

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

In re: 2002 depreciation filing
by Florida Public Utilities
Company.

DOCKET NO. 020853-EI
ORDER NO. PSC-03-1473-PAA-EI
ISSUED: December 31, 2003

The following Commissioners participated in the disposition of this matter:

LILA A. JABER, Chairman
J. TERRY DEASON
BRAULIO L. BAEZ
RUDOLPH "RUDY" BRADLEY
CHARLES M. DAVIDSON

NOTICE OF PROPOSED AGENCY ACTION
ORDER REQUIRING CORRECTIVE RESERVE ALLOCATIONS, CONSOLIDATING
DEPRECIATION RATES, AND REQUIRING FILING OF DETAILED CALCULATIONS
SHOWING REVISIONS OF INVESTMENT TAX CREDITS AMORTIZATION AND
FLOWBACKS OF EXCESS DEFERRED INCOME TAXES

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 (F.A.C.).

I. BACKGROUND

Rule 25-6.0436, F.A.C., requires investor owned electric companies to file a comprehensive depreciation study at least once every four years. On July 20, 2002, Florida Public Utilities Company (FPUC or company) filed its regular depreciation study for the Fernandina Beach division in accordance with this rule. On August 12, 2003, FPUC updated the depreciation study to reflect the combined Fernandina Beach and Marianna electric divisions. FPUC's last comprehensive depreciation study was filed on May 2, 2001, for Marianna and April 27, 1998, for Fernandina Beach.

DOCUMENT NUMBER-DATE

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FPSC-OPERATIONALS

The main emphasis of the current study is to establish depreciation rates for the combined assets of Fernandina Beach and Marianna and to recognize the effects of the changes brought by the combination of the two divisions. We have jurisdiction in this matter through the provisions of Chapter 366, Florida Statutes, including Sections 366.04, 366.05, and 366.06, Florida Statutes.

II. CONSOLIDATION OF DEPRECIATION RATES

FPUC operates two electric divisions, Marianna and Fernandina Beach. FPUC's last comprehensive depreciation study was filed for the Marianna division on May 2, 2001, with an effective date for revised depreciation rates of January 1, 2002. The last depreciation study for Fernandina Beach was filed on April 27, 1998, with an effective date for revised depreciation rates of January 1, 1999. For each of the electric divisions, separate depreciation rates have historically been maintained for the investments.

The current study represents the consolidation of investments, reserves, and activity for the two divisions. Also, this consolidation is consistent with the company's filed application for a rate increase in which it has asked for the two systems to be consolidated for ratemaking purposes. This case is scheduled to be addressed in February 2004 in Docket No. 030438-EI, Petition For Rate Increase By Florida Public Utilities Company. The depreciation rates currently applied to the Fernandina Beach and Marianna investments are those approved, respectively, by Order No. PSC-99-0954-PAA-EI, issued May 11, 1999, Docket No. 980583-EI, In Re: 1998 depreciation study by Florida Public Utilities Company, Fernandina Beach Division, and by Order No. PSC-01-2270-PAA-EI, issued November 19, 2001, Docket No. 010669-EI, In Re: Request for approval of implementation date of January 1, 2002, for new depreciation rates for Marianna Electric Division by Florida Public Utilities Company.

In summary, this combined study shows us that the depreciation rates should be changed to address the appropriate lives, salvage values, reserves, and remaining life depreciation rates for the combined divisions.

III. IMPLEMENTATION DATE FOR NEW RATES

FPUC has proposed an implementation date for new depreciation rates of January 1, 2004. Originally, FPUC proposed an implementation date of January 1, 2003. However, when the study was updated to include the Marianna assets, the company revised its proposed implementation date to January 1, 2004, for new depreciation rates for combined divisions. A January 1, 2004 date closely approximates the date of new revenues currently being addressed in Docket No. 030438-EI, Petition For Rate Increase By Florida Public Utilities Company. In keeping with Rule 25-6.0436, F.A.C., all supportive data and calculations coincide with this date. Therefore, we approve the January 1, 2004 implementation date as being the earliest practicable date for utilizing the revised rates.

