**FLORIDA PUBLIC SERVICE COMMISSION**

 **Fletcher Building**

 **101 East Gaines Street**

 **Tallahassee, Florida 32399-0850**

 **M E M O R A N D U M**

 **November 22, 1993**

**TO : DIRECTOR, DIVISION OF RECORDS AND REPORTING**

**FROM : DIVISION OF AUDITING AND FINANCIAL ANALYSIS (LEE,
 JOHNSON, MERTA)**

 **DIVISION OF ELECTRIC & GAS (J. TAYLOR)**

 **DIVISION OF LEGAL SERVICES (CHRIST)**

**RE : DOCKET NO. 930453-EI - FLORIDA PUBLIC UTILITIES COMPANY-DEPRECIATION STUDY AS OF 12/31/92 FOR MARIANNA ELECTRIC DIVISION OF FLORIDA PUBLIC UTILITIES COMPANY**

**AGENDA: 12/07/93 - REGULAR AGENDA - PROPOSED AGENCY ACTION - INTERESTED PERSONS MAY PARTICIPATE**

**CRITICAL DATES: DECEMBER 21, 1993**

**SPECIAL INSTRUCTIONS: I:\PSC\AFA\WP\930453.RCM**

 **R: RESERVE.WK3 AND FPU93.WK3**

**DISCUSSION OF ISSUES**

**ISSUE 1:** Should the current depreciation rates and amortization schedules for Florida Public Utilities Company - Marianna Electric Division (FPU or Company) be changed?

**RECOMMENDATION:** Yes. A review of the Company's plans and activity indicates the need for revising depreciation rates and amortization schedules. (LEE)

**STAFF ANALYSIS:** FPUC's current depreciation rates and amortization schedules were approved effective January 1, 1989. The Company has filed a quadrennial depreciation study in accordance with Rule 25-6.0436, Florida Administrative Code. Since the time of the last represcription, changes brought about by Company activity and Company planning suggest the need to review and revise currently prescribed depreciation rates.

**ISSUE 2:** What should be the implementation date for the recommended rates?

**RECOMMENDATION:** Staff recommends approval of the Company's proposed January 1, 1994 date of implementation for the new rates and schedules. (JOHNSON)

**STAFF ANALYSIS:** Company data and related calculations have been submitted to abut the January 1, 1994 date. This is the recommended date of implementation, being the earliest practicable date for utilizing the revised rates and schedules.

**ISSUE 3 :** Should any corrective reserve measures be made?

**RECOMMENDATION:** Yes. Staff recommended corrective measures are shown on Attachment A, page 9. This action will bring each affected account's reserve more in line with its calculated theoretical level (LEE).

**STAFF ANALYSIS:** Reserve imbalances are primarily a matter of differences in current and past projections. Staff believes that such deficiencies should be recovered as fast as possible, unless such recovery prevents the Company from earning a fair and reasonable return on its investments. In the case of FPU, negative reserve balances exist for the Power Operated account and the Tools, Shop & Garage account, Accounts 396 and 394.1 respectively. The cause for these deficiencies is that more retirements have occurred than currently provided for in the design of the prescribed depreciation rates. Since these negative reserves represent non-existent plant, there is a need for some immediate corrective action. An apparent reserve surplus exists in the Poles, Towers, and Fixtures account, Account 364, that can be used to correct these deficiencies. This 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.

**ISSUE 4:** What are the appropriate recovery schedules?

**RECOMMENDATION:** The staff recommended recovery schedules are shown on Attachment C, page 11. These schedules are designed to recover the net investments associated with the retiring hydraulic plant and PCB capacitors disposal. All activity relating to these schedules should be booked to these schedules and not to another depreciation category or account. (LEE)

**STAFF ANALYSIS:** The hydraulic plant has ceased operation and estimates for repairing the equipment show that refurbishment is not cost justified. In addition, there is a pending lawsuit with the State of Florida on who actually owns the property on which the plant is located. For these reasons, the plant is being retired by year-end 1993. FPU has proposed a recovery schedule designed to recover the associated net investments over a 4-year period. There is some question as to whether the plant will be fully dismantled, therefore, the Company is requesting the recovery of removal costs incurred only through the year-end 1993 ($36,704). If it is determined that the plant will indeed be dismantled, FPU should accordingly petition the Commission for that additional recovery.

