

420

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. 25086  
and Gas Utilities. )  
ISSUED: 9/23/91

NOTICE OF RULEMAKING

NOTICE is hereby given that the Commission, pursuant to section 120.54, Florida Statutes, has initiated rulemaking to amend Rules 25-4.0175, 25-6.0436, and 25-7.045, F.A.C., relating to depreciation for telephone, electric, and gas utilities.

The attached Notice of Rulemaking (25-7.045, depreciation for gas utilities) will appear in the September 27, 1991, edition of the Florida Administrative Weekly. If requested, a hearing will be held at the following time and place:

9:30 a.m., Monday, December 2, 1991  
Room 122, Fletcher Building  
101 East Gaines Street  
Tallahassee, Florida

Written requests for hearing and written comments or suggestions on the rules must be received by the Director, Division of Records and Reporting, Florida Public Service Commission, 101 East Gaines Street, Tallahassee, FL 32399, no later than October 18, 1991.

By Direction of the Florida Public Service Commission, this  
23rd day of SEPTEMBER, 1991.

  
STEVE TRIBBIE, Director  
Division of Records & Reporting

( S E A L )

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DOCUMENT NUMBER-DATE

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FPSC-RECORDS/REPORTING

ORDER NO. 25086  
DOCKET NO. 910747-PU  
PAGE 2

FLORIDA PUBLIC SERVICE COMMISSION

DOCKET NO. 910747-PU

RULE TITLE:

RULE NO.:

Depreciation (Gas)

25-7.045

PURPOSE AND EFFECT: The purpose of the amendment to this rule is to implement minor procedural changes in the Commission's requirements regarding depreciation for gas utilities. The effects of the rule amendment are: 1) Gas utilities would be required to file 15 copies of depreciation studies rather than the current requirement of 10 copies. 2) The Commission would be able to establish the effective date for preliminary booking of depreciation rates by issuing an order without the current requirement of a prior request by the gas utility. 3) Gas utilities would be allowed to incorporate certain depreciation related information as part of the Annual Report. This information would no longer be filed separately with the Division of Auditing and Financial Analysis.

SUMMARY: The rule amendments would allow for more efficient processing and analysis of depreciation information for ratemaking purposes by implementing minor procedural changes to the Commission's requirements.

RULEMAKING AUTHORITY: 350.127(2), 366.05(1), F.S.

LAW IMPLEMENTED: 350.115, F.S.

SUMMARY OF THE ESTIMATE OF ECONOMIC IMPACT OF THESE RULES: Gas companies would incur very small increases in reproduction costs due

422

ORDER NO. 25086  
DOCKET NO. 910747-PU  
PAGE 3

to the five (5) additional copies of depreciation studies which would be filed with the Commission. The addition of information on currently effective recovery and amortization schedules will only slightly increase work for the gas companies because the information is currently available. The gas companies would realize a slight decrease in costs due because they will no longer be required to submit separate depreciation related information with the Division of Auditing and Financial Analysis.

WRITTEN COMMENTS OR SUGGESTIONS ON THE PROPOSED RULES MAY BE SUBMITTED TO THE FPSC, DIVISION OF RECORDS AND REPORTING, WITHIN 21 DAYS OF THE DATE OF THIS NOTICE FOR INCLUSION IN THE RECORD OF THE PROCEEDING. IF REQUESTED WITHIN 21 DAYS OF THE DATE OF THIS NOTICE, A HEARING WILL BE HELD AT THE DATE AND PLACE SHOWN BELOW:

TIME AND DATE: 9:30 A.M., December 2, 1991

PLACE: Room 122, 101 East Gaines Street, Tallahassee, Florida.

THE PERSON TO BE CONTACTED REGARDING THESE RULES AND THE ECONOMIC IMPACT STATEMENT IS: Director of Appeals, Florida Public Service Commission, 101 East Gaines Street, Tallahassee, Florida 32399

THE FULL TEXT OF THESE RULES ARE:

25-7.045 Depreciation.

(1) For the purpose of this part, the following definitions shall apply:

(a) Category or Category of Depreciable Plant - A grouping of plant for which a depreciation rate is prescribed. At a minimum it

ORDER NO. 25086  
DOCKET NO. 910747-PU  
PAGE 4

should include each plant account prescribed in Rule 25-7.046, F.A.C.

(b) Embedded Vintage - A vintage of plant in service as of the date of study or implementation of proposed rates.

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

1. The number of plant items or equivalent units (usually expressed in dollars) added each calendar year.
2. The number of plant items retired (usually expressed in dollars) each year and the distribution by years of placing of such retirements.
3. The net increase or decrease resulting from purchases, sales or adjustments and the distribution by years of placing of such amounts.
4. The number that remains in service (usually expressed in dollars) at the end of each year and the distribution by years of placing of such amounts.

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

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

424

ORDER NO. 25086  
DOCKET NO. 910747-PU  
PAGE 5

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

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

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

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

(i) Theoretical Reserve or Prospective Theoretical Reserve - A calculated reserve based on components of the proposed rate using the formula:

$$\text{Theoretical Reserve} = \text{Book Investment} - \text{Future Accruals} - \text{Future Net Salvage.}$$

(j) Vintage - The year of placement of a group of plant items or

investment under study.