IV. CORRECTIVE RESERVE TRANSFERS

Reserve imbalances are primarily a matter of differences between current and past projections. This is the first overall review of FPUC's combined divisions' investments and reserves. The combined effect of rates and allocations results in surpluses and deficits which must be addressed. We find that there should be corrective action only for those accounts that have significant changes and imbalances, and the corrective reserve transfers should be as shown on Attachment A.

In the case of FPUC, a reserve deficiency is apparent for Overhead Conductors, Account 356; Line Transformers, Account 368; and Transportation-Heavy Trucks, Account 392.3. The calculated reserve surpluses existing in Station Equipment, Account 353; Overhead Conductors, Account 365; and Transportation-Light Trucks and Vans, Account 392.2, can be used to correct the accounts with deficiencies. This corrective reserve action will bring each affected account's reserve more in line with its calculated theoretical level.

In light of the possible impact on cost allocations, the company should make corresponding entries to the related depreciation expense accounts.

V. DEPRECIATION RATES AND RECOVERY SCHEDULES

Our determinations of the remaining lives, net salvage values, reserve positions, and resultant depreciation rates and recovery schedules are shown on Attachment B. These changes are the result of a comprehensive review of FPUC's submitted data and information for the combined electric divisions. The investments and reserves reflect estimated amounts as of January 1, 2004, restated to reflect corrective measures approved above.

This filing was essentially a staff-assisted study. The company provided aged retirement data and the average age distributions of the surviving investments for each account for each division. Our staff worked with the company in developing appropriate life and salvage values from submitted plant data. Investments, reserves, and activity were actual through September 2003 and then estimated through December 2003 on a combined electric division basis.

As a result of the review and analytical process, FPUC has agreed with our staff concerning life and salvage values for each account. The changes in depreciation rates can be attributed mainly to (1) updated account ages to reflect activity since the last depreciation study for each division, and (2) the consolidation of Fernandina Beach and Marianna through the combining of account investments and reserves. A brief discussion of salient matters is set forth below.

A. Transmission Plant

Fernandina Beach is the only FPUC division that has transmission assets. The retirement activity for each of the transmission accounts has been insufficient to perform any meaningful statistical analysis. This makes it necessary to rely on industry averages for life and salvage parameters. The approved service life projections and net salvage for Land Rights, Account 350.1; Station Equipment, Account 353; and Overhead Conductors and Devices, Account 356, as shown on Attachment B are more in line with industry averages, and are approved.

Land Rights, Account 350.1

The current average age for this account's investment is 29 years. A service life of 50 years is more in line with life expectations of other regulated electric utilities in Florida. A remaining life of 21 years is approved for this account.

Station Equipment, Account 353

The service lives for Station Equipment range from 35 to 45 years for the regulated electric utilities in Florida, with an industry average of about 41 years. An increase of the currently prescribed service life from 35 to 40 years is more in line with the industry average, and is approved. This account has experienced no retirement activity in the past 8 years. Additionally, the account has experienced a growth rate of 1 per cent in the last 5 years.

Overhead Conductors and Devices, Account 356

Service lives for Overhead Conductors and Devices range from 34 to 40 years for the other Florida regulated utilities, averaging about 37 years. An increase in service life from 36 to 40 years is more in line with the industry averages, and is approved. There has been major growth in this account in 2002 due to completion of the re-conductoring of a single circuit 138KV transmission line and the addition of a second circuit on the line. There were no retirements for the period of 1996-2002.

B. Distribution Plant

The following changes in the distribution plant depreciation rates more accurately reflect current industry expectations.

Land Rights, Account 360.1

The service lives for land rights range from 30 to 60 years throughout the regulated electric utilities in Florida. An average service life of 56 years is in line with the industry average of regulated utilities in Florida, and is approved. An average age of 15.6 years for the Fernandina Beach and Marianna combined assets

coupled with a 56 year average service life results in a 40-year average remaining life.

Station Equipment, Account 362

This account has a composite service life of 32 years, but the industry expectations range from 30 to 38 years, averaging 36 years. As of the last study for Marianna, the service life of 38 years was approved, and currently this division has only 27% of the combined investments for 2004. The Fernandina Beach division has 72% of the combined plant investment but the 1998 depreciation study approved only 30 years service life. Although it may be on the high end of the industry's service life, 38 years is approved to bring the combined investments of the divisions more in line with the industry expectations. A 38-year average service life used with an average age of 13.8 for the combined investments, results in an average remaining life of 24 years.