 Additional removal costs are being incurred to dispose of some PCB capacitors that were previously buried upon retirement. It is now necessary to dig these capacitors up and otherwise dispose of them to avoid future contamination of the soil and subsurface water. According to the Company, these removal and disposal activities will be completed by year-end 1993. Current estimates for this removal are $77,500 which FPU has proposed to place on a 4-year recovery schedule.

 Staff fully supports the use of recovery schedules to address the recovery of the net investments discussed above. In addition, we believe that recovery should be achieved as fast as practicable since these net investments all represent plant no longer in service. Ideally, this would occur during 1994 rather than over a 4-year period. However, since these costs are not life related and the Company is currently seeking revenue rate relief, Staff will accept the 4-year recovery period.

**ISSUE 5:** What are the appropriate depreciation rates and amortization schedules?

**RECOMMENDATION:** The staff recommended lives, net salvages, reserves and resultant depreciation rates are shown on Attachment B, page 10. The result is a **decrease** in annual depreciation expense of approximately $4,000 based on estimated January 1, 1994 investments as shown on Attachment C, page 11. (JOHNSON)

**STAFF ANALYSIS:** Staff's recommendations are the result of a comprehensive review of FPUC's depreciation study. Attachment B shows a comparison of the currently approved, Company revised proposed, and Staff recommended rate parameters. Attachment C shows a comparison of resultant expenses based on estimated January 1, 1994 investments.

 Staff and the Company agree on lives, net salvages, and resultant depreciation rates, on all but five accounts. Those accounts are Poles, Towers, and Fixtures; Overhead Conductors and Devices; Line Transformers; Meters; Tools, Shop & Garage Equipment; and Power Operated Equipment. A brief discussion on these accounts is outlined below.

Account 364 - Poles, Towers, and Fixtures The difference between the remaining life positions of the Company and staff is due only to rounding. When the remaining life is twenty years or more, our position is to round to the nearest year. We find little reason to be so precise in an estimate some 20 years in the future.

 FPUC has indicated that its salvage experience indicates a return to the negative pattern of the 1970s and early 1980s. A factor of negative 25% was therefore proposed for this account. Net salvage for the 1988-1992 period has ranged from 29% to negative 40%, with a 5-year average of about 1%. While we agree with the Company that the positive salvage should be considered abnormal and not indicative of future expectations, we do not agree with reliance on one year's experience as a reason to change the currently prescribed negative 20% net salvage especially when retirement activity has consistently been very minimal.

 There is also a difference in the reserve positions of the Company and staff. Staff's recommended reserve is reflective of the corrective measures discussed in Issue 3.

Account 365 - Overhead Conductors and Devices As stated above, when the remaining life is twenty years or more, our position is to round to the nearest year. The difference between the remaining life positions of the Company and staff is due only to rounding.

Accounts 368 - Line Transformers & 370 - Meters FPUC has proposed service lives of 34 and 38 years, remaining lives of 22.8 and 23.9 years and net salvage factors of negative 20% and negative 25% for transformers and meters respectively. The Company indicated that the proposed service lives were a result of simulation studies. However, rather than rely solely on statistics, staff prefers to know why a change may be in order. Primarily, staff prefers data based on Company operations expected to impact the future life and salvage parameters. Without such information, staff's position is to retain currently prescribed factors. In this case, service lives underlying currently prescribed remaining lives for each of these accounts are 20 years and 30 years, respectively. Current service life projections we see from other companies in the State range from 16 years to 29 years for transformers and 25 years to 30 years for meters. The Company proposals exceed these ranges and lacking any Company support other than the reliance on statistics, staff finds no reason to change existing service life parameters. Our remaining life reflect an update of currently prescribed factors with activity since the last study.

