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DECEMBER 22, 1997

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TO: DIVISION OF RECORDS AND REPORTING

FROM: DIVISION OF LEGAL SERVICES (C. KEATING)

RE: DOCKET NO. 970537-EI - 1997 DEPRECIATION STUDY BY FLORIDA
PUBLIC UTILITIES COMPANY, MARIANNA DIVISION

PSC-97-1609-FOF-EI

Attached is a NOTICE OF PROPOSED AGENCY ACTION ORDER REVISING DEPRECIATION RATES, with attachments, to be issued in the above referenced docket. (Number of pages in Order - 10,

WCK/js

Attachment

cc: Division of Auditing and Financial Analysis (P. Lee, L. Romig)

I:970537or.wck

Muel R.A.R

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

In re: 1997 depreciation study
by Florida Public Utilities
Company, Marianna Division.

DOCKET NO. 970537-EI
ORDER NO. PSC-97-1609-FOF-EI
ISSUED: December 22, 1997

The following Commissioners participated in the disposition of this matter:

JULIA L. JOHNSON, Chairman
J. TERRY DEASON
SUSAN F. CLARK
DIANE K. KIESLING
JOE GARCIA

NOTICE OF PROPOSED AGENCY ACTION
ORDER REVISING DEPRECIATION RATES

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.

Florida Public Utilities Company's ("FPU" or "Company") current depreciation rates were approved effective January 1, 1994. On May 5, 1997, the Company filed a depreciation study in accordance with Rule 25-6.0436, Florida Administrative Code, which requires electric companies to file a comprehensive depreciation study at least once every four years from the submission date of the previously filed study. Our review of the Company's activity data indicates the need to revising its depreciation rates.

Our findings are the result of a comprehensive review of FPU's depreciation study. Attachment B to this Order shows a comparison of the currently-approved rate parameters, the company-revised proposed rate parameters, and the rate parameters recommended by our staff. Attachment C to this Order provides a comparison of the expenses that result from each of the scenarios presented in

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Attachment B, based on estimated January 1, 1998, investments, along with recovery schedules.

Revised Depreciation Rates and Appropriate
Recovery Schedules

FPU's filing was essentially a staff-assisted study. The Company provided aged retirement data for the 1994 - 1996 period and forecasted 1997 data. Our staff determined the average age and worked with the Company in developing life and salvage values. As a result of the review and analytical process, our staff and the Company agreed on appropriate lives, net salvages, and resultant depreciation rates for all accounts. We find that the depreciation rates arrived at by the Company and our staff are appropriate.

The difference between current depreciation rates and the rates approved in this Order can be attributed mainly to two factors - updated ages to reflect activity since the last represervation, and/or changes in the reserve position. The accounts with a substantial change in depreciation expense are outlined below.

1. Poles, Towers, and Fixtures (Account 364) - The removal of poles is very labor intensive as evidenced by the 1993-1996 recorded negative net salvage of 77%. Other Florida regulated electric companies have net salvage factors for this account ranging from negative 10% to negative 50%, averaging about negative 30%. The recommended net salvage of negative 25% gives recognition to these recent labor trends.
2. Overhead Conductors and Devices (Account 365) - Net salvage for this account has averaged negative 95% over the 1993-1996 period. A retirement ratio of less than 1% for the same period of time makes reliance on industry averages necessary. For other Florida companies, net salvage ranges from negative 10% to negative 35%, averaging negative 20%. The recommended net salvage of negative 15% is a move toward the industry average and recognizes increased removal costs.

We find that the implementation date for these revised depreciation rates should be January 1, 1998. This is the earliest practicable date for utilizing the revised rates.

We find that the recovery schedules agreed upon by the Company and our staff (see Attachment C) are appropriate. This three-year schedule is designed to recover the net investment associated with the Company's 2-way communication equipment planned for retirement by December 31, 2000. During the period 1998-2000, the Company plans to replace its 2-way communication equipment. The associated investment and estimated reserve as of January 1, 1998 are \$60,592 and \$60,101, respectively. A three-year recovery schedule is therefore appropriate to address the recovery of the \$491 net investment over the equipment's remaining service life.

