State of Florida

Public Service Commission

CAPITAL CIRCLE OFFICE CENTER • 2540 SHUMARD OAK BOULEVARD
TALLAHASSEE, FLORIDA 32399-0850

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

DATE: January 4, 2012

TO: Ann Cole, Commission Clerk, Office of Commission Clerk

FROM: Melissa L'Amoreaux, Engineering Specialist I, Division of Economic Regulation

RE: Docket No. 110207-EI: 2011 Depreciation Study by Florida Public Utilities Company

It has come to my attention that the September 27, 2011 staff report was inadvertently not filed in CMS. If you can, please insert the attached document for the record. If you have any questions, please let me know. Thank you.

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DIVISION OF ECONOMIC REGULATION
(850) 413-6900

Public Service Commission

September 27, 2011

Beth Keating
Gunster, Yoakley & Stewart, P.A.
215 South Monroe St., Suite 601
Tallahassee, FL 32301

Re: Docket No. 110207-EI: 2011 Depreciation Study by Florida Public Utilities Company

Dear Ms. Keating:

Enclosed is the Staff Report regarding your current depreciation study filed in the above referenced docket. In order to meet the targeted recommendation date of November 22, 2011, the Company's response to this report is due on October 21, 2011. In your response, please identify areas of concurrences or differences, and feel free to provide additional input.

Should you have any questions, or need further information, please do not hesitate to contact Melissa L'Amoreaux at (850) 413-6980.

Sincerely,

Dave Dowds
Supervisor, Cost Analysis Section

ML:lr
Attachment

cc: Division of Economic Regulation (Wu)
Office of General Counsel (Norris)
Office of Public Counsel

FLORIDA PUBLIC UTILITIES COMPANY
2011 DEPRECIATION STUDY
DOCKET NO. 110207-EI
STAFF REPORT

As a general statement, the only areas addressed in the staff report is where staff disagrees with Florida Public Utilities Company's (FPUC, or Company) life or salvage proposals, or where there is a need further clarification or information.

The Company's filing provided aged retirement data for the 2007 through the 2010 period and an estimate for 2011. The Company used its continuing property record (CPR) system to develop the average age distribution of the surviving investments for each account.

The Company's proposed average remaining lives (ARLs) represent the difference between each account's average service life (ASL) and its average age. This implies that all investment retire simultaneously, with no ongoing retirements. Such a pattern of expected retirements (curve shape, retirement dispersion, or mortality dispersion) represents an idealized situation where the equipment is so designed and manufactured as to live efficiently until the precise year of its planned to replacement. In reality, there is no plant type where a utility has such full control over retirement. The nearest would be heavy trucks or trailers, where maintenance problems and accidents can modify the pattern.

In selecting a curve shape, staff works from averages, modifying the average as necessary for any peculiarities of the given company. A basic premise is that a similar plant type, used in a similar fashion, will have the same curve shape.

Certain patterns of activity will change the curve shape. High retirements, high growth, or both, tend to increase early retirements (infant mortality). A stagnant situation has the opposite effect. Plant subject to theft, damage, or public requirements can be expected to have a greater incidence of infant mortality than similar plant in a rural or small town setting.

Staff's proposed ASLs, ARLs, net salvage (NS) values, average ages, and curve shapes for each account are shown on Attachment A. Staff's proposed remaining lives reflect rounding lives less than 20 years to the nearest tenth year; lives of more than 20 years are rounded to the nearest year.

Based on the staff proposed lives and NS values, there are some reserve transfers that staff believes should be made. These are addressed in the body of this report. Attachments B and C show the resulting remaining life rates and expenses, respectively.

Transmission Plant

Account 350.1 – Land Rights

FPUC proposes no change in ASL, curve shape, or NS for this Account. The proposed ARL simply reflects the passage of time from the last study. Currently, FPUC has a 56-year ASL and a zero percent NS based on an SQ curve. There have been no retirements over the past five years making results from statistical analyses meaningless for both life and salvage determinations.

Other companies in the state are estimating longer ASLs for easements, ranging from 65 years to 75 years. With the lack of retirement activity, staff proposes an ASL of 65 years. This will bring FPUC more in line with other companies in the state.

Using a SQ curve and an average age of 40 years, results in a staff proposed ARL of 25 years. The Company's proposed NS continues to be in the range of reasonableness compared to other companies and is acceptable to staff. Staff does not propose any other changes at this time.

