

## 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. 25421
and Gas Utilities.	)	
<hr/>		ISSUED: 12/2/91

NOTICE OF ADOPTION OF RULE AMENDMENTS

NOTICE is hereby given that the Commission, pursuant to section 120.54, Florida Statutes, has adopted the amendments to Rules 25-4.0175, 25-6.0436, and 25-7.045, F.A.C., relating to depreciation for telephone, electric, and gas utilities without changes.

Rule amendment 25-7.045, F.A.C., was filed with the Department of State on November 22, 1991 and will be effective on December 12, 1991. A copy of the relevant portions of the certification filed with the Secretary of State is attached to this Notice.

This docket is closed upon issuance of this notice.

By Direction of the Florida Public Service Commission, this  
2nd day of DECEMBER, 1991.



STEVE TRIBBLE, Director  
 Division of Records & Reporting

( S E A L )

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 11865 DEC -2 1991  
 FPSC-RECORDS/REPORTING

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CERTIFICATION OF  
PUBLIC SERVICE COMMISSION ADMINISTRATIVE RULES  
FILED WITH THE  
DEPARTMENT OF STATE

I do hereby certify:

(1) The time limitations prescribed by paragraph 120.54(11)(a), F.S., have been complied with; and

(2) There is no administrative determination under section 120.54(4), F.S., pending on any rule covered by this certification; and

(3) All rules covered by this certification are filed within the prescribed time limitations of paragraph 120.54(11)(b), F.S. They are filed not less than 28 days after the notice required by subsection 120.54(1), F.S., and;

(a) And are filed not more than 90 days after the notice; or

(b) Are filed not more than 90 days after the notice not including days an administrative determination was pending; or

(c) Are filed within 21 days after the adjournment of the final public hearing on the rule; or

(d) Are filed within 21 days after the date of receipt of all material authorized to be submitted at the hearing; or

(e) Are filed within 21 days after the date the transcript was received by this agency.

Attached are the original and two copies of each rule covered by this certification. The rules are hereby adopted by the

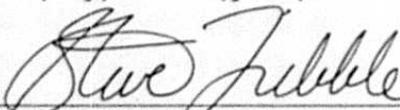
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undersigned agency by and upon their filing with the Department of State.

<u>Rule No.</u>	<u>Rulemaking Authority</u>	<u>Specific Law Being Implemented, Interpreted or Made Specific</u>
25-7.045	350.127(2) 366.05(1)	350.115

Under the provision of paragraph 120.54(13)(a), F.S., the rules take effect 20 days from the date filed with the Department of State or a later date as set out below:

Effective: \_\_\_\_\_  
(month) (day) (year)

  
\_\_\_\_\_  
Steve Tribble

Director, Division of Records & Reporting  
Title

\_\_\_\_\_  
Number of Pages Certified

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1 25-7.045 Depreciation.

2 (1) For the purpose of this part, the following definitions  
3 shall apply:

4 (a) Category or Category of Depreciable Plant - A grouping  
5 of plant for which a depreciation rate is prescribed. At a minimum  
6 it should include each plant account prescribed in Rule 25-7.046,  
7 F.A.C.

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

10 (c) Mortality Data - Historical data by study category  
11 showing plant balances, additions, adjustments and retirements,  
12 used in analyses for life indications or for calculations of  
13 realized life. Preferably this is aged data in accord with the  
14 following:

15 1. The number of plant items or equivalent units (usually  
16 expressed in dollars) added each calendar year.

17 2. The number of plant items retired (usually expressed in  
18 dollars) each year and the distribution by years of placing of  
19 such retirements.

20 3. The net increase or decrease resulting from purchases,  
21 sales or adjustments and the distribution by years of placing  
22 of such amounts.

23 4. The number that remains in service (usually expressed in  
24 dollars) at the end of each year and the distribution by years  
25 of placing of such amounts.

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

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

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

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

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

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

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1 (i) Theoretical Reserve or Prospective Theoretical Reserve -  
 2 A calculated reserve based on components of the proposed rate using  
 3 the formula:

4 Theoretical Reserve = Book Investment - Future Accruals -  
 5 Future Net Salvage.

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

8 (k) Whole Life Method - The method of calculating a  
 9 depreciation rate based on the Whole Life (Average Service Life)  
 10 and the Average Net Salvage. Both life and salvage components are  
 11 the estimated or calculated composite of realized experience and  
 12 expected activity. The formula is:

13 Whole Life Rate = 100% - Average Net Salvage %  
 14 Average Service Life in Years

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

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

21 (3) (a) Each utility shall maintain depreciation rates and  
 22 accumulated depreciation reserves in accounts or subaccounts as  
 23 prescribed by Rule 25-7.046, F.A.C. Utilities may maintain further  
 24 sub-categorization.