The composite net salvage for this account is a negative 6%. Other regulated Florida companies indicate a net salvage ranging from negative 10% to positive 15%. The approved net salvage for this combined account is a negative 10% which is more in line with other electric utilities and the experience of this account.

Poles, Towers, and Fixtures, Account 364

This account experienced a 55% growth rate during the 1998-2002 period because of the replacement of many decayed poles. The removal of the poles is very labor intensive as evidenced by the 1998-2002 recorded cost of removal average, which is greater than 100% with realized gross salvage of about 5%. Retirements have averaged less than 1%. Other Florida regulated electric utilities are experiencing net salvage factors ranging from negative 25% to negative 60%, averaging negative 35%. The approved net salvage of negative 40% gives recognition to these labor trends. Also, the approved service life of 33 years is more in line with industry expectations.

Overhead Conductors and Devices, Account 365

The removal of this plant equipment is labor-intensive and is reflected in the account's net salvage experience. For other regulated Florida utilities, net salvage ranges from negative 5% to negative 50%, averaging negative 28%. A negative net salvage of 30% is approved as being more in line with these trends.

Line Transformers, Account 368

The composite net salvage for this account is a negative 15%. Other Florida utilities indicate a net salvage ranging from negative 10% to negative 25%. A negative 20% net salvage is more in line with other electric utilities and the experience of the account, and is approved.

Overhead Underground Services, Account 369

Retirements averaging .06% during the 1998-2002 period have been insufficient to rely on for life and salvage determination. This makes reliance on industry average necessary. A 34-year service life and a negative 30% net salvage are approved as being more in line with industry expectations. An average age of twelve years results in a 23-year average remaining life.

Street Lighting and Systems, Account 373

A net salvage of negative 10% is approved and is more in line with the indicated experience of this account and other regulated electric utilities' expectations.

C. General Plant

Transportation-Light Trucks and Vans, Account 392.2

The approved service life of 8 years is in line with the retirement experience of the account. An average age of 4.1 years results in an average remaining life of 3.9 years.

Transportation-Heavy Trucks, Account 392.3

A 12-year service life is approved as indicated by the submitted retirement data for the combined divisions. An average age of 8.3 years results in an average remaining life of 3.7 years.

VI. INVESTMENT TAX CREDITS AND EXCESS DEFERRED INCOME TAXES

Earlier in this Order, we made revisions to the company's remaining lives, to be effective January 1, 2004. 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 ratemaking purposes and on the regulated books of the utility. Because we have made a change in 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, F.A.C., generally prohibits EDIT from being written off any faster than allowed under the Act. The Act, SFAS 109, and Rule 25-14.013 regulate the flowback of EDIT. Therefore, the flowback of EDIT shall be adjusted to comply with the Act, SFAS 109, and Rule 25-14.013, F.A.C.

Our staff, the Internal Revenue Service, and independent outside auditors look at 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 in regard to normalization. Therefore, the current

amortization of ITCs and the flowback of EDIT shall be revised to reflect the approved remaining lives. In order for there to be a clear audit trail, a prudent utility will revise ITCs and EDIT amortization and produce work papers to show how the revisions were made. 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, 2004.

Based on the foregoing, it is

ORDERED by the Florida Public Service Commission that the corrective reserve transfers delineated in this Order and set forth on Attachment A are approved and shall be made by Florida Public Utilities Company. It is further

ORDERED that remaining lives, net salvages, and resulting depreciation rates set forth in Attachment B to this Order are approved, effective January 1, 2004. It is further

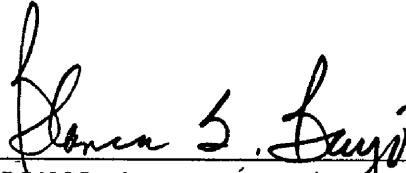
ORDERED that the provisions of this Order, issued as proposed agency action, shall become final and effective upon the issuance of a Consummating Order unless an appropriate petition, in the form provided by Rule 28-106.201, Florida Administrative Code, is received by the Director, Division of the Commission Clerk and Administrative Services, 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 Florida Public Utilities Company shall file detailed calculations of the revised Investment Tax Credit amortization and flowback of excess deferred income taxes at the same time it files its surveillance report covering the period ending December 31, 2004. It is further

ORDERED that if no person whose substantial interests are affected by the proposed agency action files a protest within 21 days of the issuance of the order, this docket shall be closed upon the issuance of a consummating order.

