

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. 25422
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 25-4.0175, 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)

WEW
 adp91747.cjp

DOCUMENT NUMBER-DATE
 11866 DEC -2 1991
 FPSC-RECORDS/REPORTING

ORDER NO. 25422
DOCKET NO. 910747-PU
PAGE 2

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

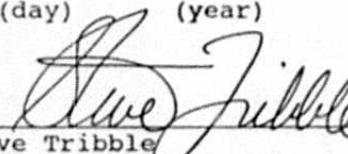
ORDER NO. 25422
DOCKET NO. 910747-PU
PAGE 3

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>
25-4.0175	350.127(2)	350.115, 364.03

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

(S E A L)

adp91747.cjp

91 NOV 22 PM 4:27
DIVISION OF RECORDS & REPORTING
STATE OF FLORIDA

ORDER NO. 25422
DOCKET NO. 910747-PU
PAGE 4

1 25-4.0175 Depreciation.

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

4 (a) Category or Category of Depreciable Plant - A grouping of
5 Plant for which a depreciation rate is prescribed. At a minimum it
6 should include each plant account prescribed in Rule 25-4.017,
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) Equal Life Group Method - The method of calculating a
11 depreciation rate based on the life expectations of the units
12 constituting a vintage group. The vintage group is divided into
13 sub-groups, each of which is expected to live an equal life. The
14 required capital recovery for the vintage is then the summation of
15 the requirements for each equal life group. As an example: A
16 vintage consists of three \$100 units, A, B, and C, expected to live
17 2, 4, and 5 years. To recover each during its own service life
18 will require annual accruals of \$50, \$25, and \$20 respectively in
19 the following manner:

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

CODING: Words underlined are additions; words in
~~struck-through~~ type are deletions from existing law.

ORDER NO. 25422
 DOCKET NO. 910747-PU
 PAGE 5

1 (d) Mortality Data - Historical data by study category showing
 2 plant balances, additions, adjustments and retirements, used in
 3 analyses for life indications or for calculations of realized life.
 4 Preferably, this is aged data in accord with the following:

- 5 1. The number of plant items or equivalent units (usually
 6 expressed in dollars) added each calendar year.
 7 2. The number of plant items retired (usually expressed in
 8 dollars) each year and the distribution by years of placing
 9 of such retirements.
 10 3. The net increase or decrease resulting from purchases, sales
 11 or adjustments, and the distribution by years of placing of
 12 such amounts.
 13 4. The number that remains in service (usually expressed in
 14 dollars) at the end of each year and the distribution by
 15 years of placing of such amounts.

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

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

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

CODING: Words underlined are additions; words in
~~struck-through~~ type are deletions from existing law.

ORDER NO. 25422
DOCKET NO. 910747-PU
PAGE 6

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

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

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

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

18
$$\text{Theoretical Reserve} = \text{Book Investment} - \text{Future Accruals} - \text{Future}$$

19
$$\text{Net Salvage}$$

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

22 (l) Whole Life Method - The method of calculating a depreciation
23 rate based on the Whole Life (Average Service Life) and the Average
24 Net Salvage. Both life and salvage components are the estimated or
25 calculated composite of realized experience and expected activity.

CODING: Words underlined are additions; words in
~~struck-through~~ type are deletions from existing law.

ORDER NO. 25422
DOCKET NO. 910747-PU
PAGE 7

1 The formula is:

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

3
4 (2) (a) No utility may change any existing depreciation rate or
5 initiate any new depreciation rate without prior Commission approval.

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

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

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

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

22 (5) ~~At the request of the utility and~~ Upon Commission approval
23 by order establishing an effective date, the utility may reflect on
24 its books and records the implementation of the proposed rates,
25 subject to adjustment when final depreciation rates are approved.

CODING: Words underlined are additions; words in
~~struck-through~~ type are deletions from existing law.