25 (b) Upon establishing a new account or subaccount

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1 | classification, each utility shall request Commission approval of  
2 | a depreciation rate for the new plant category.

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

9 | ~~At the request of the utility and~~ Upon Commission  
10 | approval by order establishing an effective date, the utility may  
11 | reflect on its books and records the implementation of the proposed  
12 | rates, subject to adjustment when final depreciation rates are  
13 | approved.

14 | (6) A depreciation study shall include:

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

19 | (b) A comparison of annual depreciation expense resulting  
20 | from current rates with those produced by the proposed rates for  
21 | each category of depreciable plant. The plant balances may involve  
22 | estimates. Submitted data including plant and reserve balances or  
23 | company planning involving estimates should be brought to the  
24 | effective date of the proposed rates.

25 | (c) Each ~~Recovery and amortization~~ schedules currently in

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1 effect should be included with any new filing showing total amount  
2 amortized, effective date, length of schedule, annual amount  
3 amortized and reason for the amortization schedule.

4 (d) A comparison of the accumulated book reserve to the  
5 prospective theoretical reserve based on proposed rates and  
6 components for each category of depreciable plant to which  
7 depreciation rates are to be applied.

8 (e) A general narrative describing the service environment of  
9 the applicant company and the factors, e.g., growth, technology,  
10 physical conditions, leading to the present application for a  
11 revision in rates.

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

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

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

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

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

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

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

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

4 (c) A utility proposing an effective date coinciding with the  
5 expected date of additional revenues initiated through a rate case  
6 proceeding shall submit its depreciation study no later than the  
7 filing date of its Minimum Filing Requirements.

8 (9) As part of ~~Concurrent~~ with the filing of the annual  
9 report under Rule 25-7.014(3), F.A.C., each utility shall include  
10 ~~file an annual status report with the Commission's Division of~~  
11 ~~Auditing and Financial Analysis.~~ The report shall include booked  
12 plant activity (plant balance at the beginning of the year,  
13 additions, adjustments, transfers, reclassifications, retirements  
14 and plant balance at year end) and reserve activity (reserve  
15 balance at the beginning of the year, retirements, accruals,  
16 salvage, cost of removal, adjustments, transfers, reclassifications  
17 and reserve balance at end of year) for each category of investment  
18 for which a depreciation rate, amortization schedule, or capital  
19 recovery schedule has been approved. The report shall indicate for  
20 each category that:

21 (a) There has been no change of plans or utility experiences  
22 requiring a revision of the rates, amortization, or capital  
23 recovery schedules; or

24 (b) There has been a change ~~of plans~~ requiring a revision of  
25 rates, amortization, or capital recovery schedules.

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1 For any category where current conditions indicate a need for  
2 revision of depreciation rates, amortization, or capital recovery  
3 schedules and no revision is sought, the report shall explain why  
4 no revision is requested.

5 (10)(a) Prior to the date of retirement of major  
6 installations, the Commission may approve capital recovery  
7 schedules to correct associated calculated deficiencies where a  
8 utility demonstrates that (1) replacement of an installation or  
9 group of installations is prudent, and (2) the associated  
10 investment will not be recovered by the time of retirement through  
11 the normal depreciation process.

12 (b) The Commission may approve a special capital recovery  
13 schedule when an installation is designed for a specific purpose or  
14 for a limited duration.

15 (c) Associated plant and reserve activity, balances and the  
16 annual capital recovery schedule expense must be maintained as  
17 subsidiary records.

18 Specific Authority: 350.127(2), 366.05(1), F.S.

19 Law Implemented: 350.115, F.S.

20 History: New 11/20/82, Amended 1/3/85, formerly 25-7.45, Amended  
21 4/27/88, \_\_\_\_\_.

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Rule 25-7.045  
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STATEMENT OF FACTS AND CIRCUMSTANCES  
JUSTIFYING RULE

The proposed amendments to Rule 25-7.045, F.A.C., are necessary to implement several relatively minor procedural changes in the Commission's requirements for the filing of depreciation related information by Gas Utilities. Commission staff recommended these amendments to improve the content of the depreciation information which is filed with the Commission and to make the process more efficient for the Commission and the Gas Utilities.

STATEMENT ON FEDERAL STANDARDS

The proposed rule amendments do not establish standards which are more restrictive than federal standards regarding depreciation studies.

STATEMENT OF IMPACT ON SMALL BUSINESS

There is no impact on small business caused by these amendments because none of the Gas Utilities affected by Rule 25-7.045 re defined as small businesses.