Account 352 – Structures and Improvements

FPUC proposes no change in ASL, curve shape, or NS for this Account. The proposed ARL simply reflects the passage of time from the last study. Currently, FPUC has a 50-year ASL and a zero percent NS based on an S5 curve. There have been no retirements over the past five years making results from statistical analyses meaningless for both life and salvage determinations.

Other companies in the state are estimating longer ASLs ranging from 50 years to 75 years. With the lack of retirement activity, staff proposes an ASL of 55 years. This will bring FPUC more in line with other companies in the state.

Using an S5 curve and an average age of 26, results in a staff proposed ARL of 29 years. The Company's proposed NS continues to be in the range of reasonableness compared to other companies and is acceptable to staff. Staff does not propose any other changes at this time.

Account 353 – Station Equipment

FPUC proposes no change in ASL, curve shape, or NS for this Account. The proposed ARL simply reflects the passage of time from the last study. Currently, FPUC has a 40-year ASL and a positive 10 percent NS based on an S3 curve. The retirement rate has averaged less than 1 percent over the past five years making results from statistical analyses meaningless for both life and salvage determinations. Reliance on industry averages is therefore necessary.

Presently, FPUC is the only Florida investor-owned utility that has a positive NS for this Account. The industry average, excluding FPUC, is negative 4.0. Staff would like to know why FPUC believes a positive NS is appropriate for this Account.

The Company's proposed ASL and curve shape continue to be in the range of reasonableness compared to other companies and is acceptable to staff. Staff does not propose any other changes at this time.

Account 354 – Towers and Fixtures

FPUC proposes no change in ASL, curve shape, or NS for this Account. The proposed ARL simply reflects the passage of time from the last study. Currently, FPUC has a 50-year ASL and a negative 15 percent NS based on an S5 curve. There have been no retirements over the past five years making results from statistical analyses meaningless for both life and salvage determinations.

In the 2007 Staff Report in Docket No. 070382-EI, staff proposed only one change to this account. Staff proposed that the Company change to an S5 curve. In response to the report, FPUC concurred with staff. However, in the current depreciation study the previous S2 curve is shown as both currently prescribed and proposed by the Company. Staff believes an S5 is indicative of expected retirement dispersion.

Other companies in the state are estimating longer ASLs, ranging from 50 years to 65 years. Given the lack of retirement activity, staff proposes an ASL of 55 years. This will bring FPUC more in line with other companies in the state.

In response to staff's initial review, the Company stated that $183 for the cost of removal recorded in Schedule F, page 1 of 5, should have been booked instead to Account 355. Staff would like to know when FPUC plans to correct this error. In addition, staff notes that the correction has been made by staff in order to determine the correct parameters to this Account.

Using an S5 curve and an average age of 37.5 years, results in a staff proposed ARL of 17.6 years. The Company's proposed NS continues to be in the range of reasonableness compared to other companies and is acceptable to staff. Staff does not propose any other changes at this time.

Account 355 – Poles and Fixtures

FPUC proposes a change in ASL from 35 years to 40 years for this Account. In the current study, FPUC proposes no change in curve shape or NS. The Company's proposed ARL simply reflects the passage of time from the last study. Currently, FPUC has a 35-year ASL and a negative 30 percent NS based on an R4 curve. The retirement rate for this Account has averaged less than 1 percent over the past five years making results from statistical analyses meaningless for both life and salvage determinations. Reliance on industry averages is therefore necessary.

In the 2007 Staff Report in Docket No. 070382-EI, staff proposed only one change to Account 355. Staff proposed changing the curve shape from an R1 curve to an R4 curve. In response to the report, FPUC concurred with staff on changing to an R4 curve. In the current depreciation study, no changes were made to curve shape but the previous R1 curve is shown as both currently prescribed and proposed by the Company. Staff believes the R4 curve shape continues to be reasonable for this Account.

Other companies in the state are estimating ASLs ranging from 37 years to 44 years. Using an R4 curve and an average age of 21.3, results in a staff proposed ARL of 19.3 years. Staff believes the Company's proposed 40 year ASL is in line with other companies in the state and agrees to the change.

The Company's proposed NS continues to be in the range of reasonableness compared to other companies and is acceptable to staff. Staff does not propose any other changes at this time.

