



Public Service Commission

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RECORDS AND REPORTING
RLT

DATE: MAY 04, 2000

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

FROM: DIVISION OF AUDITING AND FINANCIAL ANALYSIS (LEE, SWAIN, CAUSSEUX)
DIVISION OF ELECTRIC AND GAS (MILLS) *MM*
DIVISION OF LEGAL SERVICES (STERN) *MKS RUC*

RE: DOCKET NO. 990302-GU - DEPRECIATION STUDY BY FLORIDA PUBLIC UTILITIES COMPANY.

AGENDA: 05/16/2000 - REGULAR AGENDA - PROPOSED AGENCY ACTION - INTERESTED PERSONS MAY PARTICIPATE

CRITICAL DATES: NONE

SPECIAL INSTRUCTIONS: NONE

FILE NAME AND LOCATION: S:\PSC\AFA\WP\990302.RCM
R:\123\FPUGREC.123

CASE BACKGROUND

Rule 25-7.045, Florida Administrative Code, requires gas utilities to file comprehensive depreciation studies at least once every five years. On March 10, 1999, Florida Public Utilities Company (FPUC or company), filed its regular depreciation study in accordance with this rule. Staff has completed its review and presents its recommendation herein.

DOCUMENT NUMBER-DATE

05580 MAY-48

FPSC-RECORDS/REPORTING

DISCUSSION OF ISSUES

ISSUE 1: Should the current depreciation rates of Florida Public Utilities Company be changed?

RECOMMENDATION: Yes. A review of the company's current capital recovery position indicates the need to revise depreciation rates. (SWAIN)

STAFF ANALYSIS: The last comprehensive depreciation represcription for FPUC was made in 1994. This current study is in keeping with Rule 25-7.045, Florida Administrative Code, which requires gas companies to file a comprehensive depreciation study at least once every five years from the submission date of the previously filed study. A review of the company's activity data indicates the need to review depreciation rates.

ISSUE 2: What should be the implementation date for new depreciation rates?

RECOMMENDATION: Staff recommends approval of the company's requested January 1, 2000 implementation date for new depreciation rates. (SWAIN)

STAFF ANALYSIS: FPUC has proposed January 1, 2000 as the implementation date for new depreciation rates. All supportive data and calculations have been submitted matching this date. Staff recommends approval of this date as being the earliest practicable date for utilizing the revised rates.

DATE: May 04, 2000

ISSUE 3: Should any corrective reserve transfers be made?

RECOMMENDATION: Yes. Staff recommended corrective measures are shown on Attachment A, page 8. This action will bring each affected account's reserve more in line with the calculated theoretical level. (SWAIN, LEE)

STAFF ANALYSIS: This study affords staff and the company the opportunity to review the reserve status of all accounts to determine the need for corrective reserve measures. The company and staff recommended allocations shown on Attachment A, page 8, address major imbalances generally brought about by past missed estimates of life and salvage factors. In the case of FPUC, there are reserve deficiencies existing in Services, Other Than Plastic, Account 380.2; Structure & Improvements, Account 390; Office Furniture, Account 391.1; Tools, Shop, Garage Equipment, Account 394; Laboratory Equipment, Account 395; and, Communication Equipment, Account 397. The reserve surpluses existing in Mains - Other Than Plastic, Account 376.2; Transportation Equipment - Autos, Account 392.1; and Transportation Equipment-Light Trucks, Account 392.2 can be transferred to help correct the deficiencies. The recommended corrective action will bring each affected account's reserve more in line with its calculated theoretically correct 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 depreciation rates and recovery schedules?

RECOMMENDATION: The staff recommended lives, net salvages, reserves, and resultant depreciation rates are shown on Attachment B, page 9. Attachment C, page 10, shows an estimated resultant decrease in annual expenses of approximately \$416,000, based on December 31, 1999 investments. (SWAIN)

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 depreciation rate parameters and those staff is recommending as appropriate, with which the company agrees. Attachment C shows a comparison of resultant expenses based on December 31, 1999 investments.

This filing was essentially a staff-assisted study. The company provided actual aged retirement data for the 1995-1999 period. Staff then worked with the company in developing appropriate life and salvage values. As a result of the review and analytical process, staff and the company agree on lives, net salvages, and resultant depreciation rates for all accounts. The recommended rates reflect the corrective reserve measures addressed in Issue 3.

