

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

IN RE: Amendment of Rules 25-4.0175,)	DOCKET NO. 910747-PU
25-6.0436, and 25-7.045, F.A.C.,)	
Depreciation for Telephone, Electric,)	ORDER NO. 25087
and Gas Utilities.)	
_____)	ISSUED: 9/23/91

NOTICE OF RULEMAKING

NOTICE is hereby given that the Commission, pursuant to section 120.54, Florida Statutes, has initiated rulemaking to amend Rules 25-4.0175, 25-6.0436, and 25-7.045, F.A.C., relating to depreciation for telephone, electric, and gas utilities.

The attached Notice of Rulemaking (25-4.0175, depreciation for telephone companies) will appear in the September 27, 1991, edition of the Florida Administrative Weekly. If requested, a hearing will be held at the following time and place:

9:30 a.m., Monday, December 2, 1991
 Room 122, Fletcher Building
 101 East Gaines Street
 Tallahassee, Florida

Written requests for hearing and written comments or suggestions on the rules must be received by the Director, Division of Records and Reporting, Florida Public Service Commission, 101 East Gaines Street, Tallahassee, FL 32399, no later than October 18, 1991.

By Direction of the Florida Public Service Commission, this
23rd day of SEPTEMBER, 1991.


 STEVE TRIBBLE, Director
 Division of Records & Reporting

(S E A L)

WEW

amd91747.cjp

DOCUMENT NUMBER-DATE
 09401 SEP 23 1991
 FPSC-RECORDS/REPORTING

ORDER NO. 25087
DOCKET NO. 910747-PU
PAGE 2

FLORIDA PUBLIC SERVICE COMMISSION

DOCKET NO. 910747-PU

RULE TITLE:

RULE NO.:

Depreciation (Telephone)

25-4.0175

PURPOSE AND EFFECT: The purpose of the amendment to this rule is to implement minor procedural changes in the Commission's requirements regarding depreciation for telephone companies. The effects of the rule amendment are: 1) Telephone companies would be required to file 15 copies of depreciation studies rather than the current requirement of 10 copies. 2) The Commission would be able to establish the effective date for preliminary booking of depreciation rates by issuing an order without the current requirement of a prior request by the telephone company. 3) Telephone companies would be required to include information on recovery and amortization schedules currently in effect with any new filing. 4) Telephone companies would be allowed to incorporate certain depreciation related information as part of the Annual Report, and are no longer required to file this information separately with the Division of Auditing and Financial Analysis.

SUMMARY: The rule amendments would allow for more efficient processing and analysis of depreciation information for ratemaking purposes by implementing minor procedural changes to the Commission's requirements.

RULEMAKING AUTHORITY: 350.127(2), F.S.

ORDER NO. 25087
DOCKET NO. 910747-PU
PAGE 3

LAW IMPLEMENTED: 350.115, 364.03, F.S.

SUMMARY OF THE ESTIMATE OF ECONOMIC IMPACT OF THESE RULES: Telephone companies would incur very small increases in reproduction costs due to the five (5) additional copies of depreciation studies which would be filed with the Commission. The addition of information on currently effective recovery and amortization schedules to all filings will only slightly increase work for the telephone companies because that information is readily available to the companies. The telephone companies would realize a slight decrease in costs because they will no longer be required to submit separate depreciation related information with the Division of Auditing and Financial Analysis.

WRITTEN COMMENTS OR SUGGESTIONS ON THE PROPOSED RULES MAY BE SUBMITTED TO THE FPSC, DIVISION OF RECORDS AND REPORTING, 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 HELD AT THE DATE AND PLACE SHOWN BELOW:

TIME AND DATE: 9:30 A.M., December 2, 1991

PLACE: Room 122, 101 East Gaines Street, Tallahassee, Florida.

THE PERSON TO BE CONTACTED REGARDING THESE RULES AND THE ECONOMIC IMPACT STATEMENT IS: Director of Appeals, Florida Public Service Commission, 101 East Gaines Street, Tallahassee, Florida 32399

THE FULL TEXT OF THE RULE IS:

25-4.0175 Depreciation.

ORDER NO. 25087
 DOCKET NO. 910747-PU
 PAGE 4

(1) For the purposes of this part, the following definitions shall apply:

(a) Category or Category of Depreciable Plant - A grouping of Plant for which a depreciation rate is prescribed. At a minimum it should include each plant account prescribed in Rule 25-4.017, F.A.C.

(b) Embedded Vintage - A vintage of plant in service as of the date of study or implementation of proposed rates.