Corrective Reserve Transfers

We find that the corrective reserve transfers shown in Attachment A to this Order are appropriate and should be made. This action will bring each affected account's reserve more in line with its calculated theoretical level.

Reserve imbalances are primarily a matter of differences in current and past projections. We believe 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, there is a reserve deficiency in the Overhead Conductors and Devices account, Account 365. The reserve surpluses existing in the Automobiles account, Account 392.1, the Heavy Trucks account, Account 392.3, the Fixed Stores account, Account 393.1, and the remaining investment in the Communication account, Account 397, can be transferred to help correct the deficiency. In light of the possible impact on cost allocations, the Company should make corresponding entries to the related depreciation expense accounts.

Amortization of Investment Tax Credits and Flowback of Excess Deferred Income Taxes

Section 46(f)(6) of the Internal Revenue Code (IRC) states that the amortization of investment tax credits (ITCs) should be determined by the period of time used in computing depreciation expense for purposes of reflecting regulated operating results of the utility. Thus, our revision of FPU's depreciation rates makes it appropriate to also revise the amortization of ITCs.

Section 203(e) of the Tax Reform Act of 1986 (TRA) prohibits rapid write-back of protected (depreciation related) deferred taxes. In addition, Rule 25-14.013, Accounting for Deferred Income

Taxes under SFAS 109, Florida Administrative Code (F.A.C.), prohibits, without good cause shown, excess deferred income taxes associated with temporary differences from being reversed any faster than allowed under Section 203(e). Consequently, we find that the flowback of excess deferred taxes should be altered to comply with the TRA and Rule 25-14.013, F.A.C.

In summary, we find that the current amortization of investment tax credits (ITCs) and the flowback of excess deferred income taxes should be revised to reflect the approved depreciation rates and recovery schedules. In addition, we find that the utility should be required to file detailed calculations of the revised ITC amortization and flowback of excess deferred taxes at the same time it files its December 1998 surveillance report.

Amortization of Net Gain on Sale of
Warehouse and Associated Land

Late in 1997 or early in 1998, the Company's land and warehouse building at 406 South Green Street in Marianna, Florida, will be sold for \$50,000. Based on an independent appraisal, the majority of the selling price of the property represents the value of the land. The investment associated with the building is \$22,750. We calculate the related reserve to be \$20,304.

We find that \$2,446 of the sales proceeds should be recorded as gross salvage to recover the net unrecovered amount of the building. This will result in a net gain of \$41,554 from the sale as shown below.

	Sale Price	\$50,000
Less	Cost of Sale	<u>5,000</u>
	Net Proceeds	\$45,000
Less	Cost of Land	1,000
	Net Unrecovered	
	Amount of Building	<u>2,446</u>
	Net Gain	<u>\$41,554</u>

Due to the finality of the sales transaction, FPU has requested that the net gain be amortized over four years beginning January 1, 1998. The amortization period represents the time span between depreciation studies as required by our rules. However, we find that a five-year amortization period is more appropriate and in line with our decisions in previous cases.

Amortization of Gain on Sale of Hydraulic Plant

FPU sold its remaining hydraulic production plant in 1997 for \$70,500. The composition of the net gain is as follows:

	Sales Price	\$70,500
Less	Cost of Sale	<u>1,240</u>
	Net Proceeds	\$69,260
Less	Plant (Land)	<u>1,837</u>
	Cross Gain	\$67,423
	Reserve @12/97	<u>4,599</u>
	Net Gain	<u>\$72,022</u>

The reserve amount consists of the unrecovered costs incurred to dismantle the hydro plant offset by the reimbursement from the Florida Game and Fresh Water Fish Commission for FPU reconstructing the dam and salvage from the 1994 sale of the hydro generator. We find that FPU's request to amortize the \$72,022 net gain over a period of four years beginning January 1, 1998, should be approved. This amortization period represents the time period between depreciation studies as required by our rules.

