

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

In re: 2007 depreciation study by Florida
Public Utilities Company.

DOCKET NO. 070382-EI
ORDER NO. PSC-08-0094-PAA-EI
ISSUED: February 14, 2008

The following Commissioners participated in the disposition of this matter:

MATTHEW M. CARTER II, Chairman
LISA POLAK EDGAR
KATRINA J. McMURRIAN
NANCY ARGENZIANO
NATHAN A. SKOP

NOTICE OF PROPOSED AGENCY ACTION
ORDER REGARDING DEPRECIATION STUDY

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.).

BACKGROUND

Rule 25-6.0436(8)(a), F.A.C., requires investor-owned electric utilities to file a comprehensive depreciation study at least once every four years. On June 21, 2007, Florida Public Utilities Company (FPUC or company) filed its 2006 depreciation study in compliance with this rule. The company's last depreciation review was filed July 26, 2002, with an effective date of January 1, 2004. We have jurisdiction over this matter pursuant to Sections 350.115 and 366.05, Florida Statutes.

DECISION

FPUC has filed its current depreciation study in accordance with Rule 25-6.0436, F.A.C. Our review of the company's plans and activities indicates a need for a revision to the currently prescribed depreciation rates. Rule 25-6.0436(6)(b), F.A.C., requires that the data submitted in a depreciation study, including plant and reserve balances or company estimates, "shall be brought to the effective date of the proposed rates." We find that the supporting data and calculations provided by FPUC support an implementation date of January 1, 2008.

DOCUMENT NUMBER-DATE

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FPSC-COMMISSION CLERK

Revised Depreciation Rates

The approved lives, net salvages, reserves, resultant depreciation rates, and recovery schedules explained below are shown on Attachment A to this Order. Attachment A also shows a comparison of the currently approved depreciation rate parameters and those that we are revising, which the company agrees are appropriate. Attachment B shows an increase in annual expenses of approximately \$127,295 based on January 1, 2008, investments. The company provided raw data as well as aging of the accounts, and the life and salvage values were developed jointly between the company and our staff. As a result of the review and analytical process, the company agrees with the lives, net salvages, and resulting depreciation rates that we approve for all accounts.

Depreciation Parameters

Our changes in the depreciation life characteristics and the salvage parameters for the distribution and general plant accounts are necessary for two reasons: updated account ages to reflect activity since the last reprecipitation, such as new investment; and changes in the associated reserve position. The accounts with substantial changes are discussed below. In addition to its last depreciation study that was effective January 1, 2004, the company completed a rate case in 2004. Except as discussed below, changes are due to increased or decreased investment that results in a change in age. The current lives and rates are reasonable when compared with industry averages.

Account 350.1 – Land Rights

The company's filing showed an age of 43.5 years for this account. The previous study showed an age of 29 years. There has been no activity in the account, and there is no reason for the increase in the age. Our review of Schedule N of the company's filing shows that the correct age should be 33 years.

FPUC proposed an increase in the Average Service Life (ASL) from 50 to 56 years. This is in line with the industry average of 56.6 years. Therefore, we approve the increase the company proposed.

Account 352 – Structures and Improvements

The company proposes a change in ASL from 45 to 50 years. This is in line with the industry average of 49.4 years. Therefore, we approve the change. No other changes have been proposed.

Account 353 – Station Equipment

The company proposes a change in ASL from 40 to 38 years. The industry average is 43.6 years. The change would move the ASL farther from the average. Because the current 40 year life is reasonable we will not approve the change, and the ASL shall remain 40 years.

Account 354 – Towers and Fixtures

The current ASL of 50 years is in line with the industry average of 50.2 years. The company proposes a change in net salvage from -20 percent to -15 percent. Although this change moves away from the industry average, FPUC's own experience shows moderate amounts of salvage and cost of removal. Therefore, we approve the company's proposed change in salvage.

Account 355 – Poles and Fixtures

The company did not propose any changes to this account.

It has come to our attention that the company plans to replace the wood transmission poles with concrete poles as replacements are needed. Concrete poles have different life characteristics than wood poles. A review of industry averages shows that three other investor-owned electric companies in Florida have 40 to 50 year average service lives for transmission poles with -30 percent salvage. Thus we find it is appropriate to establish a sub-account, 355.1, for concrete transmission poles, with a 40 year ASL and -30 percent salvage.