 Staff is concerned with the high costs of removal incurred by FPUC for these accounts. Since the accounting treatment for transformers and meters is cradle-to-grave, the costs of removing and resetting should not be booked as costs of removal but should be booked to the associated O&M accounts. According to FPUC, the reason for the high removal costs has been a result of booking the removal of transformers and meters that were for refurbishment as costs of removal. FPUC has informed staff that it is no longer using this procedure. Staff therefore would not expect to see this type of activity in the future and recommends retaining the current prescribed net salvage factor of negative 10%.

Account 394.1 - Tools, Shop & Garage Equipment The difference between the positions of the Company and staff in this account is due to the reserve position. Staff recommended reserve is reflective of the corrective measures discussed in Issue 3.

Account 396 - Power Operated Equipment While staff and the Company agree on a 14-year service life, there is a difference in positions regarding remaining life. Staff's recommendation reflects a recalculation of the account's average age to recognize 1993 activity.

 Although relatively little activity has been experienced in this account, the net salvage incurred appears to indicate a net salvage more in the range of 10% rather than the Company proposed 5%. The recommended reserve position is also reflective of the corrective measures discussed above.

**ISSUE 6:** Should this docket be closed?

**RECOMMENDATION:** Yes. If no substantially affected person timely files a protest to the Commission's notice of proposed agency action, this docket should be closed. (JOHNSON)

**STAFF ANALYSIS:** If no substantially affected person files a timely request for a Section 120.57, Florida Statutes, hearing within twenty-one days, no further action will be required and this docket should be closed.

FLORIDA PUBLIC UTILITIES ‑ MARIANNA DIVISION

1993 STUDY

RECOMMENDED CORRECTIVE RESERVE MEASURES

 1/1/94

 Estimated Theoretical Reserve Corrective Restated

 Reserve Reserve Imbalance Transfer Reserve

364 Poles, Towers, and Fixtures 1,387,742 1,285,155 102,587 (30,852) 1,356,890

394.1 Tools, Shop & Garage Equipment (519) 3,968 (4,487) 4,487 3,968

396 Power Operated Equipment (23,783) 2,582 (26,365) 26,365 2,582

 0

FLORIDA PUBLIC UTILITIES ‑ MARIANNA DIVISION

1993 STUDY

COMPARISON OF RATES AND COMPONENTS

 CURRENT COMPANY REVISED PROPOSAL STAFF RECOMMENDATION

 AVERAGE REMAINING AVERAGE ESTIMATED REMAINING AVERAGE ESTIMATED REMAINING

ACCOUNT REMAINING NET 1/1/89 LIFE REMAINING NET 1/1/94 LIFE REMAINING NET 1/1/94 LIFE

 LIFE SALVAGE RESERVE RATE LIFE SALVAGE RESERVE RATE LIFE SALVAGE RESERVE RATE

 (YRS.) (%) (%) (%) (YRS.) (%) (%) (%) (YRS.) (%) (%) (%)

HYDRAULIC PRODUCTION PLANT

 331 ‑ Structures & Improvements 11.5 (30.0) 89.6 3.5

 332 ‑ Reservoirs, dams, and waterways 11.5 (30.0) 93.3 3.2 { 4 YEAR RECOVERY SCHEDULE }

 333 ‑ Wheels, turbines and generators 11.5 (30.0) 54.4 6.6

 334 ‑ Accessory electric equipment 11.5 0.0 34.8 5.7

 335 ‑ Miscellaneous power plant 11.5 0.0 35.7 5.6

DISTRIBUTION PLANT

 360.1 ‑ Land Rights 23.0 0.0 0.0 4.3 42.0 0.0 3.7 2.3 42.0 0.0 3.7 2.3

 361 ‑ Structures and Improvements 38.0 0.0 14.4 2.3 34.0 0.0 26.2 2.2 34.0 0.0 26.2 2.2

 362 ‑ Station Equipment 27.0 (10.0) 28.1 3.0 25.0 (10.0) 37.2 2.9 25.0 (10.0) 37.2 2.9

 364 ‑ Poles, Towers, and Fixtures 21.0 (20.0) 40.9 3.8 22.9 (25.0) 40.2 3.7 23.0 (20.0) 39.3 \*\* 3.5