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By ORDER of the Florida Public Service Commission this 31st
Day of December, 2003.



BLANCA S. BAYÓ, Director
Division of the Commission Clerk
and Administrative Services

(S E A L)

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NOTICE OF FURTHER PROCEEDINGS OR JUDICIAL REVIEW

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

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the Commission Clerk and Administrative Services, 2540 Shumard Oak Boulevard, Tallahassee, Florida 32399-0850, by the close of business on January 21, 2004.

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

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

APPROVED RESERVE ALLOCATIONS				
	Actual 01/01/2004 Book Reserve	Theoretical Reserve	Approved Allocations	Restated 01/01/2004 Reserve
	(\$)	(\$)	(\$)	(\$)
353 Station Equipment	860,904	697,472	(163,432)	697,472
356 OH Conductors	246,674	525,175	163,432	410,106
365 OH Conductors	4,418,287	4,040,289	(377,998)	4,040,289
368 Line Transformers	5,784,837	6,413,721	377,998	6,162,835
392.2 Light Trucks	326,279	231,848	(94,431)	231,848
392.3 Heavy Trucks	813,872	1,032,304	94,431	908,303
Total	12,450,853	12,940,809	0	12,450,853

FLORIDA PUBLIC UTILITIES
 2002 DEPRECIATION STUDY
 COMPARISON OF RATES AND COMPONENTS

ACCOUNT	CURRENT			COMMISSION APPROVED			
	AVERAGE		REMAINING	AVERAGE		ESTIMATED	REMAINING
	REMAINING	NET	LIFE	REMAINING	NET	1/1/04	LIFE
	LIFE	SALVAGE	RATE	LIFE	SALVAGE	RESERVE	RATE
(YRS.)	(%)	(%)	(YRS.)	(%)	(%)	(%)	
TRANSMISSION PLANT							
350.1 - Land Rights	27.0	0.0	2.1	21.0	0.0	53.16	2.2
352 - Structures and Improvements	32.0	0.0	2.1	25.0	0.0	49.04	2.0
353 - Station Equipment	23.0	10.0	2.5	24.0	10.0	34.8	2.3
354 - Towers and Fixtures	28.0	(10.0)	1.8	24.0	(20.0)	67.92	2.2
355 - Poles and Fixtures	27.0	(30.0)	3.8	27.0	(30.0)	26.94	3.8
356 - Overhead Conductors and Devices	23.0	(10.0)	3.1	31.0	(20.0)	21.08	3.2
359 - Roads and Trails	18.9	0.0	3.9	13.9	0.0	46.04	3.9
DISTRIBUTION PLANT							
360.1 - Land Rights	45.0	0.0	1.9	40.0	0.0	23.56	1.9
361 - Structures and Improvements	23.0	0.0	2.2	34.0	0.0	25.28	
362 - Station Equipment	18.5	(6.0)	3.6	24.0	(10.0)	38.95	3.0
364 - Poles, Towers, and Fixtures	20.0	(26.0)	4.2	23.0	(40.0)	42.54	4.2
365 - Overhead Conductors & Devices	18.9	(27.0)	4.4	22.0	(30.0)	46.4	3.8
366 - Underground Conduit	40.0	0.0	2.0	41.0	0.0	18.94	2.0
367 - Underground Conductors & Devices	23.0	0.0	2.8	24.0	0.0	31.21	2.9
368 - Line Transformers	16.0	(15.0)	4.2	15.8	(20.0)	53.06	4.2
369 - Services	22.0	(26.0)	3.9	23.0	(30.0)	42.54	3.8
370 - Meters	15.4	(10.0)	3.6	15.4	(10.0)	54.29	3.6
371 - Installation on Customers' Premises	8.4	13.0	6.4	9.0	15.0	29.76	6.1
373 - Street Lighting & Signal Systems	15.0	(3.0)	4.7	14.6	(10.0)	28.34	5.6
GENERAL PLANT							
390 - Structures & Improvements	39.0	(3.0)	2.1	36.0	0.0	27.99	2.0
392.1 - Transportation-Cars	3.5	15.0	10.8	3.1	15.0	56.40	9.2
392.2 - Transportation-Light Trucks & Vans	2.9	10.0	13.0	3.9	10.0	45.93	11.3
392.3 - Transportation - Heavy Trucks	6.3	10.0	8.8	3.7	10.0	54.77	9.5
392.4 - Transportation - Vans	14.0	5.0	3.4	20.0	5.0	15.47	4.0
396 - Power Operated Equipment	5.3	5.0	5.4	4.3	5.0	67.71	6.3