(c) Equal Life Group Method - The method of calculating a depreciation rate based on the life expectations of the units constituting a vintage group. The vintage group is divided into sub-groups, each of which is expected to live an equal life. The required capital recovery for the vintage is then the summation of the requirements for each equal life group. As an example: A vintage consists of three \$100 units, A, B, and C, expected to live 2, 4, and 5 years. To recover each during its own service life will require annual accruals of \$50, \$25, and \$20 respectively in the following manner:

	Accruals in Years				
	1	2	3	4	5
A	\$50	50			
B	\$25	25	25	25	
C	\$20	20	20	20	20
Vintage Totals	\$95	\$95	\$45	\$45	\$20

(d) Mortality Data - Historical data by study category showing

ORDER NO. 25087
 DOCKET NO. 910747-PU
 PAGE 5

plant balances, additions, adjustments and retirements, used in analyses for life indications or for calculations of realized life. Preferably, this is aged data in accord with the following:

1. The number of plant items or equivalent units (usually expressed in dollars) added each calendar year.
2. The number of plant items retired (usually expressed in dollars) each year and the distribution by years of placing of such retirements.
3. The net increase or decrease resulting from purchases, sales or adjustments, and the distribution by years of placing of such amounts.
4. The number that remains in service (usually expressed in dollars) at the end of each year and the distribution by years of placing of such amounts.

(e) Remaining Life Method - The method of calculating a depreciation rate based on the unrecovered plant balance, less average future net salvage and the average remaining life. The formula for calculating a Remaining Life Rate is:

$$\text{Remaining Life Rate} = \frac{100\% - \text{Reserve}\% - \text{Average Future Net Salvage}\%}{\text{Average Remaining Life in Years}}$$

(f) Reserve Data - Historical data by study category showing reserve balances, debits and credits such as booked depreciation expense, salvage and cost of removal and adjustments to the reserve utilized in monitoring reserve activity and position.

ORDER NO. 25087
DOCKET NO. 910747-PU
PAGE 6

(g) Reserve Deficiency - An inadequacy in the reserve of a category as evidenced by a comparison of that reserve indicated as necessary under current projections of life and salvage with that reserve historically accrued. The latter figure may be available from the company's records or may require retrospective calculation.

(h) Reserve Surplus - An excess in the reserve of a category as evidenced by a comparison of that reserve indicated as necessary under current projections of life and salvage with that reserve historically accrued. The latter figure may be available from the company's records or may require retrospective calculation.

(i) Salvage Data - Historical data by study category showing bookings of retirements, gross salvage and cost of removal used in analysis of trends in gross salvage and cost of removal, or for calculations of realized salvage.

(j) Theoretical Reserve or Prospective Theoretical Reserve - A calculated reserve based on components of the proposed rate, using the formula:

Theoretical Reserve = Book Investment - Future Accruals - Future Net Salvage

(k) Vintage - The year of placement of a group of plant items or investment under study.

(l) Whole Life Method - The method of calculating a depreciation rate based on the Whole Life (Average Service Life) and the Average Net Salvage. Both life and salvage components are the estimated or

ORDER NO. 25087
 DOCKET NO. 910747-PU
 PAGE 7

calculated composite of realized experience and expected activity.

The formula is:

$$\text{Whole Life Rate} = \frac{100\% - \text{Average Net Salvage}\%}{\text{Average Service Life in Years}}$$

(2)(a) No utility may change any existing depreciation rate or initiate any new depreciation rate without prior Commission approval.

(b) No utility may reallocate accumulated depreciation reserves among any primary accounts and sub-accounts without prior Commission approval.

(3)(a) Each utility shall maintain depreciation rates and accumulated depreciation reserves in accounts or subaccounts as prescribed by Rule 25-4.0174, F.A.C. Utilities may maintain further sub-categorization.

(b) Upon establishing a new account or subaccount classification, each utility shall request Commission approval of a depreciation rate for the new plant category.

(4) A utility filing a depreciation study, regardless if a change in rates is being requested or not, shall submit to the Commission Clerk's Office the original and fifteen ~~ten~~ copies of the information required by paragraphs (6) (a) through (6) ~~(h)~~ (g) of this rule and at least three copies of the information required by paragraph (6) ~~(i)~~ (h).

(5) ~~At the request of the utility and~~ Upon Commission approval by order establishing an effective date, the utility may reflect on

ORDER NO. 25087
DOCKET NO. 910747-PU
PAGE 8

its books and records the implementation of the proposed rates, subject to adjustment when final depreciation rates are approved.

(6) A depreciation study shall include:

(a) A comparison of current and proposed depreciation rates and components for each category of depreciable plant. Current rates shall be identified as to the effective date and proposed rates as to the proposed effective date.