Based on the foregoing, it is

ORDERED by the Florida Public Service Commission that the depreciation rates and recovery schedules for Florida Public Utilities Company's Marianna Division shall be revised as set forth in the body of this Order. It is further

ORDERED that the revised depreciation rates for Florida Public Utilities Company's Marianna Division shall be implemented beginning January 1, 1998. It is further

ORDERED that Florida Public Utilities Company's Marianna Division shall revise its current amortization of investment tax credits and flowback of excess deferred income taxes to reflect the revised depreciation rates. At the time it files its December 1998 surveillance report, Florida Public Utilities Company's Marianna Division shall file detailed calculations of its revised investment tax credit amortization and flowback of excess deferred taxes. It is further

ORDERED that Florida Public Utilities Company's Marianna Division shall make corrective reserve transfers as discussed in the body of this Order. It is further

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ORDERED that Florida Public Utilities Company's Marianna Division is authorized to amortize the net gain of \$41,554 associated the sale of a warehouse and associated land over a period of five years beginning January 1, 1998. Of the sale proceeds, \$2,446 shall be recorded as gross salvage against the retirement of the warehouse building. It is further

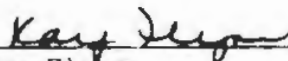
ORDERED that Florida Public Utilities Company's Marianna Division is authorized to amortize the net gain of \$72,022 from the sale of a hydraulic plant over a period of four years beginning January 1, 1998. It is further

ORDERED that the provisions of this Order, issued as proposed agency action, shall become final and effective unless an appropriate petition, in the form provided by Rule 25-22.036, Florida Administrative Code, is received by the Director, Division of Records and Reporting, 2540 Shumard Oak Boulevard, Tallahassee, Florida 32399-0850, by the close of business on the date set forth in the "Notice of Further Proceedings or Judicial Review" 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 22nd day of December, 1997.

BLANCA S. BAYO, Director
Division of Records and Reporting



Kay Flynn
Chief, Bureau of Records

(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 or judicial review of Commission orders that

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is available under Sections 120.57 or 120.68, 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 or judicial review 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 and will not become effective or final, except as provided by Rule 25-22.029, Florida Administrative Code. Any person whose substantial interests are affected by the action proposed by this order may file a petition for a formal proceeding, as provided by Rule 25-22.029(4), Florida Administrative Code, in the form provided by Rule 25-22.036(7)(a) and (f), Florida Administrative Code. This petition must be received by the Director, Division of Records and Reporting, 2540 Shumard Oak Boulevard, Tallahassee, Florida 32399-0850, by the close of business on January 12, 1998.

In the absence of such a petition, this order shall become effective on the day subsequent to the above date as provided by Rule 25-22.029(6), Florida Administrative Code.

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

If this order becomes final and effective on the date described above, any party substantially affected may request judicial review by the Florida Supreme Court in the case of an electric, gas or telephone utility or by the First District Court of Appeal in the case of a water or wastewater utility by filing a notice of appeal with the Director, Division of Records and Reporting and filing a copy of the notice of appeal and the filing fee with the appropriate court. This filing must be completed within thirty (30) days of the effective date of this order, pursuant to Rule 9.110, Florida Rules of Appellate Procedure. The notice of appeal must be in the form specified in Rule 9.100(a), Florida Rules of Appellate Procedure.

Attachment A

RECOMMENDED RESERVE TRANSFERS					
	Est. Book Reserve	Theoretical Reserve	Imbalance	Transfer	Restated Reserve
	(\$)	(\$)	(\$)	(\$)	(\$)
365 OH Conductors	1,878,734	2,384,979	(506,245)	25,652	1,904,386
392.1 Automobiles	19,494	8,161	11,333	(11,333)	8,161
392.3 Heavy Trucks	229,642	221,299	8,343	(8,343)	221,299
393.1 Stores Equip. - Fixed	22,043	17,178	4,865	(4,865)	17,178
397 Remaining Communication Equip.	7,038	5,927	1,111	(1,111)	5,927

