

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

In Re: Request for approval of) DOCKET NO. 940374-GU
1993 depreciation study by) ORDER NO. PSC-94-1539-FOF-GU
FLORIDA PUBLIC UTILITIES) ISSUED: December 13, 1994
COMPANY.)
_____)

The following Commissioners participated in the disposition of this matter:

J. TERRY DEASON, Chairman
SUSAN F. CLARK
JOE GARCIA
JULIA L. JOHNSON
DIANE K. KIESLING

NOTICE OF PROPOSED AGENCY ACTION ORDER
APPROVING DEPRECIATION RATES AND AMORTIZATION SCHEDULES

BY THE COMMISSION:

NOTICE IS HEREBY GIVEN by the Florida Public Service Commission that the action discussed herein is preliminary in nature and will become final unless a person whose interests are substantially affected files a petition for a formal proceeding, pursuant to Rule 25-22.029, Florida Administrative Code.

On April 18, 1994, the Florida Public Utilities Company (FPUC or the Company) filed its depreciation study in accordance with Rule 25-7.045, Florida Administrative Code, which requires gas utilities to file a comprehensive study at least once every five years. FPUC's current depreciation rates and amortization schedules were approved effective January 1, 1989. FPUC has proposed an implementation date for new depreciation rates of January 1, 1995. Company data and related calculations verge upon the January 1, 1995 date. Therefore, we find this the earliest and most practicable date for utilizing the revised rates and schedules.

Based upon a comprehensive review of the FPUC depreciation study performed by our Staff, we have made some revisions to the currently prescribed depreciation rates. Attachment A, attached hereto and made a part hereof, reflects the restated reserves, net salvage values, and resultant depreciation rates for accounts modified. The result is an increase of depreciation expense of approximately \$52,000 for 1995 based on estimated January 1, 1995, investments.

DOCUMENT NUMBER-DATE

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FPSC-RECORDS/REPORTING

Distribution Plant

FPUC's proposed curve shapes are based on the result of computer generated historic statistics, basically synthesized data. Commission Staff proposed curve shapes are based on the expected activity of an account and on industry expectations.

Account 378 - Measuring and Regulating Equipment - This account is comprised of district regulating stations used to maintain the correct operating pressure throughout the distribution system. FPUC proposes to extend the current 31 year average service life to 34 years. Although the retirement activity for the period 1990-1993 has been somewhat sporadic, the retirement ratio has averaged 6.7%. This level of activity does not lend credence to increasing the currently prescribed life. Therefore, we find retaining the currently prescribed 31 year service life and using the current average age is appropriate.

Account 380 - Services - Service lines connect the main to the meter on the customer's premises. Services are maintained as two separate categories - plastic and other (steel).

Plastic - Services has historically experienced minimal retirement activity. The retirement rate during the past four years has averaged 0.4%. This type of activity makes reliance on industry averages for life and salvage factors necessary. Therefore, we find that the remaining life shall be based upon the currently prescribed service life for this account.

The primary question to address in this account is centered around the cost of abandoning service lines. When a service line is retired, it is generally cut and capped at the Main and abandoned in place. The cost of removal involves travel time for the crew, digging down to the point where the service joins the Main, cutting and capping, refilling the hole and restoring the roadway. Restoring the roadway is a significant factor if the lines are under pavement. Actual cost of removal relating to plant in service has averaged about 0.2% during the 1990-1993 period. Assuming this book cost of removal is correct and this level of cost of removal will continue over the remaining life of 29 years, a cost of removal factor of 6% results (.002 x 29 years). Therefore, we find that a negative 6% salvage factor, rather than the negative 40% proposed by FPUC, is more representative of the expected activity associated with this account.

Other (Steel) - As in the case with plastic, the focus of this account is with the cost of abandonment. During the period 1990-1993, FPUC's cost of removal for retirements averaged 268%. While

we do not question the fact that the company booked this activity, we are concerned with the assumption that this four year sample is representative of the entire account universe. Actual cost of removal relating to plant in service has averaged approximately 4.2% during the 1990-1993 period. Assuming this book cost of removal is correct and this level of cost removal will continue over the remaining life of 17 years, a cost of removal factor of 71% results (.042 x 17 years). It is appropriate, therefore, that a negative 71% salvage factor be utilized for this account. The depreciation expenses resulting from this cost of removal should closely match the cost of removal expenses the Company will incur on an annual basis.