Account 355.1 – Poles and Fixtures – Concrete

FPUC proposes no change in ASL, curve shape, or NS for this Account. The proposed ARL simply reflects the passage of time from the last study. In Docket No. 070382-EI, the Commission approved the establishment of sub-account 355.1 for concrete transmission poles, with a 40-year ASL and a negative 30 percent net salvage, based on an R4 curve. There have been no retirements over the past five years making results from statistical analyses meaningless for both life and salvage determinations.

Given the lack of retirement activity, staff proposes an ASL of 45 years. Staff believes that if the ASL for Account 355 is increased to 40 years, then the ASL for concrete poles should also increase. Staff believes concrete poles generally have a longer life then that of wooden poles.

In the 2007 Staff Report in Docket No. 070382-EI, staff proposed only one change to Account 355. Staff proposed that the Company change to an R4 curve. In response to the report, FPUC concurred with staff. Although the staff report did not address sub-account 355.1, staff believes an R4 curve is suited for both Account 355 and sub-Account 355.1. However, in the current depreciation study, no changes were made and the previous R1 curve is shown as both currently prescribed and proposed by the Company. Staff believes an R4 is still indicative of expected retirement dispersion.

Using an R4 curve and an average age of 4.9 years, results in a staff proposed ARL of 40 years. The Company's proposed NS continues to be in the range of reasonableness compared to other companies and is acceptable to staff. Staff does not propose any other changes at this time.

Account 356 – Overhead Conductors and Devices

FPUC proposes no change in ASL, or NS for this Account. FPUC is proposing to change the current curve shape from an R1 to an S2. The proposed ARL simply reflects the passage of time from the last study. Currently, FPUC has a 40-year ASL and a negative 10 percent NS based on an S2 curve. The retirement rate has averaged less than 1 percent over the past five years making results from statistical analyses meaningless for both life and salvage determinations. Reliance on industry averages is therefore necessary.

Other companies in the state are estimating longer ASLs ranging from 40 years to 55 years with FPUC being the lowest. Staff proposes an ASL of 45 years for this Account. This represents a conservative increase to bring FPUC more in line with other companies in the state. Using an S2 curve and an average age of 14.9 years, results in a staff proposed ARL of 31 years. The Company's proposed S2 curve shape and NS continue to be in the range of reasonableness compared to other companies and is acceptable to staff. Staff does not propose any other changes at this time.

Account 359 – Roads and Trails

FPUC proposes no change in ASL, curve shape, or NS for this Account. The proposed ARL simply reflects the passage of time from the last study. Currently, FPUC has a 55-year ASL and a zero percent net salvage based on an SQ curve. There have been no retirements over the past five years making results from statistical analyses meaningless for both life and salvage determinations.

Other companies in the state are estimating ASLs ranging from 55 years to 90 years. Staff proposes an ASL of 65 years for this Account. This will bring FPUC more in line with other companies in the state.

In staff's initial review, staff questioned an adjustment/transfer in 1994 in the amount of $4,827. It appeared as though the Company was treating the 1994 adjustment as having an original placement vintage of 1994 instead of 1962. In response to this accounting, FPUC concurred that this was an error and should have been a 1962 asset. Staff has recalculated the age for this Account to be 49.5 years in order to correct the original vintage of a 1994 adjustment/transfer to 1962.

Using an SQ curve and an average age of 49.5 years, results in a staff proposed ARL of 15.5 years. The Company's proposed NS continues to be in the range of reasonableness compared to other companies and is acceptable to staff. Staff does not propose any other changes at this time.

Distribution Plant

Account 361 – Structures and Improvements

FPUC proposes no change in ASL, curve shape, or NS for this Account. The proposed ARL simply reflects the passage of time from the last study. Currently, FPUC has a 50-year ASL and a zero percent NS based on an SQ curve. There have been no retirements over the past five years making results from statistical analyses meaningless for both life and salvage determinations.

Other companies in the state are estimating ASLs ranging from 48 years to 75 years. Staff proposes an ASL of 55 years for this Account. This will bring FPUC more in line with other companies in the state. In addition, staff believes that distribution structures should have life characteristics similar to transmission structures.

