**FLORIDA PUBLIC SERVICE COMMISSION**

 **Fletcher Building, 101 East Gaines Street**

 **Tallahassee, Florida 32399-0850**

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

 **March 23, 1995**

**TO: DIRECTOR, DIVISION OF RECORDS AND REPORTING (BAYO)**

**FROM: DIVISION OF AUDITING & FINANCIAL ANALYSIS (LEE, MEEKS)**

 **DIVISION OF ELECTRIC & GAS (WHEELER)**

 **DIVISION OF LEGAL SERVICES (CULPEPPER)**

**RE: DOCKET NO. 950213-EI - TAMPA ELECTRIC COMPANY - PETITION FOR APPROVAL OF RECOVERY SCHEDULE FOR ENERGY MANAGEMENT SYSTEM BY TAMPA ELECTRIC COMPANY**

**AGENDA: APRIL 3, 1995 - REGULAR AGENDA - PROPOSED AGENCY ACTION -INTERESTED PERSONS MAY PARTICIPATE**

**CRITICAL DATES: NONE**

**SPECIAL INSTRUCTIONS: I:\PSC\AFA\WP\950213.RCM**

 **DISCUSSION OF ISSUES**

**ISSUE :** Should the request by Tampa Electric Company (TECO or Company) for a one year capital recovery schedule addressing the reserve deficiency associated with the Energy Management System (EMS) be approved?

**RECOMMENDATION:** Yes. Staff recommends that TECO be allowed to record a one-time amortization expense amount in 1995 of $5 million to nearly correct the calculated reserve deficiency associated with the Energy Management System. (LEE, MEEKS)

**STAFF ANALYSIS:** In accordance with Rule 25-6.0436 (10)(a), TECO has requested a one year write-off of the calculated reserve deficiency associated with the present EMS. The currently prescribed depreciation rate is based on an average service life of 15 years and was effective January 1, 1991. This was the projected life expectancy for this type of technology at that time. The calculated reserve deficiency results from using the new expected life parameters.

 EMS is an installation designed for the specific purpose of facilitating the systematic transmission, distribution and delivery of electric energy to TECO's customers. It monitors the power network, automatically controls generation and interchange, forecasts the power network state and performs other specialized functions. The current environment of open transmission access and transmission constraints demands flexibility and speed in the Company's day-to-day operations. The present EMS technology is approximately fifteen years old and the computers are eight years old. According to the Company, there is no vendor support to develop new software. An EMS Strategic Plan to replace EMS components in a phased migration to workstation-based computer platforms has been implemented by TECO and will take place over the next five years.

 TECO proposes a one year recovery schedule effective January 1, 1995 to correct the calculated reserve deficiency associated with the EMS scheduled for retirement in 2000. This will bring the account reserve more nearly in line with its calculated theoretical level. The main reason for selecting the effective date of January 1, 1995 is that this $5 million increase in depreciation expense will be offset by a decrease of approximately $5.5 million in the amortizable general plant depreciation expense. With the implementation in 1988 of the retirement unit rule for electric companies (Rule 25-6.0142, Florida Administrative Code), five and seven year amortization periods were established for certain general plant accounts. The net embedded investments represented by vintages prior to 1988 were to be amortized over those same periods. Information provided by TECO indicates that the net embedded investments subject to a seven year amortization were fully amortized as of December 31, 1994. Further, the 1989 vintage of computer and peripheral equipment subject to a five year amortization was also fully amortized by December 31, 1994. These amortizations will not continue in 1995 thus permitting the Company to increase the depreciation expense for EMS while maintaining essentially the same bottom-line level of depreciation expense as booked in 1994.

 At the present time, TECO does not propose to change the depreciation rate for this equipment, but plans to address such a rate change and the capital recovery position of this equipment in its depreciation study filing, currently due June 1995. Based on the information provided by the Company, Staff recommends acceptance of the proposed one-time amortization of $5 million in 1995.

**ISSUE :** 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 within twenty-one days, this docket should be closed. (MEEKS)

**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.

**ISSUE 1:** Should the request by Tampa Electric Company (TECO or Company) for a one year capital recovery schedule addressing the reserve deficiency associated with the Energy Management System (EMS) be approved?

**RECOMMENDATION:** Yes. Staff recommends that TECO be allowed to record a one-time amortization expense amount in 1995 of $5 million to nearly correct the calculated reserve deficiency associated with the Energy Management System. (LEE, MEEKS)

**ISSUE 2:** 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 within twenty-one days, this docket should be closed. (MEEKS)