(k) Whole Life Method - The method of calculating a depreciation rate based on the Whole Life (Average Service Life) and the Average Net Salvage. Both life and salvage components are the estimated or calculated composite of realized experience and expected activity. The formula is:

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

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

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

(3) (a) Each utility shall maintain depreciation rates and accumulated depreciation reserves in accounts or subaccounts as prescribed by Rule 25-7.046, F.A.C. Utilities may maintain further sub-categorization.

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

(4) A utility filing a depreciation study, regardless if a change in rates is being requested or not, shall submit to the Commission Clerk's office fifteen ~~ten~~ copies of the information required by paragraphs (6) (a) through (6) (f) and (6) (h) of this

426

ORDER NO. 25086  
DOCKET NO. 910747-PU  
PAGE 7

rule and at least three copies of the information required by paragraph (6) (g).

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

(6) A depreciation study shall include:

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

(b) A comparison of annual depreciation expense resulting from current rates with those produced by the proposed rates for each category of depreciable plant. The plant balances may involve estimates. Submitted data including plant and reserve balances or company planning involving estimates should be brought to the effective date of the proposed rates.

(c) Each rRecovery and amortization schedules currently in effect should be included with any new filing showing total amount amortized, effective date, length of schedule, annual amount amortized and reason for the amortization schedule.

(d) A comparison of the accumulated book reserve to the prospective theoretical reserve based on proposed rates and components for each category of depreciable plant to which

ORDER NO. 25086  
DOCKET NO. 910747-PU  
PAGE 8

depreciation rates are to be applied.

(e) A general narrative describing the service environment of the applicant company and the factors, e.g., growth, technology, physical conditions, leading to the present application for a revision in rates.

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

(g) The filing shall contain all calculations, analysis and numerical basic data used in the design of the depreciation rate for each category of depreciable plant. Numerical data shall include plant activity (gross additions, adjustments, retirements, and plant balance at end of year) as well as reserve activity (retirements, accruals for depreciation expense, salvage, cost of removal, adjustments, transfers and reclassifications and reserve balance at end of year) for each year of activity from the date of the last



428

ORDER NO. 25086  
DOCKET NO. 910747-PU  
PAGE 9

submitted study to the date of the present study. To the degree possible, data involving retirements should be aged.

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

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

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

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

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

(c) A utility proposing an effective date coinciding with the expected date of additional revenues initiated through a rate case proceeding shall submit its depreciation study no later than the

ORDER NO. 25086  
DOCKET NO. 910747-PU  
PAGE 10

filing date of its Minimum Filing Requirements.

(9) As part of Concurrent with the filing of the annual report under Rule 25-7.014(3), F.A.C., each utility shall include file an annual status report ~~with the Commission's Division of Auditing and Financial Analysis~~. The report shall include booked plant activity (plant balance at the beginning of the year, additions, adjustments, transfers, reclassifications, retirements and plant balance at year end) and reserve activity (reserve balance at the beginning of the year, retirements, accruals, salvage, cost of removal, adjustments, transfers, reclassifications and reserve balance at end of year) for each category of investment for which a depreciation rate, amortization schedule, or capital recovery schedule has been approved. The report shall indicate for each category that:

(a) There has been no change of plans or utility experiences requiring a revision of the rates, amortization, or capital recovery schedules; or

(b) There has been a change ~~of plans~~ requiring a revision of rates, amortization, or capital recovery schedules.

For any category where current conditions indicate a need for revision of depreciation rates, amortization, or capital recovery schedules and no revision is sought, the report shall explain why no revision is requested.

(10)(a) Prior to the date of retirement of major installations, the Commission may approve capital recovery schedules to correct

ORDER NO. 25086  
DOCKET NO. 910747-PU  
PAGE 11

associated calculated deficiencies where a utility demonstrates that (1) replacement of an installation or group of installations is prudent, and (2) the associated investment will not be recovered by the time of retirement through the normal depreciation process.

(b) The Commission may approve a special capital recovery schedule when an installation is designed for a specific purpose or for a limited duration.

(c) Associated plant and reserve activity, balances and the annual capital recovery schedule expense must be maintained as subsidiary records.

Specific Authority: 350.127(2), 366.05(1), F.S.

Law Implemented: 350.115, F.S.

History: New 11/20/82, Amended 1/3/85, formerly 25-7.45, Amended 4/27/88, \_\_\_\_\_.

NAME OF PERSON ORIGINATING PROPOSED RULES: Pat Lee, Division of Auditing and Financial Analysis

NAME OF SUPERVISOR OR PERSON(S) WHO APPROVED THE PROPOSED RULES: Florida Public Service Commission

DATE PROPOSED RULES APPROVED: September 10, 1991

If any person decides to appeal any decision of the Commission with respect to any matter considered at the rulemaking hearing, if held, a record of the hearing is necessary. The appellant must ensure that a verbatim record, including testimony and evidence forming the basis of the appeal is made. The Commission usually makes a verbatim

ORDER NO. 25086  
DOCKET NO. 910747-PU  
PAGE 12

record of rulemaking hearings.