Account 356 – Overhead Conductors and Devices

FPUC has proposed a change in net salvage from -20 percent to -10 percent, which reflects a reduction in cost of removal. Although this change diverges from the industry average, FPUC's own experience shows moderate amounts of salvage and cost of removal. Therefore, we approve the proposed change.

Account 359 – Roads and Trails

This account shows an average age of 22.7 years, but the average age of this account in the previous study was 41.1 years. An adjustment was made to the account in 1994. In subsequent studies, FPUC treated the entire account as having a 1962 vintage. Accordingly, we find that the age of 45.1 years shall be continued, including the four years since the last study.

Account 361 – Structures and Improvements

FPUC proposes an increase in the ASL from 45 to 50 years. This is slightly higher than the industry average, but is within reason, since the company has vintages in the account dating back to 1959. We approve the proposed increase. No other changes have been proposed.

Account 364 – Poles, Towers and Fixtures

The company proposes an increase in ASL from 33 years to 35 years, and a change in net salvage from -40 percent to -45 percent. Both of these changes are reasonable given the company's experience, and we therefore approve them.

Account 365 – Overhead Conductors and Devices

FPUC proposes a change in net salvage from -30 percent to -35 percent, reflecting an increase in cost of removal. This change is appropriate given the company's experience, and we therefore approve it.

Account 369 – Overhead Services

FPUC proposes a change in net salvage from -30 percent to -35 percent, reflecting an increase in cost of removal. This change is reasonable given the company's experience, and we therefore approve it.

Account 370 – Meters

FPUC proposes a change in net salvage from -10 percent to -5 percent, reflecting a decrease in cost of removal. This is in line with the company's recent experience, and we therefore approve it.

Account 392.1 – Transportation – Cars

FPUC proposes a change in ASL from 6 to 8 years. The age of the cars in the account ranges from 5 to 8 years. Thus, a longer life is more representative of the actual experience. However, change causes volatility in the depreciation rate and we find it appropriate to take a more gradual approach. Therefore, we approve a 7 year ASL.

Account 392.2– Transportation – Light Trucks and Vans

FPUC proposes a change in net salvage from 10 percent to 20 percent. This is reasonable based on the company's experience, and we therefore approve it. FPUC proposes a change in ASL from 8 to 10 years. However, as discussed above, we find that a 9 year life would mitigate any resulting volatility in the depreciation rate.

Account 392.3 – Transportation – Heavy Trucks and Vans

FPUC proposes a change in ASL from 12 to 15 years. As discussed above, we find that a 13 year life would mitigate any resulting volatility in the depreciation rate.

Account 392.4 – Transportation – Trailers

FPUC proposes a change in net salvage from 5 percent to 0. Although the company's experience has been limited, it shows a 10 percent salvage. The industry average is 28 percent. Because this account has little activity, however, we find it appropriate to retain a 5 percent salvage at this time.

Account 396 – Power Operated Equipment

We find, and the company agrees, that the ASL shall be increased from 15 years to 20 years. No other changes are proposed. The industry average for this account is 13 years. FPUC stated, however, that it has a policy of repairing equipment as necessary rather than replacing it, which the company believes has been the more cost effective approach. While there are pieces of equipment with vintages dating back to 1980, FPUC states that it has verified the existence of the equipment through a physical inventory. Therefore, a longer ASL is warranted.

Reserve Allocations

As part of our review of the company’s depreciation study, we reviewed the reserve position for each account and determined that certain corrections should be made. When significant surpluses and deficits exist, corrective reserve transfers between accounts should be recovered as quickly as possible, unless such recovery prevents the company from earning a fair and reasonable return on its investments. The effect of prior depreciation rates, average service lives, and net salvage projections results in surpluses and deficits that need to be addressed. The reserve transfers shown below are based upon the company’s planning and expectation of future retirements, which may further impact several plant account balances. As we review the company’s annual status report of plant accounts, we will monitor the company’s reserve position. We approve the reserve allocations below. These allocations bring each account more in line with its theoretically correct reserve level.