Staff believes that reliance on industry averages is necessary due to lack of retirements and additions. Therefore, staff also proposes a negative 5 percent NS for this Account. This will bring FPUC more in line other companies in the state. Using an SQ curve and an average age of 9.1 years, results in a staff proposed ARL of 46 years. The Company's zero NS is slightly higher than the industry average. Staff does not propose any other changes at this time.

Account 362 – Station Equipment

FPUC proposes no change in ASL, curve shape, or NS for this Account. The proposed ARL simply reflects the passage of time from the last study. Currently, FPUC has a 38-year ASL and a negative 10 percent NS based on an S3 curve. The retirement rate for the Account has averaged less than 1 percent over the past five years making results from statistical analyses meaningless for both life and salvage determinations.

Other companies in the state are estimating longer ASLs ranging from 38 years to 60 years with FPUC being the lowest. Staff proposes an ASL of 40 years for this Account. This will bring FPUC more in line with other companies in the state. In addition, it is staff's understanding that distribution station equipment should have similar life characteristics to transmission station equipment.

Using an S3 curve and an average age of 10.1 years, results in a staff proposed ARL of 30 years. The Company's proposed NS continues to be in the range of reasonableness compared to other companies and is acceptable to staff. Staff does not propose any other changes at this time.

Account 364 – Poles, Towers, and Fixtures

FPUC proposes a change in ASL from 35 years to 38 years for this Account. In the current study, FPUC proposes no change in curve shape or NS. The proposed ARL simply reflects the passage of time from the last study. Currently, FPUC has a 35-year ASL and a negative 45 percent NS based on an R4 curve. The retirement rate for the Account has averaged less than 1 percent over the past five years making results from statistical analyses meaningless for both life and salvage determinations. Reliance on industry averages is therefore necessary.

In the 2007 staff report, staff proposed changes to ASL, NS and curve shape to this account. In response to the 2007 staff report, FPUC concurred with staff on ASL, NS values and application of an R4 curve. In the current depreciation study, no changes were made to curve shape but the previous R1 curve is shown as both currently prescribed and proposed by the Company.

Other companies in the state are estimating ASLs ranging from 32 years to 39 years. Staff believes the Company's proposed 38 year ASL is in line with other companies in the state and agrees to the change. Using an R4 curve and an average age of 15, results in a staff proposed ARL of 23 years.

The Company's proposed NS continues to be in the range of reasonableness compared to other companies and is acceptable to staff. Staff does not propose any other changes at this time.

Account 365 – Overhead Conductors & Devices

FPUC proposes a change in ASL from 34 years to 37 years for this Account. In the current study, FPUC proposes no change in curve shape or NS. The proposed ARL simply reflects the passage of time from the last study. Currently, FPUC has a 34-year ASL and a negative 35 percent NS based on an R5 curve. The retirement rate for the Account has averaged less than 1 percent over the past five years making results from statistical analyses meaningless for both life and salvage determinations. Reliance on industry averages is therefore necessary.

In the 2007 staff report in Docket No. 070382-EI, staff proposed a change to curve shape to this account. In response to the report, FPUC concurred with the change. However, in the current depreciation study the previous L1 curve is shown as both currently prescribed and proposed by the Company.

Other companies in the state are estimating ASLs ranging from 34 years to 41 years with FPUC being the lowest. Staff believes the Company's proposed 37 year ASL is in line with other companies in the state and agrees to the change. Recognizing the lack of retirement activity as well as the 19.8-year average age, staff believes an R5 curve continues to be reasonable. The resulting ARL is 17.2.

The Company's proposed NS continues to be in the range of reasonableness compared to other companies and is acceptable to staff. Staff does not propose any other changes at this time.

<u>Account 366 – Underground Conduit</u>

FPUC proposes no change in ASL, curve shape, or NS to this Account. The proposed ARL simply reflects the passage of time from the last study. Currently, FPUC has a 50-year ASL and a zero percent NS based on a R5 curve. The retirement rate for the Account has averaged less than 1 percent over the past five years making results from statistical analyses meaningless for both life and salvage determinations. Reliance on industry averages is therefore necessary.

Other companies in the state are estimating ASLs for underground conduit ranging from 50 years to 67 years with FPUC being the lowest. Staff proposes an ASL of 60 years for this Account. This will bring FPUC more in line with the life expectations of other companies in the state.

