

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

In re: 1998 depreciation study
by Florida Public Utilities
Company, Fernandina Beach
Division.

DOCKET NO. 980583-EI
ORDER NO. PSC-99-0954-PAA-EI
ISSUED: May 11, 1999

The following Commissioners participated in the disposition of this matter:

JOE GARCIA, Chairman
J. TERRY DEASON
SUSAN F. CLARK
JULIA L. JOHNSON
E. LEON JACOBS, JR.

NOTICE OF PROPOSED AGENCY ACTION
ORDER APPROVING REVISED DEPRECIATION RATES FOR
FLORIDA PUBLIC UTILITIES COMPANY, FERNANDINA BEACH DIVISION

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.

Rule 25-6.0436, Florida Administrative Code, requires Investor Owned Utilities to file comprehensive depreciation studies at least once every four years. On April 27, 1998, Florida Public Utilities Company (FPU or the company) filed its regular depreciation study for the Fernandina Beach Division in accordance with the rule. This Order addresses FPU's depreciation study.

A review of the company's plans and activity indicates the need for revising depreciation rates. FPU's current depreciation rates were approved effective January 1, 1995. The implementation date for the revised rates and recovery/amortization schedules is January 1, 1999. This is the approved date of implementation, because it is the earliest practicable date for utilizing the revised rates and schedules. We approve the lives, net salvages, reserves, and resultant depreciation rates as shown on Attachment A.

DOCUMENT NUMBER-DATE

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FPSC-REGS/REPORTING

The changes in the transmission and general plant depreciation rates can be attributed mainly to two factors - updated account ages to reflect activity since the last re prescription and/or changes in the associated reserve position. The changes in the distribution depreciation rates reflect a move more in line with current industry expectations. The accounts with a substantial change in depreciation expense are discussed below.

Station Equipment (Account 362)

The currently prescribed net salvage factor for this account is 10%. Insufficient retirement activity has been experienced upon which to rely for the determination of life or salvage. A negative net salvage of 5% indicates a move more in line with current industry expectations.

Poles, Towers, and Fixtures (Account 364)

The retirement rate for Poles, Towers, and Fixtures (Account 364) has averaged about 1% during the 1990-1997 period. Taking into consideration the account average age of 12.5 years, a life of about 30 years is more indicative of future expectations than the current 26 year service life.

The removal of equipment in this account is labor intensive. Recent net salvage experience in this account as well as a review of other company expectations, indicate a more negative net salvage of 30% is appropriate.

Overhead Conductors & Devices (Account 365)

The retirement rate for this account has averaged less than 1% during the 1994-1998 period. This type of activity makes reliance on industry averages necessary. Other companies in the state indicate lives ranging from 27 years to 34 years. Recognizing an average age of 13.9 years and the general lack of retirement activity, a 34 year life appears reasonable.

The removal of this equipment is also labor intensive. Other companies in the State are estimating net salvage values ranging from negative 10% to negative 50%. A negative 30% net salvage is in line with the account's experience and the industry range.

Underground Conductors & Devices (Account 367)

A 35 year average service life is more in line with the retirement experience and average age of this account than the current 32 year life.

Line Transformers (Account 368)

Other than FPU, no other company in the State has a net salvage value more than negative 25%. A negative 20% net salvage is a move more in line with other companies.

Services (Account 369)

Retirements have been insufficient in this account to rely on for life and salvage determination. This makes reliance on industry average necessary. A 34 year average life with a negative 30% net salvage are more in line with industry expectations than the currently approved values. Further, a 34 year life is reasonable considering the lack of retirement activity and the account's age.

Meters (Account 370)

The accounting treatment for this account is "cradle-to-grave". Meters are capitalized as soon as they are purchased and are not retired as they move from location to location. Retirement occurs when the meter can no longer be refurbished and is finally discarded. Accordingly, very little gross salvage and removal cost is expected to be realized upon retirement unless there are special conditions. A negative 10% net salvage is more in line with expectations for this type of plant than the currently prescribed negative 20% net salvage.