FLORIDA PUBLIC UTILITIES
2002 DEPRECIATION STUDY
COMPARISON OF EXPENSES

ACCOUNT	01/01/2004 INVESTMENT	01/01/2004 RESERVE	CURRENT		STAFF RECOMMENDED		
			RATE	EXPENSES	RATE	EXPENSES	CHANGE EXPENSES
	(\$)	(\$)	(%)	(\$)	(%)	(\$)	(\$)
TRANSMISSION PLANT							
350.1 - Land Rights	56,519	30,044	2.1	1,187	2.2	1,243	56
352 - Structures and Improvements	26,401	12,948	2.1	554	2.0	528	(26)
353 - Station Equipment	2,004,229	697,472 *	2.5	50,106	2.3 *	46,097	(4,009)
354 - Towers and Fixtures	244,665	166,167	1.8	4,404	2.2	5,383	979
355 - Poles and Fixtures	2,349,304	632,892	3.8	89,274	3.8	89,274	0
356 - Overhead Conductors and Devices	1,945,093	410,106 *	3.1	60,298	3.2 *	62,243	1,945
359 - Roads and Trails	6,788	3,125	3.9	265	3.9	265	0
TOTAL TRANSMISSION PLANT	6,576,480	1,922,710		206,088		205,033	(1,055)
DISTRIBUTION PLANT							
360.1 - Land Rights	16,188	3,815	1.9	308	1.9	308	0
361 - Structures and Improvements	96,042	24,283	2.2	2,113	2.2	2,113	0
362 - Station Equipment	3,805,275	1,482,261	3.6	136,990	3.0	114,158	(22,832)
364 - Poles, Towers, and Fixtures	7,744,022	3,293,966	4.2	325,249	4.2	325,249	0
365 - Overhead Conductors & Devices	8,707,520	4,040,289 *	4.4	383,131	3.8 *	330,886	(52,245)
366 - Underground Conduit	2,193,163	415,492	2.0	43,863	2.0	43,863	0
367 - Underground Conductors & Devices	3,989,658	1,245,008	2.8	111,710	2.9	115,700	3,990
368 - Line Transformers	11,614,852	6,162,835 *	4.2	487,824	4.2 *	487,824	0
369 - Services	6,958,775	2,959,982	3.9	271,392	3.8	264,433	(6,959)
370 - Meters	3,074,461	1,669,232	3.6	110,681	3.6	110,681	0
371 - Installation on Customers' Premises	1,575,822	468,891	6.4	100,853	6.1	96,125	(4,728)
373 - Street Lighting & Signal Systems	1,104,292	312,988	4.7	51,902	5.6	61,840	9,938
TOTAL DISTRIBUTION PLANT	50,880,070	22,079,043		2,026,016		1,953,180	(72,836)
GENERAL PLANT							
390 - Structures & Improvements	1,363,383	381,604	2.1	28,631	2.0	27,268	(1,363)
392.1 - Transportation-Cars	96,020	54,151	10.8	10,370	9.2	8,834	(1,536)
392.2 - Transportation-Light Trucks & Vans	504,786	231,848 *	13.0	65,622	11.3 *	57,041	(8,581)
392.3 - Transportation - Heavy Trucks	1,658,320	908,303 *	8.8	145,932	9.5 *	157,540	11,608
392.4 - Transportation - Vans	107,072	16,561	3.4	3,640	4.0	4,283	643
396 - Power Operated Equipment	116,642	78,973	5.4	6,299	6.3	7,348	1,049
TOTAL GENERAL PROPERTY	3,846,223	1,671,439		260,494		262,314	1,820
TOTAL RATES	61,302,773	25,673,193		2,286,510		2,215,494	(72,071)

*Denotes restated reserve after corrective transfers.