Using an R5 curve and an average age of 10.7 years, results in a staff proposed ARL of 49 years. The Company's proposed NS continues to be in the range of reasonableness compared to other companies and is acceptable to staff. Staff does not propose any other changes at this time.

<u>Account 368 – Line Transformers</u>

Under Rule 25-6.0142(7), Florida Administrative Code, the addition and retirement of transformers should be accounted for as cradle-to-grave. The transformer is capitalized upon initial purchase and it is retired when it is junked because it can no longer perform. All change-out costs and refurbishment costs are expensed.

FPUC proposes no change in ASL, curve shape, or NS to this Account. The proposed ARL simply reflects the passage of time from the last study. Currently, FPUC has a 29-year ASL and a negative 20 percent NS based on a S6 curve. The retirement rate for the Account has averaged less than 1 percent over the past five years making results from statistical analyses meaningless for both life and salvage determinations. Reliance on industry averages is therefore necessary.

In the 2007 Staff Report in Docket No. 070382–EI, staff proposed that the curve shape for line transformers change from an R3 curve to an S6 curve. In response to the report, FPUC concurred with staff. However, in the current depreciation study, staff notes that the previous R3 curve is shown as underlying the currently prescribed and Company proposed ARLs.

Staff proposes the continued use of an S6 curve as being in line with the expected retirement activity of this account. The Company's proposed ASL and current NS continue to be in the range of reasonableness compared to other companies and are acceptable to staff. Using an average age of 17 years results in an ARL of 12 years. Staff does not propose any other changes at this time.

Account 369 – Services

FPUC proposes no change in ASL, curve shape, or NS to this Account. The proposed ARL simply reflects the passage of time from the last study. Currently, FPUC has a 34-year ASL and a negative 35 percent NS based on a R5 curve. The retirement rate for the Account has averaged less than 1 percent over the past five years making results from statistical analyses meaningless for both life and salvage determinations. Reliance on industry averages is therefore necessary.

In the 2007 Staff Report in Docket No. 070382-EI, staff proposed a change to curve shape to this account. In response to the report, FPUC concurred with staff on changing to an R5 curve. However, in the current depreciation study, the previously prescribed R2 curve is shown as currently prescribed and an R3 curve is shown as the Company's proposed curve shape.

Staff agrees with the change to an R3 curve for this Account. Staff believes an R3 curve is a best fit considering the lack of retirements. Using an R3 curve and an average age of 14.8 years, results staff's proposed ARL of 20 years. The Company's proposed NS continues to be in the range of reasonableness compared to other companies and is acceptable to staff. Staff does not propose any other changes at this time.

Account 370 – Meters

Under Rule 25-6.0142(7), Florida Administrative Code, the addition and retirement of meters should be accounted for as cradle-to-grave. The meter is capitalized upon initial purchase and it is retired when it is junked because it can no longer perform metering functions. All costs of meter change-out and refurbishment are expensed.

FPUC proposes no change in ASL, curve shape, or NS for this Account. The proposed ARL simply reflects the passage of time from the last study. Currently, FPUC has a 30-year ASL and a negative 5 percent NS based on a R5 curve.

In the 2007 Staff Report in Docket No. 070382-EI, staff proposed a change to the curve shape for this account, from an R3 curve to an R5 curve. In response to the report, FPUC concurred with staff's proposal. Staff continues to believe that an R5 curve is reasonable for the expected activity of this account.

Staff would like to know if the Company has any AMR/AMI meter technology in service. If so, please identify the investment in this technology as of December 31, 2010 that is contained in the meters account. Please provide the December 31, 2010 investment by original vintage placed. Does FPUC believe the ASL for this new technology should be similar to the ASL for the embedded electromechanical meters? If no, please provide the Company's ASL estimate for the new technology along with supporting documentation. If yes, please explain why. If this account does not currently contain any AMR/AMI meter technology, are there plans to invest in this type of equipment? If so, please provide the planning.

The Company's proposed 30-year ASL and negative 5 percent NS continue to be in the range of reasonableness compared to other companies and are acceptable to staff. Using an average age of 16.8 years results in an ARL of 13.2 years. Staff does not propose any other changes at this time.