(b) A comparison of annual depreciation expense, as of the proposed effective date, resulting from current rates with the expense produced by the proposed rates for each category of depreciable plant. The plant balances may involve estimates. Submitted data including plant and reserve balances or company planning involving estimates shall be brought to the effective date of the proposed rates.

(c) A comparison of annual depreciation expense resulting from current rates with the expense produced by the proposed rates allocated to interstate toll, intrastate toll and other, based on the 12 month average plant balance coinciding with the accounting period in which proposed depreciation rates are to become effective.

(d) Each recovery and amortization schedule currently in effect should be included with any new filing showing total amount amortized, effective date, length of schedule, annual amount amortized and reason for the schedule.

(de) A comparison of the accumulated book reserve to the

ORDER NO. 25087
DOCKET NO. 910747-PU
PAGE 9

prospective theoretical reserve based on proposed rates and components for each category of depreciable plant to which depreciation rates are to be applied.

(ef) A general narrative describing the service environment of the applicant company and the factors, e.g., growth, technology, physical conditions necessitating a revision in rates.

(fg) An explanation and justification for each study category of depreciable plant defining the specific factors that justify the life and salvage components and rates being proposed. Each explanation and justification shall include substantiating factors utilized by the company in the design of the depreciation rates for the specific category, e.g., company planning, growth, technology, physical conditions and trends. The explanation and justification shall discuss any proposed transfers of reserve between categories or accounts intended to correct deficient or surplus reserve balances. It should also state any statistical or mathematical methods of analysis or calculation used in design of the category rate.

(gh) The mortality and salvage data used by the company in the depreciation rate design must agree with activity booked by the utility. Unusual transactions not included in life or salvage studies, e.g., sales or extraordinary retirements, must be specifically enumerated and explained.

(hi) The filing shall contain all calculations, analysis and numerical basic data used in the design of the depreciation rate for

ORDER NO. 25087
DOCKET NO. 910747-PU
PAGE 10

each category of depreciable plant. Numerical data shall include plant activity (gross additions, adjustments, retirements and plant balance at end of year) as well as reserve activity (retirements, accruals for depreciation expense, salvage, cost of removal, adjustments or transfers and reclassifications, and reserve balance at end of year) for each year of activity from the date of the last submitted study to the date of the present study. To the degree possible, data involving retirements should be aged.

(7)(a) Utilities shall provide calculations of depreciation rates using both the whole life method and the remaining life method. The use of these methods is required for all depreciable categories. Companies may submit additional studies or methods for consideration by the Commission.

(b) The possibility of corrective reserve transfers shall be investigated by the Commission prior to changing depreciation rates.

(8)(a) Each company shall file a study for each category of depreciable property for Commission review at least once every three years from the submission date of the previous study unless otherwise required by the Commission.

(b) A utility proposing an effective date of the beginning of its fiscal year shall submit its depreciation study no later than the mid-point of that fiscal year.

(c) A utility proposing an effective date coinciding with the expected date of additional revenues initiated through a rate case

ORDER NO. 25087
DOCKET NO. 910747-PU
PAGE 11

proceeding shall submit its depreciation study no later than the filing date of its Minimum Filing Requirements.

(9) Included as part of Concurrent with the filing of the annual report filed pursuant to Rule 25-4.018, F.A.C., each company shall provide Schedule B-5a, Analysis of Plant In Service, and Schedule B-5b, Analysis of Accumulated Depreciation file an annual status report with the Commission's Division of Auditing and Financial Analysis, as set forth below. Schedule B-5a ~~The report~~ shall include booked (plant activity, (plant balance at the beginning of the year, additions, adjustments, transfers, reclassifications, retirements, and plant balance at year end). ~~and reserve balance at year end~~) Schedule B-5b shall include ~~and~~ reserve activity (reserve balance at the beginning of the year, retirements, accruals, salvage, cost of removal, adjustments, transfers, reclassifications and reserve balance at year end) for each category of investment for which a depreciation rate, amortization schedule, or capital recovery schedule has been approved. These schedules ~~The report~~ shall indicate for each category that (a) there has been no change of plans or utility experience requiring a revision of rates, amortization, or capital recovery schedules or (b) there has been a change requiring a revision of the rates, amortization, or capital recovery schedules. For each category where current conditions indicate a need for revision of depreciation rates, amortization, or capital recovery schedules and no revision is sought, the report

ORDER NO. 25087
DOCKET NO. 910747-PU
PAGE 12

shall explain why no revision is requested.

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

Law Implemented: 350.115, 364.03, F.S.

History: New 9/8/81, Amended 12/13/83, 1/3/85, formerly 25-4.175,
Amended 4/27/88, _____.