649	121	5.7	37	6.5	42	5	7.6	49	12
373 Street Lighting & Signal Systems	236	65	2.9	7	3.9	9	2	6.5	15	8
TOTAL DISTRIBUTION PLANT	[illegible]	7,399		[illegible]		754	[illegible]		[illegible]	[illegible]
GENERAL PLANT										
390 Structures & Improvements	934	98	2.1	19	2.1	19	0	2.1	19	0
392.1 - Transportation - Cars	16	11 *	29.9	5	(20.0)	(3)	(8)	17.0 *	3	(2)
392.2 - Transportation - Light Trucks & Vans	173	71	13.0	22	14.0	24	2	14.0	24	2
392.3 - Transportation - Heavy Trucks	776	230	6.9	54	8.0	62	8	8.0	62	8
392.4 - Transportation - Vans	22	6	2.8	1	3.6	1	0	3.6	1	0
393.1 - Stores Equipment - Fixed	63	22	5.3	3	3.0	2	(1)	3.0	2	(1)
394.1 - Tools, Shop & Garage Equipment	16	6	3.8	1	4.2	1	0	4.2	1	0
395 - Laboratory Equipment	17	8	7.6	1	3.7	1	0	3.7	1	0
396 - Power Operated Equipment	29	9	6.4	2	7.4	2	0	7.4	2	0
397 - Communication Equipment	64	57 *	8.0	6	0.4	0	(6)	5.0 *	3	(3)
TOTAL GENERAL PROPERTY	2,100	558		114		[illegible]	[illegible]		[illegible]	[illegible]
TOTAL RATES	20,820	7,917		812		[illegible]	[illegible]		[illegible]	[illegible]

Denotes difference from Company proposal.
*Denotes restated reserve after corrective transfers.