FLORIDA PUBLIC UTILITIES - MARIANNA ELECTRIC DIVISION
DOCKET # 970537-E1
1997 DEPRECIATION STUDY

COMPARISON OF RATES AND COMPONENTS

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ATTACHMENT

AVERAGE REMAINING LIFE (YRS)	NET SALVAGE (%)	1/1/94 RESERVE (%)	REMAINING LIFE RATE (%)
42.0	0.0	3.7	2.3
34.0	0.0	26.2	2.2
25.0	(10.0)	37.2	2.9
23.0	(20.0)	39.3	3.5
22.0	(10.0)	36.6	3.3
45.0	0.0	11.6	2.0
30.0	0.0	16.4	2.8
17.9	(10.0)	38.2	4.0
18.5	(15.0)	30.1	4.6
15.2	(10.0)	48.4	4.1
10.2	20.0	22.0	5.7
18.6	5.0	40.7	2.9
49.0	(5.0)	3.6	2.1
1.7	15.0	34.1	29.9
3.7	10.0	41.7	13.0
6.8	10.0	43.0	6.9
22.0	5.0	32.8	2.8
15.8	0.0	16.7	5.3
19.5	0.0	25.9	3.8
19.6	0.0	34.2	3.4
12.5	10.0	10.0	6.4
4.7	0.0	59.4	8.6
4.7	0.0	59.4	8.6

AVERAGE REMAINING LIFE (YRS)	NET SALVAGE (%)	ESTIMATED 1/1/98 RESERVE (%)	REMAINING LIFE RATE (%)
50.0	0.0	9.7	1.8
29.0	0.0	35.1	2.2
23.0	(10.0)	41.1	3.0
21.0	(25.0)	38.9	4.1
18.9	(15.0)	40.5	3.9
41.0	0.0	21.0	1.9
27.0	0.0	22.8	2.9
16.0	(10.0)	43.1	4.2
19.4	(20.0)	37.1	4.3
13.8	(10.0)	51.6	4.2
9.4	15.0	18.6	7.1
13.5	(5.0)	27.8	5.7
44.0	(5.0)	8.7	2.2
2.0	15.0	51.0	17.0
3.5	10.0	41.3	13.9
7.5	10.0	28.5	8.2
18.6	5.0	29.1	3.5
22.0	0.0	27.4	3.3
14.9	0.0	37.1	4.2
14.3	0.0	47.8	3.6
7.8	10.0	34.4	7.1
3.1	0.0	83.5	5.3
3 YEAR RECOVERY SCHEDULE			
100	0.0		100

AVERAGE REMAINING LIFE (YRS)	NET SALVAGE (%)	ESTIMATED 1/1/98 RESERVE (%)	REMAINING LIFE RATE (%)
50.0	0.0	9.7	1.8
29.0	0.0	35.1	2.2
23.0	(10.0)	41.1	3.0
21.0	(25.0)	38.9	4.1
18.9	(15.0)	40.5	3.9
41.0	0.0	21.0	1.9
27.0	0.0	22.8	2.9
16.0	(10.0)	43.1	4.2
19.4	(20.0)	37.1	4.3
13.8	(10.0)	51.6	4.2
9.4	15.0	18.6	7.1
13.5	(5.0)	27.8	5.7
44.0	(5.0)	8.7	2.2
2.0	15.0	51.0	17.0
3.5	10.0	41.3	13.9
7.5	10.0	28.5	8.2
18.6	5.0	29.1	3.5
22.0	0.0	27.4	3.3
14.9	0.0	37.1	4.2
14.3	0.0	47.8	3.6
7.8	10.0	34.4	7.1
3.1	0.0	83.5	5.3
3 YEAR RECOVERY SCHEDULE			
100	0.0		100

* Denotes residual reserve after corrective transfers.