<u>Account 373 – Street Lighting & Signal Systems</u>

FPUC proposes no change in ASL, curve shape, or NS to this Account. The proposed ARL simply reflects the passage of time from the last study. Currently, FPUC has a 22-year ASL and a negative 10 percent NS based on a R3 curve. The retirement rate for the Account has averaged less than 1 percent over the past five years making results from statistical analyses meaningless for both life and salvage determinations. Reliance on industry averages is therefore necessary.

In the 2007 Staff Report in Docket No 070382-EI, staff proposed only one change to this account. Staff proposed that the Company change to an R3 curve. In response to the report, FPUC concurred with staff. However, in the current depreciation study, no changes were made and the previous R1 curve is shown as both currently prescribed and proposed by the Company.

Other companies in the state are estimating ASLs ranging from 19 years to 30 years. Staff believes FPUC is currently in the range of other companies. Using an R3 curve and an average age of 14.8 years, results in a staff proposed ARL of 8.9 years. The Company's proposed NS continues to be in the range of reasonableness compared to other companies and is acceptable to staff. Staff does not propose any other changes at this time.

General Plant

<u>Account 390 – Structures and Improvements</u>

The company did not propose any changes to the underlying parameters of this account. Staff concurs with FPUC's proposed ASL of 50 years, R4 curve shape, and calculated age of 19.7 years. Using these input data, an ARL of 31 years results. Staff does not propose any other changes at this time.

Account 391.1 – Office Furniture

This account is amortizable. No changes have been proposed. However, the company has not provided the calculated asset age for this account. Please provide this information if available, in the same format that FPUC used for other accounts in Schedule N of its depreciation study.

Account 391.3 – Computer Equipment

This account is amortizable and the company appears to be complying with the vintage group concept established. However, there is a question regarding the transfer of $18,743 into this account in 2007. According to the company's response to staff's initial review, $17,745 was transferred from Account 392.1 and $1,003 was transferred from "another account." Since Account 392.1 is Transportation – Cars, staff is confused about this transfer and requests additional information in this regard. Additionally, please indicate the specific division, business unit, utility or company, or account from which the $1,003 was transferred.

Staff notes that the company has reported that Account 391.3 – Computer Equipment, has a 5-year amortization in Exhibit K.1/1, page 5, of FPUC's 2011 Depreciation Study. However, on page 5 of Exhibit B of FPUC's responses to staff's initial review (regarding Schedules 1-4), the company reported "ACCOUNT 3913, FURNITURE & FIXTURES, 7 YEARS AMORTIZATION LIFE." Please reconcile the title, nature and the years of amortization life of these two records.

Further, staff notes that in its response to No. 13, page 4, of staff's initial review, FPUC acknowledges that it is still investigating the nature of some other adjustments related to this account. What was the outcome of this investigation?

Account 392.1 – Transportation-Cars

The company proposes to retain an S2 curve shape, ASL of 7 years, NS of 15 percent, and its calculated average asset age of 4.3 years, resulting in an ARL of 2.7 years. Currently this account contains only one asset, a 2002 Chevrolet Impala. Staff notices that FPUC's age calculation includes a projection of retiring a portion of this 2002 vehicle in 2011, because the company "projected retirements based on the average of the last four actual historical years, 2007-2010." (FPUC's response to No. 4a, page 11, of staff's initial review) Staff has recalculated the average asset age to be 9.3 years. Per its response to staff's initial review, page 11, FPUC has no plans to retire this car in 2011, nor does it intend to close this account in the future, or to purchase a new car. Staff proposes: (1) Amortize the remaining investment in this account over 4 years; (2) for any new assets acquired that would be booked to this account, use current Commission-approved 7.0-year ASL, NS of 15 percent, and an S2 curve shape, yielding a whole life rate of 12.1 percent. Staff does not propose any other changes at this time.

Account 392.2 – Transportation-Light Trucks and Vans

The company did not propose any changes to this account. Staff concurs with FPUC's proposed ASL of 9 years, S4 curve shape, and calculated age of 6.2 years. Using these input data, an ARL of 2.9 years results. Staff believes it is appropriate for the company to retain the currently prescribed NS of 12 percent, as it is in line with the current activity of this account.

Staff notes that in its response to No. 11, page 4, of staff's initial review regarding the cause of \$(4,055) reserve amount recorded as "Purch. & Adj." in this account in 2008, FPUC stated "[w]e believe it was an adjustment to the original purchases." Please further explain why such an adjustment was needed.