General Plant

For the General Plant accounts, FPUC provided actuarial data for each account. Remaining lives for each account have been determined based on the recalculated average ages using this data. Our Staff and the Company were in agreement on all but the following five accounts:

Account 391.1 - Office Furniture - The retirement rate for this account for the period 1990-1993 has averaged 0.3%. This type of activity makes reliance on industry averages necessary. FPUC proposes a 25 year average service life. Currently, the industry average is 20.8 years with FPUC at 21 years. Therefore, we find that the currently prescribed 21 year average service life is appropriate. Using a recalculated age of 17 years, results in a 7.1 years remaining life.

Account 391.2 - Office Machines - Currently, FPUC, with a 5% net salvage factor, is at the high end of the industry averages. Salvage activity for the period 1990-1993 has been sporadic; therefore, we find no reason to change to the Company proposed net salvage factor of 10%. Further, retirement activity for this account has averaged 6.7% for 1990-1993. The 14 year service life coupled with an S2 curve results in a remaining life of 4.6 years for this account, which we find appropriate.

Account 392.2 - Light Trucks - The retirement activity associated with this account has averaged 0.4% for the period 1990-1993; therefore, we find the currently prescribed service life of 8 years to be appropriate. Using an R4 curve with a recalculated age of 6.1 years results in a remaining life of 3.1 years.

Account 395 - Laboratory Equipment - Retirement activity has been sporadic for the period of 1990-1993; therefore, reliance on industry averages is necessary. Currently, with a 26 year average

service life, FPUC is at the top of the industry averages; therefore, we find no reason to change the currently prescribed service life for this account. Using an R3 curve with a recalculated age of 14.8 years results in a remaining life of 12.5 years.

Account 396 - Power Operated Equipment - This account includes equipment used in construction and repair work such as back filling and trenching. The Company proposes a remaining life of 11.5 years, while Commission Staff recommends a 7.1 year remaining life. Currently FPUC is at the top of the industry averages with a 15 year average service life. Retirement activity for 1990-1993 has averaged 4.5% for this account. This activity does not support the Company proposed longer life of 19 years. Therefore, we find no reason to extend the current service life. Using an S3 curve with a recalculated age of 8.2 years results in a remaining life of 7.1 years.

Revising a utility's depreciation rates usually results in a change in its rate of investment tax credits (ITC) amortization and flowback of excess deferred income taxes.

Section 46(f)(6) of the Internal Revenue Code (IRC) states that the amortization of ITCs should be determined by the period of time used in computing depreciation expense for purposes of reflecting regulated operating results of the utility. Since we have adjusted depreciation rates, it is also appropriate to change the amortization of ITCs.

Section 203(e) of the Tax Reform Act of 1986 (TRA) prohibits rapid write-back of protected (depreciation related) deferred taxes. In addition, Rule 25-14.013, Accounting for Deferred Income Taxes under SFAS 109, Florida Administrative Code (F.A.C.), prohibits, without good cause shown, excess deferred income taxes associated with temporary differences from being reversed any faster than allowed under Section 203(e). Therefore, both the TRA and Rule 25-14.013, F.A.C., prohibit faster write-off of protected excess deferred taxes. Consequently, we find that the flowback of excess deferred taxes should be altered to comply with the TRA and Rule 25-14.013, F.A.C.

The Company has submitted detailed workpapers quantifying the impact of its' proposed depreciation rates on the amortization of ITCs and the flowback of excess deferred income taxes. However, the current amortization of ITCs and the flowback of excess deferred income taxes need to be revised to reflect the approved depreciation rates and recovery schedules. Also, the utility shall

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be required to file detailed calculations of the revised ITC amortization and flowback of excess deferred taxes at the time it files its February 1996 surveillance report.

In consideration of the foregoing, it is

ORDERED by the Florida Public Service Commission that the depreciation study submitted by Florida Public Utilities Company is approved as set forth in the body of the Order. It is further

ORDERED that each of the findings made in the body of this Order is hereby approved in every respect. It is further

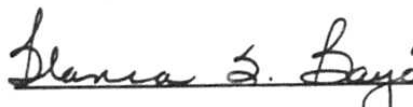
ORDERED that all matters contained in the schedule attached hereto are be reference incorporated herein. It is further

ORDERED that the new depreciation rates shall be implemented as of January 1, 1995. It is further

ORDERED that the utility file detailed calculations of the revised ITC amortization and flowback of excess deferred taxes at the time it files its February 1996 surveillance report. It is further

ORDERED that this Order shall become final and this docket shall be closed unless an appropriate petition for formal proceedings is received by the Division of Records and Reporting, 101 East Gaines Street, Tallahassee, Florida 32399-0870, by the close of business on the date indicated in the Notice of Further Proceedings or Judicial Review.

