ORIGINAL

NOTICE OF PROPOSED RULEMAKING

FLORIDA PUBLIC SERVICE COMMISSION

DOCKET NO. 030715-WS

RULE TITLE:	RULE NO.:
Depreciation	25-30.140

PURPOSE AND EFFECT: The purpose of the rule is to clarify how to determine the appropriate amount of depreciation expense, to add definitions and new accounts to conform with the National Association of Regulatory Commissions (NARUC) Uniform System of Accounts (USOA).

SUMMARY: Definitions are added to clarify the meaning of terms that are used to analyze depreciation in order to assure both capital recovery and reasonable rates. New accounts are added to provide for depreciation of investment in new types of equipment and to bring the list of accounts into accord with the current NARUC Uniform System of Accounts (USOA) that Rule 25-30.115 requires the utilities to follow. Specific directions for computing depreciation expense are included to clearly show the appropriate method for calculating depreciation expense for a monthly period.

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Any person who wishes to provide information regarding a statement of estimated regulatory costs, or to provide a proposal for a lower cost regulatory alternative must do so in writing

within 21 days of this notice.

SPECIFIC AUTHORITY: 350.127(2), 367.121(1), F.S.

LAW IMPLEMENTED: 350.115, 367.081(2), 367.121(1), F.S.

WRITTEN COMMENTS OR SUGGESTIONS ON THE PROPOSED RULE MAY BE SUBMITTED TO THE FPSC, DIVISION OF THE COMMISSION CLERK AND ADMINISTRATIVE SERVICES, WITHIN 21 DAYS OF THE DATE OF THIS NOTICE FOR INCLUSION IN THE RECORD OF THE PROCEEDING.

IF REQUESTED WITHIN 21 DAYS OF THE DATE OF THIS NOTICE, A HEARING WILL BE SCHEDULED AND ANNOUNCED IN THE FAW.

THE PERSON TO BE CONTACTED REGARDING THE PROPOSED RULE IS: Christiana T. Moore, Florida Public Service Commission, 2540 Shumard Oak Blvd., Tallahassee, Florida 32399-0862, (850) 413-6245.

THE FULL TEXT OF THE PROPOSED RULE IS:

25-30.140 Depreciation.

(1) - (d) No change.

~~(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) - (h) No change.

(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)~~ (i) renumbered to (j) No change.

(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
General Plant	

(Accounts 304 and 340 to 348)	(Accounts 354, 355, 366, 367, 371, 375, 389)
	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)~~ (k) - (l) renumbered to (p) - (q) No change.

(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)~~ (n) - (q) renumbered to (s) - (v) No change.

(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)~~ (t) - (u) renumbered to (y) - (z) No change.

(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		
2.~~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		
3.~~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		
4.~~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.~~	~~30~~	~~35~~		
Masonry	30	27		
Reinforced Concrete~~Frame~~	38 ~~20~~	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.~~	~~10~~	~~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(comp-osite 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. - 4. No change.

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) No change.

(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)~~ (5)(a) renumbered to (6)(a) No change.

(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) - 4. No change.

(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)~~ (c) renumbered to (g) No change.

(8) ~~(7)~~ (7) renumbered to (8) No change.

(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.

(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.

(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(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,_____.

NAME OF PERSON ORIGINATING PROPOSED RULE: Pat Lee

NAME OF SUPERVISOR OR PERSONS WHO APPROVED THE PROPOSED RULE: Florida Public Service Commission.

DATE PROPOSED RULE APPROVED: September 16, 2003

DATE NOTICE OF PROPOSED RULE DEVELOPMENT PUBLISHED IN FAW: Volume 26, Number 52, December 29, 2000

If any person decides to appeal any decision of the Commission

with respect to any matter considered at the rulemaking hearing, if held, a record of the hearing is necessary. The appellant must ensure that a verbatim record, including testimony and evidence forming the basis of the appeal is made. The Commission usually makes a verbatim record of rulemaking hearings.

Any person requiring some accommodation at this hearing because of a physical impairment should call the Division of the Commission Clerk and Administrative Services at (850) 413-6770 at least 48 hours prior to the hearing. Any person who is hearing or speech impaired should contact the Florida Public Service Commission by using the Florida Relay Service, which can be reached at: 1-800-955-8771 (TDD).