Transportation-Light Trucks

Generally, life expectations for light trucks are in the range of 7 years. For FPU, however, a 9 year life is indicated by the retirement data.

Transportation-Heavy Trucks

A 13 year life is more in line with FPU and industry expectations for this type of plant than the currently prescribed 11 year life.

ITC and EDIT

The current amortization of investment tax credits (ITCs) and the flowback of excess deferred income taxes shall be revised to reflect the approved depreciation rates and recovery schedules. The current amortization of ITCs and the flowback of excess deferred income taxes (EDIT) shall be revised to match the actual recovery periods for the related property. The utility shall file detailed calculations of the revised ITC amortization and flowback of EDIT at the same time it files its surveillance report covering the period ending December 31, 1999.

We have ordered revisions to the company's remaining lives, to be effective January 1, 1999. Revising a utility's book depreciation lives generally results in a change in its rate of ITC amortization and flowback of EDIT in order to comply with the normalization requirements of the Internal Revenue Code (IRC) and underlying Regulations (REGs) found in Sections 46, 167, and 168 and 1.46, 1.67, and 1.68, respectively.

Section 46(f)(6), IRC, states that the amortization of ITCs should be determined by the period of time actually used in computing depreciation expense for rate making purposes and on the regulated books of the utility. Because we have changed the remaining lives, it is also important to change the amortization of ITCs to avoid violation of the provisions of sections 46 and 1.46, IRC and REGs, respectively.

Section 203(3) of the Tax Reform Act of 1986 (the Act) prohibits rapid flowback of depreciation related (protected) EDIT. Further, Rule 25-14.013, Accounting for Deferred Income Taxes Under SFAS 109, Florida Administrative Code, generally prohibits EDIT from being written off any faster than allowed under the Act. The Act, SFAS 109, and Rule 25-14.013, Florida Administrative Code regulate the flowback of EDIT. Therefore, we find that the flowback of EDIT shall be adjusted to comply with the Act, SFAS 109, and Rule 25-14.013, Florida Administrative Code.

The Commission, the Internal Revenue Service, and independent outside auditors look to a company's books and records and at the orders and rules of the jurisdictional regulatory authorities to determine if the books and records are maintained in the appropriate manner and to determine the intent of the regulatory bodies with respect to normalization. The current amortization of ITCs and the flowback of EDIT must be revised to reflect the

ORDER NO. PSC-99-0954-PAA-EI
DOCKET NO. 980583-EI
PAGE 5

approved remaining lives. In order for there to be a clear audit trail, FPU shall revise ITCs and EDIT amortization and produce work papers to show how the revisions were made.

Therefore, we find that the current amortization of ITCs and the flowback of EDIT shall be revised to reflect the approved depreciation rates and recovery schedules. The utility shall file detailed calculations of the revised ITC amortization and flowback of EDIT at the same time it files its surveillance report covering the period ending December 31, 1999.

Based on the foregoing, it is

ORDERED by the Florida Public Service Commission that Florida Public Utilities Company's, Fernandina Beach Division, request to implement, effective January 1, 1999, final depreciation rates and general plant amortization as shown on Attachment A is granted. It is further

ORDERED that the current amortization of Investment Tax Credits and Excess Deferred Income Taxes shall be revised to reflect the approved depreciation rates. It is further,

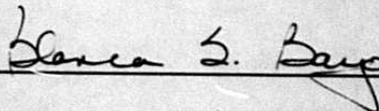
ORDERED that Florida Public Utilities Company shall file detailed calculations of the revised Investment Tax Credits amortization and flowback of Excess Deferred Income Taxes at the same time it files its surveillance report covering the period ending December 31, 1999. It is further

ORDERED that the provisions of this Order, issued as proposed agency action, shall become final and effective unless an appropriate petition, in the form provided by Rule 28-106.201, Florida Administrative Code, is received by the Director, Division of Records and Reporting, 2540 Shumard Oak Boulevard, Tallahassee, Florida 32399-0850, by the close of business on the date set forth in the "Notice of Further Proceedings" attached hereto. It is further

ORDERED that in the event this Order becomes final, this Docket shall be closed.