The recommended changes in the distribution and general plant depreciation rates can be attributed mainly to two factors: updated account ages to reflect activity since the last rescription and/or changes in the associated reserve position. The recommended changes in the net salvage values are more in line with current industry expectations. The accounts with a substantial change in depreciation expenses are: Account 376 Mains, 380 Services, 391.3 Computers, and 392 Transportation Equipment.

Mains and Services - The Mains and Services accounts have historically experienced minimal retirement activity making reliance on industry averages for life and salvage values necessary. The recommended remaining lives simply reflect an update of activity since the last study.

The primary question with these accounts is centered around the cost of abandoning the main or service. When a main or service is retired, it is generally cut and capped and abandoned in place. The cost of removal involves travel time with a crew, digging down to the pipe, cutting and capping, refilling the hole, and restoring the roadway. Restoring the roadway becomes significant if the main

DATE: May 04, 2000

or service is located under pavement. Assuming the actual removal costs relating to plant in service are correct and these levels of costs will continue over the remaining lives of the mains and services accounts, a negative 15% net salvage results for plastic and steel mains, a negative 15% for plastic services, and a negative 80% for steel services.

Computers - Recognizing this investment has an age of 5.2 years and the company has no near term plans for retirement, an increase in the currently prescribed 7-year service life is indicated. A 10-year service life and an S4 mortality dispersion are more in line with the activity of the account. The decrease in net salvage recognizes that there will be little resale value at retirement due to the age of the equipment.

Transportation - Increases in the currently prescribed average service lives for the automobiles and light trucks transportation accounts are indicated in light of the average ages of the vehicles retired during the last five years. An 8-year service life is recommended for the automobile account and an 11-year service life is recommended for the light trucks account. The net salvage recommendations reflect that these vehicles are expected to experience longer lives, thereby reducing any realized salvage.

ISSUE 5: Should the current amortization of investment tax credits (ITCs) and the flowback of excess deferred income taxes be revised to reflect the approved depreciation rates and recovery schedules?

RECOMMENDATION: Yes. The current amortization of ITCs and the flowback of excess deferred income taxes (EDIT) should be revised to match the actual recovery periods for the related property. The utility should file detailed calculations of the revised ITC amortization and flowback of EDIT at the same time it files its surveillance report covering the period ending December 31, 2000. (CAUSSEAUX)

STAFF ANALYSIS: In earlier issues, staff recommends revisions to the company's remaining lives, to be effective January 1, 2000. Revising a utility's book depreciation lives generally results in a change in its rate of ITC amortization and flowback of EDIT in order to comply with the normalization requirements of the Internal Revenue Code (IRC) and underlying regulations (REGs) found in Section 46, 167, and 168 and 1.46, 1.67, and 1.68, respectively.

Section 46(f)(6), IRC, states that the amortization of ITCs should be determined by the period of time actually used in computing depreciation expense for rate making purposes and on the regulated books of the utility. Since staff is recommending a change in remaining lives, it is also important to change the amortization of ITCs to avoid violation of the provisions of section 46 and 1.46, IRC and REGs, respectively.

Section 203(3) of the Tax Reform Act of 1986 (the Act) prohibits rapid flowback of depreciation related (protected) EDIT. Further, Rule 25-14.013, Accounting for Deferred Income Taxes Under SFAS 109, Florida Administrative Code, generally prohibits EDIT from being written off any faster than allowed under the Act. The Act, SFAS 109, and Rule 25-14.013, Florida Administrative Code regulate the flowback of EDIT. Therefore, staff recommends that the flowback of EDIT be adjusted to comply with the Act, AFAS 109, and Rule 25-14.013, Florida Administrative Code.

Staff, the Internal Revenue Service, and independent outside auditors look to a company's books and records and at the orders and rules of the jurisdictional regulatory authorities to determine if the books and records are maintained in the appropriate manner and to determine the intent of the regulatory bodies in regard to normalization. Therefore, staff recommends that the current amortization of ITCs and the flowback of EDIT be revised to reflect the approved remaining lives. In order for there to be a clear

audit trail, a prudent utility will revise ITCs and EDIT amortization and produce work papers to show how the revisions were made.

ISSUE 6: Should this docket be closed?