By ORDER of the Florida Public Service Commission, this 13th day of December, 1994.



BLANCA S. BAYÓ, Director
Division of Records and Reporting

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NOTICE OF FURTHER PROCEEDINGS OR JUDICIAL REVIEW

The Florida Public Service Commission is required by Section 120.59(4), Florida Statutes, to notify parties of any administrative hearing or judicial review of Commission orders that is available under Sections 120.57 or 120.68, Florida Statutes, as well as the procedures and time limits that apply. This notice should not be construed to mean all requests for an administrative hearing or judicial review will be granted or result in the relief sought.

The action proposed herein is preliminary in nature and will not become effective or final, except as provided by Rule 25-22.029, Florida Administrative Code. Any person whose substantial interests are affected by the action proposed by this order may file a petition for a formal proceeding, as provided by Rule 25-22.029(4), Florida Administrative Code, in the form provided by Rule 25-22.036(7)(a) and (f), Florida Administrative Code. This petition must be received by the Director, Division of Records and Reporting, 101 East Gaines Street, Tallahassee, Florida 32399-0870, by the close of business on January 3, 1995.

In the absence of such a petition, this order shall become effective on the day subsequent to the above date as provided by Rule 25-22.029(6), Florida Administrative Code.

Any objection or protest filed in this docket before the issuance date of this order is considered abandoned unless it satisfies the foregoing conditions and is renewed within the specified protest period.

If this order becomes final and effective on the date described above, any party substantially affected may request judicial review by the Florida Supreme Court in the case of an electric, gas or telephone utility or by the First District Court of Appeal in the case of a water or wastewater utility by filing a notice of appeal with the Director, Division of Records and Reporting and filing a copy of the notice of appeal and the filing fee with the appropriate court. This filing must be completed within thirty (30) days of the effective date of this order, pursuant to Rule 9.110, Florida Rules of Appellate Procedure. The notice of appeal must be in the form specified in Rule 9.900(a), Florida Rules of Appellate Procedure.

FLORIDA PUBLIC UTILITIES COMPANY
 1994 DEPRECIATION STUDY

COMMISSION APPROVED RATES				
AVERAGE REMAINING LIFE (YRS.)	NET SALVAGE (%)	ESTIMATED 1/1/95 RESERVE (%)	REMAINING LIFE RATE (%)	
DISTRIBUTION PLANT				
374.1 - Land Rights	31.0	0.0	0.00	3.2
375 - Structures and Improvements	24.0	0.0	35.50	2.7
376.1 - Mains - Plastic	39.0	(30.0)	14.60	3.0
376.2 - Mains - Other	28.0	(30.0)	40.46	3.2
378 - Measuring and Regulating Eq. - General	26.0	0.0	3.54	3.7
379 - Measuring and Regulating Eq. - City Gate	25.0	0.0	15.42	3.4
380.1 - Services - Plastic	29.0	(6.0)	14.46	3.2
380.2 - Services - Steel	17.0	(71.0)	56.86	6.7
381 - Meters	19.0	0.0	31.74	3.6
382 - Meter Installations	22.0	(5.0)	33.28	3.3
383 - House Regulators	22.0	0.0	26.17	3.4
384 - House Regulator Installation	26.0	0.0	23.09	3.0
385 - Industrial Measuring and Reg. Sta. Eq.	17.5	0.0	27.52	4.1
387 - Other Equipment	20.0	0.0	28.32	3.6
GENERAL PLANT				
390 - Structures & Improvements	24.0	0.0	37.64	2.6
391.1 - Office Furniture	7.1	5.0	49.44	6.4
391.2 - Office Machines	4.6	5.0	36.88	12.6
391.3 - Computer Equipment	4.0	5.0	48.07	11.7
392.1 - Transportation - Cars	2.2	10.0	29.61	27.5
392.2 - Transportation - Light Trucks, Vans	3.1	10.0	48.77	13.3
392.5 - Transportation - Trailers	3.1	0.0	43.65	18.2
393 - Stores Equipment	11.5	0.0	15.60	7.3
394 - Tools, Shop & Garage Equipment	12.6	0.0	36.59	5.0
395 - Laboratory Equipment	12.5	0.0	20.62	6.4
396 - Power Operated Equipment	7.1	0.0	52.55	6.7
397 - Communication Equipment	8.4	0.0	50.55	5.9
398 - Miscellaneous Equipment	7.0	0.0	27.20	10.4