RESERVE ALLOCATIONS					
Accounts		Projected 12/31/2007 Reserve	Theoretical Reserve	Approved Allocations	Restated 01/01/2008 Reserve
TRANSMISSION					
350.1	Land Rights	\$35,031	\$33,120	(\$1,911)	\$33,120
352	Structures and Improvements	10,761	9,683	(1,078)	9,683
355	Poles and Fixtures - Wood	924,193	1,334,657	43,391	967,584
356	Overhead Conductors and Devices	633,447	593,045	(40,402)	593,045
DISTRIBUTION					
360.1	Land Rights	\$5,354	5,219	(\$135)	5,219
361	Structures and Improvements	32,732	28,813	(3,919)	28,813
366	Underground Conduit	598,956	512,012	(86,944)	512,012
367	Underground Conductors and devices	1,691,639	1,612,806	(78,833)	1,612,806
373	Street Lighting and Signal Systems	508,328	765,019	169,831	678,159
GENERAL PLANT					
390	Structures and Improvements	\$492,368	509,029	16,661	509,029
392.3	Transportation – Heavy Trucks	1,219,379	783,276	(7,746)	1,211,633
392.4	Transportation – Trailers	30,213	30,794	581	30,794
396	Power Operated Equipment	188,392	178,896	(9,496)	178,896
Total		\$6,370,793	\$6,396,369	\$0	\$6,370,793

Based on the foregoing, it is

ORDERED by the Florida Public Service Commission that the 2007 depreciation study by Florida Public Utilities Company is approved as set out in the body of this Order. It is further

ORDERED that the implementation date of the new depreciation rates approved in this Order shall be January 1, 2008. 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, F.A.C., is received by the Commission Clerk, 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.

By ORDER of the Florida Public Service Commission this 14th day of February, 2008.



ANN COLE
Commission Clerk

(S E A L)

MCB

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 Office of Commission Clerk, 2540 Shumard Oak Boulevard, Tallahassee, Florida 32399-0850, by the close of business on March 6, 2008.

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.

FLORIDA PUBLIC UTILITIES
2006 DEPRECIATION STUDY
COMPARISON OF RATES AND COMPONENTS

Attachment A

ACCOUNT	CURRENT			COMMISSION APPROVED			
	AVERAGE REMAINING LIFE (YRS.)	NET SALVAGE (%)	REMAINING LIFE RATE (%)	AVERAGE REMAINING LIFE (YRS.)	NET SALVAGE (%)	ESTIMATED 1/1/08 RESERVE (%)	REMAINING LIFE RATE (%)
TRANSMISSION PLANT							
350.1 - Land Rights	21.0	0.0	2.2	23.0	0.0	58.6	1.8
352 - Structures and Improvements	25.0	0.0	2.0	28.0	0.0	44	2.0
353 - Station Equipment	24.0	10.0	2.3	25.0	10.0	26.83	2.5
354 - Towers and Fixtures	24.0	(20.0)	2.2	16.5	(15.0)	76.73	2.3
355 - Poles and Fixtures- Wood	27.0	(30.0)	3.8	21.0	(30.0)	40.96	4.2
355.1 Poles and Fixtures - Concrete	N/A	N/A	N/A	40.0	(30.0)	0	3.3
356 - Overhead Conductors and Devices	31.0	(20.0)	3.2	28.0	(10.0)	31.6	2.8
359 - Roads and Trails	13.9	0.0	3.9	10.0	0.0	61.61	3.8
DISTRIBUTION PLANT							
360.1 - Land Rights	40.0	0.0	1.9	42.0	0.0	24.4	1.8
361 - Structures and Improvements	34.0	0.0	2.2	35.0	0.0	30	2.0
362 - Station Equipment	24.0	(10.0)	3.0	31.0	(10.0)	19.39	2.9
364 - Poles, Towers, and Fixtures	23.0	(40.0)	4.2	21.0	(45.0)	45.82	4.7
365 - Overhead Conductors & Devices	22.0	(30.0)	3.8	15.7	(35.0)	53.22	5.2
366 - Underground Conduit	41.0	0.0	2.0	41.0	0.0	18	2.0
367 - Underground Conductors & Devices	24.0	0.0	2.9	24.0	0.0	30.4	2.9
368 - Line Transformers	15.8	(20.0)	4.2	13.6	(20.0)	57.43	4.6
369 - Services	23.0	(30.0)	3.8	21.0	(35.0)	47.51	4.2
370 - Meters	15.4	(10.0)	3.6	14.3	(5.0)	51.69	3.7
371 - Installation on Customers' Premises	9.0	15.0	6.1	8.3	15.0	34.43	6.1
373 - Street Lighting & Signal Systems	14.6	(10.0)	5.6	9.5	(10.0)	55.4	5.7
GENERAL PLANT							
390 - Structures & Improvements	36.0	0.0	2.0	38.0	0.0	24.00	2.0
392.1 - Transportation-Cars	3.1	15.0	9.2	0.9	15.0	101.81	12.1
392.2 - Transportation-Light Trucks & Vans	3.9	10.0	11.3	3.1	12.0	72.70	4.9
392.3 - Transportation - Heavy Trucks	3.7	10.0	9.5	7.5	10.0	58.80	4.2
392.4 - Transportation - Trailers	20.0	5.0	4.0	17.7	5.0	27.74	3.8
396 - Power Operated Equipment	4.3	5.0	6.3	0.6	5.0	92.12	4.8

*Denotes whole life rate.