Staff also notes that in its response to No. 14, page 5, of staff's initial review, FPUC indicated that it was still trying to obtain the supporting data to determine the reason for the amount of \$13,000 Plant transfer and \$3,725 Reserve transfer in 2009 related to this account. Please update your prior response.

Account 392.3 – Transportation-Heavy Trucks

The company did not propose any changes to this account. Staff notes that Schedule 1 of the current filing shows the previously prescribed R4 curve as currently prescribed and an S5 curve shown as the Company's proposed curve shape. The current curve shape is an S5, and the average asset age is 6.1 years. Given that this account has experienced a 3.5 percent retirement rate and a 23.4 percent growth rate, staff believes that an S3 curve shape is a better fit. This results in a 7.0-year ARL.

With respect to the NS, the company proposes to retain the currently prescribed NS of 10 percent. Staff believes this is in line with the current activity of this account and therefore is acceptable. Staff does not propose any other changes at this time.

Account 392.4 – Transportation-Vans

The company did not propose any changes to this account. This account has had no activity during the 2007-2010 period. Staff agrees with the company to retain the currently prescribed 25-year ASL, an R4 curve and NS of 5 percent. Taken with the company's calculated average age of 11.3 years, an ARL of 13.9 years results. Staff does not propose any other changes at this time.

Account 396 – Power Operated Equipment

The company proposes to retain the 20-year ASL and the S3 curve shape that underlie the currently prescribed ARL. Staff notes that Schedule 1 of the current filing shows the previously prescribed S2 curve as both currently prescribed and proposed by the Company.

This account has had one addition and one retirement during the 2007-2010 period. A review of the aged data shown in Schedule N, pages 75 and 76, indicates that 67 percent of the account's investment is over 24 years of age; 24 percent is over 30 years of age. Does FPUC have plans for retiring any of this investment during the next four years? If affirmative, please indicate the investment planned for retirement. When was the last time an inventory was performed on this account? When is the next inventory planned? Staff is concerned that such a large percentage of investments in this account has an age over 24 years.

If there are no firm plans for near-term retirement of any of this account's investment, staff believes an increase in the ASL is warranted. Staff proposes that a 25-year ASL and an S6 curve as better matching the account's activity. With a 19.5 year average age, an ASL of 5.5 years results. Staff also proposes a zero NS for this account. Given the age of the investments in this account, staff believes that little salvage, if any, will be realized when the associated equipment is retired.

In response to staff's initial review, the company indicated that a gross salvage of $150 recorded in 2007 was in error. This gross salvage should have been booked in Account 397, Communication Equipment. Staff will make the corrections for depreciation study purposes. However, when will the company make the correcting accounting entries?

Account 397 – Communication Equipment

This account is amortizable and the company appears to be complying with the vintage group concept established. No changes have been proposed, nor has staff identified any that are needed.

However, in its response to No. 7 of staff's initial review, page 4, FPUC indicated that some salvage recorded in Account 396 appeared to be an error and should belong to Account 397. When will FPUC make the book entry correction?

Account 397.3 – Communication Equipment Post 98

This account is amortizable. Staff notes that in its response to No. 8 of staff's initial review, pages 13 – 14, FPUC acknowledged that there appeared to be some confusion between the use of Accounts 397 and 397.3, and that it might be appropriate to combine these two accounts. Staff agrees and proposes to combine the two accounts for the purposes of depreciation accounting. Staff does not propose any other changes at this time.

Reserve Transfers

Based on the current information, staff believes the following reserve transfers are appropriate

Transmission

RESERVE ALLOCATIONS					
Accounts		**1/1/2011 Reserve**	**Theoretical Reserve**	**Recommended Allocations**	**Restated Reserve**
Transmission					
355	Poles and Fixtures - Wood	$968,529	$1,093,182	$70,837	$1,039,366
355.1	Poles and Fixtures - Concrete	$227,946	$158,716	($69,230)	$158,716
359	Roads and Trails	$4,937	$3,330	($1,607)	$3,330

Distribution

RESERVE ALLOCATIONS					
Accounts		**1/1/2011 Reserve**	**Theoretical Reserve**	**Recommended Allocations**	**Restated Reserve**
Distribution					
361	Structures and Improvements	$34,572	$17,480	($17,092)	$17,480
368	Line Transformers	$9,588,691	$10,477,877	$17,092	$9,605,783