ORDER NO. PSC-99-0954-PAA-EI
DOCKET NO. 980583-EI
PAGE 6

By ORDER of the Florida Public Service Commission this 11th
day of May, 1999.



BLANCA S. BAYÓ, Director
Division of Records and Reporting

(S E A L)

LJP

NOTICE OF FURTHER PROCEEDINGS

The Florida Public Service Commission is required by Section 120.569(1), Florida Statutes, to notify parties of any administrative hearing that is available under Section 120.57 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 will be granted or result in the relief sought.

Mediation may be available on a case-by-case basis. If mediation is conducted, it does not affect a substantially interested person's right to a hearing.

The action proposed herein is preliminary in nature. Any person whose substantial interests are affected by the action proposed by this order may file a petition for a formal proceeding, in the form provided by Rule 28-106.201, Florida Administrative Code. This petition must be received by the Director, Division of Records and Reporting, 2540 Shumard Oak Boulevard, Tallahassee, Florida 32399-0850, by the close of business on June 1, 1999.

In the absence of such a petition, this order shall become final and effective upon the issuance of a consummating order.

ORDER NO. PSC-99-0954-PAA-EI
DOCKET NO. 980583-EI
PAGE 7

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.

FLORIDA PUBLIC UTILITIES - FERNANDINA BEACH DIVISION
 DOCKET NO. 980583-EI
 1998 DEPRECIATION STUDY

ACCOUNT	COMMISSION APPROVED			
	AVERAGE REMAINING LIFE (YRS.)	NET SALVAGE (%)	ESTIMATED 1/1/99 RESERVE (%)	REMAINING LIFE RATE (%)
TRANSMISSION				
350.01 - Land Rights	27.0	0.0	42.7	2.1
352 - Structures and Improvements	32.0	0.0	34.4	2.1
353 - Station Equipment	23.0	10.0	31.7	2.5
354 - Towers & Fixtures	28.0	(10.0)	58.8	1.8
355 - Poles & Fixtures	27.0	(30.0)	26.6	3.8
356 - Overhead Conductors & Devices	23.0	(10.0)	39.8	3.1
359 - Roads & Trails	18.9	0.0	26.6	3.9
DISTRIBUTION PLANT				
360.1 - Land Rights	19.9	0.0	0.0	5.0
361 - Structures and Improvements	23.0	0.0	50.5	2.2
362 - Station Equipment	17.7	(5.0)	36.6	3.9
364 - Poles, Towers, and Fixtures	18.3	(30.0)	39.5	4.9
365 - Overhead Conductors & Devices	21.0	(30.0)	36.4	4.5
366 - Underground Conduit	40.0	0.0	20.3	2.0
367 - Underground Conductors & Devices	23.0	0.0	35.4	2.8
368 - Line Transformers	17.8	(20.0)	42.4	4.4
369 - Services	25.0	(30.0)	34.4	3.8
370 - Meters	16.9	(10.0)	50.4	3.5
371 - Installation on Customers' Premises	7.6	10.0	43.6	6.1
373 - Street Lighting & Signal Systems	15.3	0.0	34.5	4.3
GENERAL PLANT				
390 - Structures & Improvements	32.0	0.0	35.8	2.0
392.1 - Transportation-Cars	4.2	15.0	59.3	6.1
392.2 - Transportation-Light Trucks & Vans	2.9	10.0	52.3	13.0
392.3 - Transportation - Heavy Trucks	8.5	10.0	18.6	8.4
392.4 - Transportation - Trailers	12.6	5.0	62.9	2.6
393.1 - Stores Equipment-Fixed	8.5	0.0	63.0	4.4
394.1 - Tools, Shop & Garage Equipment	26.0	0.0	9.7	3.5
395.1 - Laboratory Equipment	22.0	0.0	23.7	3.5
396 - Power Operated Equipment	5.3	5.0	72.8	4.2
397 - Communication Equipment	4.4	0.0	64.2	8.1