

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

In re: Request for approval of implementation date of January 1, 2002, for new depreciation rates for Marianna Electric Division by Florida Public Utilities Company.

DOCKET NO. 010669-EI  
ORDER NO. PSC-01-2270-PAA-EI  
ISSUED: November 19, 2001

The following Commissioners participated in the disposition of this matter:

E. LEON JACOBS, JR., Chairman  
J. TERRY DEASON  
LILA A. JABER  
BRAULIO L. BAEZ  
MICHAEL A. PALECKI

NOTICE OF PROPOSED AGENCY ACTION  
ORDER REVISING DEPRECIATION RATES

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 substantial interests are substantially affected files a petition for a formal proceeding pursuant to Rule 25-22.029, Florida Administrative Code.

Rule 25-6.0436, Florida Administrative Code, requires Investor Owned Utilities to file comprehensive depreciation studies at least once every four years. On May 2, 2001, Florida Public Utilities Company (FPU or the company) filed its regular depreciation study for the Marianna Division in accordance with this rule.

FPU's current depreciation rates were approved effective January 1, 1998. A review of the company's activity data in its May 2, 2001, filing shows the need for revising depreciation rates.

I. Corrective Reserve Measures

Corrective reserve measures shall be made as shown on Attachment A. Reserve imbalances are primarily a matter of differences in current and past projections. Such deficiencies should be recovered as fast as possible, unless such recovery

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prevents the company from earning a fair and reasonable return on its investments.

A negative reserve balance exists for the Structures and Improvements account, Account 361. In 1999, the company performed an inventory verification and reconciliation between its continuing property records and actual physical plant in service which revealed a mismatch between the accounting records and the related physical assets. Apparently the physical plant in this account was retired during the early 1990's without the commensurate accounting retirement of the related investment. The negative reserve resulted when the corrective action was recorded. Since this negative reserve represents non-existent plant, there is a need for immediate corrective action. An apparent reserve surplus exists in the Station Equipment account, Account 362, that shall be used to correct this deficiency.

Further, there is a perceived reserve deficiency in Account 371, Installation on Customers' Premises. The apparent surpluses in Accounts 366 and 367, Underground Conduit and Underground Conductors and Devices shall be transferred to offset the reserve deficiency in Account 371.

Each of the General Plant accounts have either a perceived surplus or deficit in the reserve position. The existence of reserve surpluses and deficiencies in these accounts can cause abnormalities in the resulting depreciation rates. For this reason, the reserve transfers shown on Attachment A shall be made to bring each account's reserve more in line with its calculated theoretical level.

## II. Depreciation Rates

The approved lives, net salvages, reserves and depreciation rates shown on Attachment B are the result of a comprehensive review of FPU's depreciation study. The May 2, 2001, filing was essentially a staff-assisted study. The company provided aged retirement data for the 1997-2000 period and forecasted 2001 data. The company also provided the average age distributions of the surviving investments for each account. Commission staff then worked with the company in developing appropriate life and salvage values.

The changes in the transmission and general plant depreciation rates can be attributed mainly to two factors - updated account ages to reflect activity since the last represcription and/or changes in the associated reserve position. The salvage values for three plant accounts will also change. The approved salvage values reflect a move more in line with company experience and industry expectations. A discussion of these accounts is presented below.

A. Overhead Conductors and Devices (Account 365)

The currently prescribed net salvage factor for this account is negative 15%. The removal of aerial plant is labor intensive and is reflected in the account's net salvage experience. With this in mind, a negative net salvage of 25% is approved because it is more in line with these trends.

B. Street Lighting and Signal Systems (Account 373)

The currently prescribed net salvage factor for this account is negative 5%. During the 1997-2000 period, net salvage for this account averaged negative 18%. For this reason, a net salvage of negative 10% is approved because it is more in line with the indicated experience of the account.

C. Power Operated Equipment (Account 396)

Since the last depreciation study, the company has determined that the bulk of this account's investment (\$22,978) should have been placed in Account 392.2, Transportation-Light Trucks. This reclassification left approximately \$5,000 in the account with an average age of 9.1 years. Taking into account the age of this investment, it is highly unlikely that any salvage other than scrap value will be realized upon retirement. Recognizing this, a net salvage of 5% is approved because it is more in line with current expectations than the currently prescribed 10% net salvage.

III. Taxes

The current amortization of ITCs and the flowback of excess deferred income taxes (EDIT) shall be revised to match the actual recovery periods for the related property. FPU shall file detailed

calculations of the revised ITC amortization and flowback of EDIT at the same time it files its surveillance report covering the quarter ending March 31, 2002.

Revisions to a utility's remaining lives, as was approved above, generally change its rate of amortization of investment tax credits (ITCs), and flowback of EDIT in order to comply with Sections 46, 167, and 168 of the Internal Revenue Code (IRC), and Sections 1.46, 1.67, and 1.68 of the Treasury Regulations.

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. Because there will be a change in remaining lives, the amortization of ITCs will change in order to avoid violation of the provisions of Section 46, IRC, and Section 1.46 of the Treasury Regulations.

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, the flowback of EDIT shall be adjusted to comply with the Act, SFAS 109, and Rule 25-14.013, Florida Administrative Code.

We 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, the current amortization of ITCs and the flowback of EDIT shall be revised to reflect the approved remaining lives. The utility shall also produce work papers to show how the revisions were made.