 365 ‑ Overhead Conductors & Devices 18.6 0.0 29.0 3.8 21.6 (10.0) 36.6 3.4 22.0 (10.0) 36.6 3.3

 366 ‑ Underground Conduit 48.0 0.0 2.7 2.0 45.0 0.0 11.6 2.0 45.0 0.0 11.6 2.0

 367 ‑ Underground Conductors & Devices 32.0 0.0 4.8 3.0 30.0 0.0 16.4 2.8 30.0 0.0 16.4 2.8

 368 ‑ Line Transformers 18.2 (10.0) 29.3 4.4 22.8 (20.0) 38.2 3.6 17.9 (10.0) 38.2 4.0

 369 ‑ Services 18.5 (15.0) 21.8 5.0 18.5 (15.0) 30.1 4.6 18.5 (15.0) 30.1 4.6

 370 ‑ Meters 15.6 (10.0) 40.8 4.4 23.9 (25.0) 48.4 3.2 15.2 (10.0) 48.4 4.1

 371 ‑ Installation on Customers' Premises 11.4 35.0 25.7 3.4 10.2 20.0 22.0 5.7 10.2 20.0 22.0 5.7

 373 ‑ Street Lighting & Signal Systems 21.0 5.0 41.0 2.6 18.6 5.0 40.7 2.9 18.6 5.0 40.7 2.9

GENERAL PLANT

 390 ‑ Structures & Improvements 20.0 0.0 48.0 2.6 49 (5.0) 3.6 2.1 49.0 (5.0) 3.6 2.1

 392.1 ‑ Transportation‑Cars 3.4 15.0 38.8 3.1 1.7 15.0 34.1 29.9 1.7 15.0 34.1 29.9

 392.2 ‑ Transportation‑Light Trucks & Vans 5.3 10.0 39.0 13.5 3.7 10.0 41.7 13.0 3.7 10.0 41.7 13.0

 392.3 ‑ Transportation ‑ Heavy Trucks 5.4 10.0 48.2 7.9 6.8 10.0 43.0 6.9 6.8 10.0 43.0 6.9

 392.4 ‑ Transporation ‑ Vans 13.4 0.0 49.0 7.6 22 5.0 32.8 2.8 22.0 5.0 32.8 2.8

 393.1 ‑ Stores Equipment‑Fixed 20.0 0.0 35.8 4.8 15.8 0.0 16.7 5.3 15.8 0.0 16.7 5.3

 394.1 ‑ Tools, Shop & Garage Equipment 20.0 0.0 14.6 4.3 19.5 0.0 (3.4) 5.3 19.5 0.0 25.9 \*\* 3.8

 395.1 ‑ Laboratory Equipment 31.0 0.0 22.0 3.9 19.6 0.0 34.2 3.4 19.6 0.0 34.2 3.4

 396 ‑ Power Operated Equipment 15.1 0.0 21.6 2.5 9.1 5.0 (92.1) 20.6 12.5 10.0 10.0 \*\* 6.4

 397 ‑ Communication Equipment 7.8 0.0 78.1 1.5 4.7 0.0 59.4 8.6 4.7 0.0 59.4 8.6

 \*\*Denotes restated reserve

FLORIDA PUBLIC UTILITIES ‑ MARIANNA DIVISION

 1993 STUDY

COMPARISON OF EXPENSES

 CURRENT COMPANY REVISED PROPOSAL STAFF RECOMMENDATION

ACCOUNT 1/1/94 1/1/94 CHANGE CHANGE

 ESTIMATED ESTIMATED ESTIMATED IN ESTIMATED IN

 INVESTMENT RESERVE RATE EXPENSES RATE EXPENSES EXPENSES RATE EXPENSES EXPENSES

DISTRIBUTION PLANT

 360.1 ‑ Land Rights 25,829 946 4.3 1,111 2.3 594 (517) 2.3 594 (517)

 361 ‑ Structures and Improvements 8,614 2,257 2.3 198 2.2 190 (8) 2.2 190 (8)