ORDER NO. 25422
DOCKET NO. 910747-PU
PAGE 8

1 (6) A depreciation study shall include:

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

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

13 (c) A comparison of annual depreciation expense resulting from
14 current rates with the expense produced by the proposed rates
15 allocated to interstate toll, intrastate toll and other, based on the
16 12 month average plant balance coinciding with the accounting period
17 in which proposed depreciation rates are to become effective.

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

22 (de) A comparison of the accumulated book reserve to the
23 prospective theoretical reserve based on proposed rates and
24 components for each category of depreciable plant to which
25 depreciation rates are to be applied.

CODING: Words underlined are additions; words in
~~struck-through~~ type are deletions from existing law.

ORDER NO. 25422
DOCKET NO. 910747-PU
PAGE 9

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

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

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

20 | ~~(hi)~~ The filing shall contain all calculations, analysis and
21 | numerical basic data used in the design of the depreciation rate for
22 | each category of depreciable plant. Numerical data shall include
23 | plant activity (gross additions, adjustments, retirements and plant
24 | balance at end of year) as well as reserve activity (retirements,
25 | accruals for depreciation expense, salvage, cost of removal,

CODING: Words underlined are additions; words in
~~struck-through~~ type are deletions from existing law.

ORDER NO. 25422
DOCKET NO. 910747-PU
PAGE 10

1 adjustments or transfers and reclassifications, and reserve balance
2 at end of year) for each year of activity from the date of the last
3 submitted study to the date of the present study. To the degree
4 possible, data involving retirements should be aged.

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

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

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

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

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

23 (9) Included as part of ~~Concurrent with the filing of~~ the annual
24 report filed pursuant to Rule 25-4.018, F.A.C., each company shall
25 provide Schedule B-5a, Analysis of Plant In Service, and Schedule B-

CODING: Words underlined are additions; words in
~~struck-through~~ type are deletions from existing law.

ORDER NO. 25422
DOCKET NO. 910747-PU
PAGE 11

1 | 5b. Analysis of Accumulated Depreciation ~~file an annual status report~~
2 | ~~with the Commission's Division of Auditing and Financial Analysis,~~
3 | ~~as set forth below.~~ Schedule B-5a The report shall include booked
4 | ~~{~~plant activity, (plant balance at the beginning of the year,
5 | additions, adjustments, transfers, reclassifications, retirements,
6 | and plant balance at year end). ~~and reserve balance at year end)~~
7 | Schedule B-5b shall include and reserve activity (reserve balance at
8 | the beginning of the year, retirements, accruals, salvage, cost of
9 | removal, adjustments, transfers, reclassifications and reserve
10 | balance at year end) for each category of investment for which a
11 | depreciation rate, amortization schedule, or capital recovery
12 | schedule has been approved. These schedules ~~The report~~ shall
13 | indicate for each category that (a) there has been no change of
14 | plans or utility experience requiring a revision of rates,
15 | amortization, or capital recovery schedules or (b) there has been a
16 | change requiring a revision of the rates, amortization, or capital
17 | recovery schedules. For each category where current conditions
18 | indicate a need for revision of depreciation rates, amortization, or
19 | capital recovery schedules and no revision is sought, the report
20 | shall explain why no revision is requested.
21 | Specific Authority: 350.127(2), F.S.
22 | Law Implemented: 350.115, 364.03, F.S.
23 | History: New 9/8/81, Amended 12/13/83, 1/3/85, formerly 25-4.175,
24 | Amended 4/27/88, _____.

CODING: Words underlined are additions; words in
~~struck-through~~ type are deletions from existing law.

ORDER NO. 25422
DOCKET NO. 910747-PU
PAGE 12

Rule 25-4.0175
Docket No. 910747-PU

STATEMENT OF FACTS AND CIRCUMSTANCES
JUSTIFYING RULE

The proposed amendments to Rule 25-4.0175, 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 Telephone Companies. 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 Telephone Companies.

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 Telephone Companies affected by Rule 25-4.0175 are defined as small businesses.