#### IV. Effective Date

Company data and related calculations are based on depreciation estimated through December 31, 2001. Therefore, the

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depreciation rates approved in this Order shall become effective on January 1, 2002. This is the earliest practicable date for utilizing the revised rates.

Based on the foregoing, it is

ORDERED by the Florida Public Service Commission that Florida Public Utility Company's depreciation rates, corrective reserve measures, amortization of investment tax credits, and the flowback of excess deferred income taxes shall be revised as shown in the body of this Order and the Attachments to this Order. It is further

ORDERED that the depreciation rates shall become effective on January 1, 2002. It is further

ORDERED that the provisions of this Order, issued as proposed agency action, shall become final and effective upon the issuance of a Consummating Order unless an appropriate petition, in the form provided by Rule 28-106.201, Florida Administrative Code, is received by the Director, Division of the Commission Clerk and Administrative Services, 2540 Shumard Oak Boulevard, Tallahassee, Florida 32399-0850, by the close of business on the date set forth in the "Notice of Further Proceedings" attached hereto. It is further

ORDERED that in the event this Order becomes final, this docket shall be closed.

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By ORDER of the Florida Public Service Commission this 19th  
day of November, 2001.

BLANCA S. BAYÓ, Director  
Division of the Commission Clerk  
and Administrative Services

By: Kay Flynn  
Kay Flynn, Chief  
Bureau of Records and Hearing  
Services

( S E A L )

MKS

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 that is available under Section 120.57, 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 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.

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The action proposed herein is preliminary in nature. Any person whose substantial interests are affected by the action proposed by this order may file a petition for a formal proceeding, in the form provided by Rule 28-106.201, Florida Administrative Code. This petition must be received by the Director, Division of the Commission Clerk and Administrative Services, 2540 Shumard Oak Boulevard, Tallahassee, Florida 32399-0850, by the close of business on December 10, 2001.

In the absence of such a petition, this order shall become final and effective upon the issuance of a Consummating Order.

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.

FLORIDA PUBLIC UTILITIES - MARIANNA ELECTRIC DIVISION  
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 2001 DEPRECIATION STUDY

COMMISSION APPROVED RESERVE TRANSFERS

ACCOUNT	TRANSFER AMOUNT	COMMISSION APPROVED RESTATED RESERVE
<b>DISTRIBUTION PLANT</b>		
361 - Structures and Improvements	\$5,205.00	\$0.00
362 - Station Equipment	(\$6,246.00)	\$455,508.00
366 - Underground Conduit	(\$3,700.00)	\$25,048.00
367 - Underground Conductors & Dev.	(\$21,589.00)	\$124,021.00
371 - Installation on Cust. Premises	<u>\$26,330.00</u>	<u>\$236,869.00</u>
<b>TOTAL</b>	<b>\$0.00</b>	<b>\$841,446.00</b>
<b>GENERAL PLANT</b>		
390 - Structures and Improvements	(\$22,193.00)	\$153,255.00
392.1 - Transportation-Cars	\$3,296.00	\$9,295.00
392.2 - Transportation-L. Trucks & Vans	(\$5,924.00)	\$103,555.00
392.3 - Transportation-H. Trucks & Vans	\$22,123.00	\$423,282.00
392.4 - Transportation-Trailers	\$391.00	\$7,842.00
396 - Power Operated Equipment	<u>\$2,307.00</u>	<u>\$2,710.00</u>
<b>TOTAL</b>	<b>\$0.00</b>	<b>\$699,939.00</b>



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 2001 DEPRECIATION STUDY

<u>ACCOUNT</u>	COMMISSION APPROVED			
	AVERAGE REMAINING LIFE (YRS.)	NET SALVAGE (%)	ESTIMATED 1/1/02 RESERVE (%)	REMAINING LIFE RATE (%)
<b>DISTRIBUTION PLANT</b>				
360.1 - Land Rights	46.0	0.0	14.6	1.9
361 - Structures and Improvements	45.0	0.0	0.0 **	2.2 *
362 - Station Equipment	21.0	(10.0)	49.1	2.9
364 - Poles, Towers, and Fixtures	21.0	(25.0)	43.7	3.9
365 - Overhead Conductors & Devices	17.8	(25.0)	48.9	4.3
366 - Underground Conduit	39.0	0.0	22.0 **	2.0
367 - Underground Conductors & Devices	26.0	0.0	24.6 **	2.9
368 - Line Transformers	14.5	(10.0)	51.9	4.0
369 - Services	17.4	(20.0)	43.8	4.4
370 - Meters	13.0	(10.0)	61.3	3.7
371 - Installation on Customers' Premises	8.9	15.0	27.1 **	6.5
373 - Street Lighting & Signal Systems	13.9	(10.0)	33.4	5.5
<b>GENERAL PLANT</b>				
390 - Structures & Improvements	42.0	(5.0)	16.8 **	2.1
392.1 - Transportation-Cars	2.7	15.0	39.1 **	17.0
392.2 - Transportation-Light Trucks & Vans	3.0	10.0	51.3 **	12.9
392.3 - Transportation - Heavy Trucks & Vans	4.9	10.0	45.6 **	9.1
392.4 - Transportation - Trailers	14.7	5.0	39.1 **	3.8
396 - Power Operated Equipment	4.9	5.0	61.7 **	6.8

\* Denotes Whole Life Rate.  
 \*\* Denotes restated reserve after corrective measures.