FLORIDA PUBLIC UTILITIES
2006 DEPRECIATION STUDY
COMPARISON OF EXPENSES

Attachment B

ACCOUNT	01/01/2008 INVESTMENT	01/01/2008 RESERVE	CURRENT		COMMISSION APPROVED		
			RATE	EXPENSES	RATE	EXPENSES	CHANGE EXPENSES
TRANSMISSION PLANT							
350.1 - Land Rights	56,519	33,120 *	2.2	1,243	1.8	1,017	(226)
352 - Structures and Improvements	22,006	9,683 *	2.0	440	2.0	440	0
353 - Station Equipment	2,426,032	650,825	2.3	55,799	2.5	60,651	4,852
354 - Towers and Fixtures	224,665	172,385	2.2	4,943	2.3	5,167	224
355 - Poles and Fixtures- Wood	2,362,224	967,584 *	3.8	89,765	4.2	99,213	9,448
355.1 Poles and Fixtures - Concrete	0	0	N/A	N/A	3.3 +	0	0
356 - Overhead Conductors and Devices	1,876,726	593,045 *	3.2	60,055	2.8	52,548	(7,507)
359 - Roads and Trails	6,788	4,182	3.9	265	3.8	258	(7)
TOTAL TRANSMISSION PLANT	6,974,960	2,430,824		212,510.0		219,294.0	6,784
DISTRIBUTION PLANT							
360.1 - Land Rights	21,388	5,219 *	1.9	406	1.8	385	(21)
361 - Structures and Improvements	96,042	28,813 *	2.2	2,113	2.0	1,921	(192)
362 - Station Equipment	6,829,966	1,324,529	3.0	204,899	2.9	198,069	(6,830)
364 - Poles, Towers, and Fixtures	9,406,626	4,310,305	4.2	395,078	4.7	442,111	47,033
365 - Overhead Conductors & Devices	9,969,920	5,306,467	3.8	378,857	5.2	518,436	139,579
366 - Underground Conduit	2,844,509	512,012 *	2.0	56,890	2.0	56,890	0
367 - Underground Conductors & Devices	5,305,283	1,612,806 *	2.9	153,853	2.9	153,853	0
368 - Line Transformers	13,697,939	7,866,743	4.2	575,313	4.6	630,105	54,792
369 - Services	8,546,991	4,061,074	3.8	324,786	4.2	358,974	34,188
370 - Meters	3,474,376	1,795,959	3.6	125,078	3.7	128,552	3,474
371 - Installation on Customers' Premises	2,183,360	751,668	6.1	133,185	6.1	133,185	0
373 - Street Lighting & Signal Systems	1,224,031	678,159 *	5.6	68,546	5.7	69,770	1,224
TOTAL DISTRIBUTION PLANT	63,600,431	28,253,754		2,419,004		2,692,251	273,247
GENERAL PLANT							
390 - Structures & Improvements	2,120,955	509,029 *	2.0	42,419	2.0	42,419	0
392.1 - Transportation-Cars	50,580	51,493 *	9.2	4,653	12.1	0	(4,653)
392.2 - Transportation-Light Trucks & Vans	569,013	413,693	11.3	64,298	4.9	27,882	(36,416)
392.3 - Transportation - Heavy Trucks	2,047,780	1,204,157 *	9.5	194,539	4.2	86,007	(108,532)
392.4 - Transportation - Trailers	111,010	30,794 *	4.0	4,440	3.8	4,218	(222)
396 - Power Operated Equipment	194,199	178,896 *	6.3	12,235	4.8	9,322	(2,913)
TOTAL GENERAL PROPERTY	5,093,537	2,388,062		322,584		169,848	(152,736)
TOTAL RATES	75,668,928	33,072,640		2,741,588		2,862,099	127,295

*Denotes restated reserve after corrective transfers.

+Denotes whole life rate