RECOMMENDATION: Yes. If no person whose substantial interests are affected by the proposed agency action files a protest within twenty-one days of the issuance of the order, this docket should be closed upon the issuance of a consummating order. (STERN)

STAFF ANALYSIS: If no person whose substantial interests are affected 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 upon the issuance of a consummating order.

**FLORIDA PUBLIC UTILITIES COMPANY - GAS DIVISION
2000 DEPRECIATION STUDY**

RECOMMENDED CORRECTIVE RESERVE TRANSFERS

Account	Book Reserve 01/01/2000	Theoretical Reserve	Transfer	Restated Reserve
	(\$)	(\$)	(\$)	(\$)
376.2 Mains - Other Than Plastic	10,009,548	8,554,543	(1,455,005)	8,554,543
380.2 Services - Other Than Plastic	540,927	1,995,932	1,455,005	1,995,932
390 Structures & Improvements	471,486	543,872	72,386	543,872
391.1 Office Furniture	(7,541)	36,341	43,882	36,341
392.1 Transportation Equip. - Autos	380,060	200,392	(179,668)	200,392
392.2 Transportation Equip. Light Trucks	1,134,715	1,054,672	(80,043)	1,054,672
394 Tools, Shop, Garage Equipment	52,522	137,503	84,981	137,503
395 Laboratory Equipment	(2,692)	0	2,692	0
397 Communication Equipment	51,548	107,318	55,770	107,318
TOTAL	12,630,573	12,630,573	0	12,630,573

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**FLORIDA PUBLIC UTILITIES COMPANY - GAS DIVISION
2000 DEPRECIATION STUDY
COMPARISON OF RATES AND COMPONENTS**

ACCOUNT	CURRENT			COMPANY/STAFF RECOMMENDATION			
	AVERAGE REMAINING LIFE	NET SALVAGE	REMAINING LIFE RATE	AVERAGE REMAINING LIFE	NET SALVAGE	RESERVE	REMAINING LIFE RATE
	(YRS.)	(%)	(%)	(YRS.)	(%)	(%)	(%)
DISTRIBUTION ASSETS							
375.0 Structures & Improvements	24.0	0.0	2.7	17.5	0.0	48.96	2.9
376.1 Mains - Plastic	39.0	(30.0)	3.0	38.0	(15.0)	21.76	2.5
376.2 Mains - Other Than Plastic	28.0	(30.0)	3.2	27.0	(15.0)	44.80 *	2.6
378.0 M&R Equipment - General	26.0	0.0	3.7	23.0	0.0	15.94	3.7
379.0 M&R Equipment - City Gate	25.0	0.0	3.4	21.0	0.0	23.42	3.6
380.1 Services - Plastic	29.0	(6.0)	3.2	28.0	(15.0)	18.37	3.5
380.2 Services - Other Than Plastic	17.0	(71.0)	6.7	11.9	(80.0)	108.48 *	6.0
381.0 Meters	19.0	0.0	3.6	19.0	0.0	36.30	3.4
382.0 Meter Installations	22.0	(5.0)	3.3	24.0	(5.0)	27.98	3.2
383.0 House Regulators	22.0	0.0	3.4	18.2	0.0	34.57	3.6
384.0 Regulator Installations	26.0	0.0	3.0	25.0	(5.0)	27.23	3.1
385.0 Industrial M&R Station Equipment	17.5	0.0	4.1	17.2	0.0	32.46	3.9
387.0 Other Equipment	20.0	0.0	3.6	21.0	0.0	18.70	3.9
GENERAL PLANT							
390.0 Structures & Improvements	24.0	0.0	2.6	31.0	0.0	22.50 *	2.5
391.1 Office Furniture	7.1	5.0	6.4	9.3	0.0	55.36 *	4.8
391.2 Office Machines & Equipment	4.6	5.0	12.6	7.3	0.0	44.08	7.7
391.3 Computers	4.0	5.0	11.7	4.8	0.0	61.10	8.1
392.1 Transportation Equip. - Autos	2.2	15.0	27.5	3.9	10.0	45.93 *	11.3
392.2 Transportation Equip - Light Trucks	3.1	10.0	13.3	5.6	10.0	65.75 *	4.3
392.4 Transportation Equip. - Trailers	3.1	0.0	18.2	6.0	0.0	83.79	2.7
393.0 Stores Equipment	11.5	0.0	7.3	4.5	0.0	73.97	5.8
394.0 Tools, Shop, Garage Equipment	12.6	0.0	5.0	6.5	0.0	56.45 *	6.7
395.0 Laboratory Equipment	12.5	0.0	6.4	20.0	0.0	0.00 *	5.0 **
396.0 Power Operated Equipment	7.1	5.0	6.7	7.9	5.0	47.54	6.0
397.0 Communication Equipment	8.4	0.0	5.9	8.3	0.0	41.07 *	7.1
398.0 Misc. Equipment	7.0	0.0	10.4	14.4	0.0	28.23	5.0