** Denotes average service life.

FLORIDA PUBLIC UTILITIES - MARIANNA ELECTRIC DIVISION
DOCKET # 970537-EI
1997 DEPRECIATION STUDY

COMPARISON OF EXPENSES

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ATTACHMENT

ACCOUNT	1/1/98 ESTIMATED INVESTMENT	1/1/98 ESTIMATED RESERVE	CURRENT		COMPANY REVISED PROPOSAL			RATE RECOMMENDED		
			RATE	EXPENSES	RATE	ESTIMATED EXPENSES	CHANGE IN EXPENSES	RATE	ESTIMATED EXPENSES	CHANGE IN EXPENSES
PLANT										
360 1 - Land Rights	10,000	1,553	2.3	368	1.8	288	(80)	1.8	288	(80)
361 Structures and Improvements	8,614	3,022	2.2	190	2.2	190	0	2.2	190	0
362 Station Equipment	839,406	345,280	2.9	24,343	3.0	25,182	839	3.0	25,182	839
364 Poles, Towers, and Panses	4,292,069	1,670,423	3.5	198,222	4.1	175,975	22,247	4.1	175,975	22,247
365 Overhead Conductors & Devices	4,700,392	1,904,386	3.3	195,113	3.9	183,315	11,798	3.9	183,315	11,798
366 Underground Conduct	90,266	20,633	2.0	1,965	1.9	1,867	98	1.9	1,867	98
367 Underground Conductors & Devices	429,945	97,809	2.8	12,838	2.9	12,468	370	2.9	12,468	370
368 Line Transformers	4,432,387	1,910,066	4.0	177,295	4.2	186,160	8,865	4.2	186,160	8,865
369 Buses	2,063,452	765,814	4.6	94,919	4.3	88,728	6,191	4.3	88,728	6,191
370 Meters	963,338	498,687	4.1	39,497	4.2	40,460	963	4.2	40,460	963
371 Installation on Customers' Premises	649,330	120,989	5.7	37,812	7.1	46,102	8,290	7.1	46,102	8,290
373 Street Lighting & Signal Systems	233,563	64,910	2.9	6,773	5.7	13,313	6,540	5.7	13,313	6,540
TOTAL PLANT	17,464,764	6,111,674		74,735		74,049	686		74,049	686
RESERVE										
390 Structures & Improvements	901,367	78,117	2.1	18,929	2.2	19,830	901	2.2	19,830	901
392 1 - Transportation-Cars	16,001	8,161	29.9	4,784	17.0	2,720	(2,064)	17.0	2,720	(2,064)
392 2 - Transportation-Light Trucks & Vans	172,499	71,201	13.0	22,425	13.9	23,977	1,552	13.9	23,977	1,552
392 3 - Transportation - Heavy Trucks	776,489	221,299	6.9	53,578	8.2	63,672	10,094	8.2	63,672	10,094
392 4 - Transportation - Vans	21,733	6,328	2.8	609	3.5	761	152	3.5	761	152
393 1 - Office Equipment-Fixed	62,694	17,178	5.3	3,323	3.3	2,069	(1,254)	3.3	2,069	(1,254)
394 1 - Tools, Shop & Garage Equipment	16,319	6,051	3.8	620	4.2	685	65	4.2	685	65
395 1 - Laboratory Equipment	16,904	8,085	3.4	575	3.6	609	34	3.6	609	34
396 Power Operated Equipment	27,535	9,466	6.4	1,762	7.1	1,955	193	7.1	1,955	193
397 Communication Equipment	7,098	5,927	8.6	610	5.3	376	(234)	5.3	376	(234)
397 New Communication Equipment	0	0	10.0	0	10.0	0	0	10.0	0	0
TOTAL RESERVE	1,818,638	1,818,638		71,114		70,654	460		70,654	460
TOTAL PLANT	20,805,994	7,993,466		812,161		890,860	78,705		890,860	78,705
Recovery Schedule										
Ret. Comm. Equip (1998-2000)	60,593	60,101	8.6	5,211	3 Yr. Amort.	164	(5,047)	3 Yr. Amort.	164	(5,047)
TOTAL PLANT	20,805,994	7,993,466		812,161		890,860	78,705		890,860	78,705

*Denotes estimated reserve after corrective transfers