 362 ‑ Station Equipment 756,344 281,291 3.0 22,690 2.9 21,934 (756) 2.9 21,934 (756)

 364 ‑ Poles, Towers, and Fixtures 3,454,718 1,356,890 \*\* 3.8 131,279 3.7 127,825 (3,454) 3.5 120,915 (10,364)

 365 ‑ Overhead Conductors & Devices 4,002,291 1,465,068 3.8 152,087 3.4 136,078 (16,009) 3.3 132,076 (20,011)

 366 ‑ Underground Conduit 109,140 12,617 2.0 2,183 2.0 2,183 0 2.0 2,183 0

 367 ‑ Underground Conductors & Devices 317,633 51,942 3.0 9,529 2.8 8,894 (635) 2.8 8,894 (635)

 368 ‑ Line Transformers 3,830,003 1,464,083 4.4 168,520 3.6 137,880 (30,640) 4.0 153,200 (15,320)

 369 ‑ Services 1,571,589 473,066 5.0 78,579 4.6 72,293 (6,286) 4.6 72,293 (6,286)

 370 ‑ Meters 855,363 414,238 4.4 37,636 3.2 27,372 (10,264) 4.1 35,070 (2,566)

 371 ‑ Installation on Customers' Premises 356,855 78,328 3.4 12,133 5.7 20,341 8,208 5.7 20,341 8,208

 373 ‑ Street Lighting & Signal Systems 184,887 75,279 2.6 4,807 2.9 5,362 555 2.9 5,362 555

 TOTAL DISTRIBUTION PLANT 15,473,266 5,676,005 620,752 560,946 (59,806) 2.9 573,052 (47,700)

GENERAL PLANT

 390 ‑ Structures & Improvements 771,201 27,757 2.6 20,051 2.1 16,195 (3,856) 2.1 16,195 (3,856)

 392.1 ‑ Transportation‑Cars 46,886 15,997 3.1 1,453 29.9 14,019 12,566 29.9 14,019 12,566

 392.2 ‑ Transportation‑Light Trucks & Vans 132,737 55,384 13.5 17,919 13.0 17,256 (663) 13.0 17,256 (663)

 392.3 ‑ Transportation ‑ Heavy Trucks 819,161 352,445 7.9 64,714 6.9 56,522 (8,192) 6.9 56,522 (8,192)

 392.4 ‑ Transporation ‑ Vans 11,672 3,827 7.6 887 2.8 327 (560) 2.8 327 (560)

 393.1 ‑ Stores Equipment‑Fixed 55,796 9,342 4.8 2,678 5.3 2,957 279 5.3 2,957 279

 394.1 ‑ Tools, Shop & Garage Equipment 15,319 3,968 \*\* 4.3 659 5.3 812 153 3.8 582 (77)

 395.1 ‑ Laboratory Equipment 16,904 5,782 3.9 659 3.4 575 (84) 3.4 575 (84)

 396 ‑ Power Operated Equipment 25,819 2,582 \*\* 2.5 645 20.6 5,319 4,674 6.4 1,652 1,007

 397 ‑ Communication Equipment 85,461 50,772 1.5 1,282 8.6 7,350 6,068 8.6 7,350 6,068

 TOTAL GENERAL PROPERTY 1,980,956 527,856 110,947 121,332 10,385 117,435 6,488

 TOTAL RATES 17,454,222 6,203,861 731,699 682,278 (49,421) 690,487 (41,212)

 RECOVERY SCHEDULE

 HYDRAULIC PLANT 0 (69,916) 5.4 \* 0 4 Yr. Amort. 17,479 17,479 4 Yr. Amort. 17,479 17,479

 PCB CAPACITORS 0 (77,500) 3.4 0 4 Yr. Amort. 19,375 19,375 4 Yr. Amort. 19,375 19,375

 0 (147,416) 0 36,854 36,854 36,854 36,854

 TOTAL PLANT 17,454,222 6,056,445 731,699 719,132 (12,567) 727,341 (4,358)

 \* Represents composite rate \*\* Denotes a restated reserve