*Denotes restated reserves after corrective measures

**Denotes whole life rate

**FLORIDA PUBLIC UTILITIES COMPANY - GAS DIVISION
2000 DEPRECIATION STUDY
COMPARISON OF EXPENSES**

ACCOUNT	INVESTMENT 1/1/00 (\$)	RESERVE 1/1/00 (\$)	CURRENT		COMPANY/STAFF RECOMMENDATION		
			RATE (%)	EXPENSES (\$)	RATE (%)	EXPENSES (\$)	CHANGE IN EXPENSES (\$)
DISTRIBUTION ASSETS							
375.0 Structures & Improvements	506,487	247,988	2.7	13,675	2.9	14,688	1,013
376.1 Mains - Plastic	9,416,818	2,048,746	3.0	282,505	2.5	235,420	(47,085)
376.2 Mains - Other Than Plastic	19,094,962	8,554,543	3.2	611,039	2.6	496,469	(114,570)
378.0 M&R Equipment - General	176,645	28,165	3.7	6,536	3.7	6,536	0
379.0 M&R Equipment - City Gate	696,755	163,205	3.4	23,690	3.6	25,083	1,393
380.1 Services - Plastic	10,659,373	1,958,349	3.2	341,100	3.5	373,078	31,978
380.2 Services - Other Than Plastic	1,839,873	1,995,932	6.7	123,271	6.0	110,392	(12,879)
381.0 Meters	3,520,202	1,277,880	3.6	126,727	3.4	119,687	(7,040)
382.0 Meter Installations	1,146,944	320,955	3.3	37,849	3.2	36,702	(1,147)
383.0 House Regulators	994,427	343,788	3.4	33,811	3.6	35,799	1,988
384.0 Regulator Installations	455,461	124,034	3.0	13,664	3.1	14,119	455
385.0 Industrial M&R Station Equipment	90,675	29,434	4.1	3,718	3.9	3,536	(182)
387.0 Other Equipment	253,582	47,427	3.6	9,129	3.9	9,890	761
TOTAL DISTRIBUTION	48,852,205	17,140,445		1,626,714		1,481,399	(145,315)
GENERAL PLANT							
390.0 Structures & Improvements	2,417,210	543,872	2.6	62,847	2.5	60,430	(2,417)
391.1 Office Furniture	65,645	36,341	6.4	4,201	4.8	3,151	(1,050)
391.2 Office Machines & Equipment	104,049	45,867	12.6	13,110	7.7	8,012	(5,098)
391.3 Computers	1,336,579	816,620	11.7	156,380	8.1	108,263	(48,117)
392.1 Transportation Equip. - Autos	436,298	200,392	27.5	119,982	11.3	49,302	(70,680)
392.2 Transportation Equip. - Light Trucks	1,604,167	1,054,672	13.3	213,354	4.3	68,979	(144,375)
392.4 Transportation Equip. - Trailers	24,545	20,566	18.2	4,467	2.7	663	(3,804)
393.0 Stores Equipment	13,359	9,881	7.3	975	5.8	775	(200)
394.0 Tools, Shop, Garage Equipment	243,584	137,503	5.0	12,179	6.7	16,320	4,141
395.0 Laboratory Equipment	0	0	6.4	0	5.0	0	0
396.0 Power Operated Equipment	212,962	101,238	6.7	14,268	6.0	12,778	(1,490)
397.0 Communication Equipment	261,306	107,318	5.9	15,417	7.1	18,553	3,136
398.0 Misc. Equipment	20,203	5,703	10.4	2,101	5.0	1,010	(1,091)
TOTAL GENERAL PLANT	6,739,906	3,079,972		619,281		348,236	(271,045)
TOTAL DIST. & GEN. PLANT	55,592,111	20,220,417		2,245,995		1,829,635	(416,360)

*Denotes restated reserves after corrective measures