

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: November 18, 2015

TO: Office of Commission Clerk (Stauffer)

FROM: Division of Economics (Higgins, Wu) *J.W.*
Division of Accounting and Finance (Cicchetti) *W.C.*
Office of the General Counsel (Leathers) *ALM*

RE: Docket No. 150162-EI – Petition for approval of 2015 depreciation study by Florida Public Utilities Company. *M.F.C.*

AGENDA: 12/03/15 – Regular Agenda – Proposed Agency Action – Interested Persons May Participate

COMMISSIONERS ASSIGNED: All Commissioners

PREHEARING OFFICER: Patronis

CRITICAL DATES: None

SPECIAL INSTRUCTIONS: None

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CLERK

Case Background

Rule 25-6.0436(8)(a), Florida Administrative Code (F.A.C.), requires investor-owned electric utilities to file a comprehensive depreciation study at least once every four years. On July 1, 2015, Florida Public Utilities Company (FPUC or company) filed its 2015 Depreciation Study in accordance with this rule.¹ The company's last depreciation review was filed June 20, 2011, with an effective date of January 1, 2012.² Staff has completed its review of FPUC's 2015 Depreciation Study and presents its recommendations herein.

¹ By letter dated June 22, 2015, FPUC requested a brief filing due date extension for submitting its 2015 depreciation study.

² Order No. PSC-12-0065-PAA-EI, issued February 13, 2012, in Docket No. 110207-EI, In re: 2011 depreciation study by Florida Public Utilities Company.

Docket No. 150162-EI
Date: November 18, 2015

The Florida Public Service Commission (Commission) has jurisdiction pursuant to Sections 350.115 and 366.05, Florida Statutes (F.S.).

Issue 1: Should FPUC's current depreciation rates and amortization schedules be changed?

Recommendation: Yes. A review of the company's plant-associated planning and activities indicates a need for revising FPUC's currently prescribed depreciation rates. (Higgins)

Staff Analysis: FPUC's last comprehensive depreciation study was filed on June 20, 2011. By Order No. PSC-12-0065-PAA-EI,³ the Commission approved revised depreciation components and rates, effective January 1, 2012. The company has filed its current study in accordance with Rule 25-6.0436(8)(a), F.A.C., 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. In staff's opinion, a review of the company's plant activity and related data indicates the need to further analyze, and where warranted, revise depreciation rates and amortization schedules. Staff's recommended changes are addressed in Issue 2.

³ Order No. PSC-12-0065-PAA-EI, issued February 13, 2012, in Docket No. 110207-EI, In re: 2011 depreciation study by Florida Public Utilities Company.

Issue 2: What are the appropriate depreciation rates and amortization schedules for FPUC?

Recommendation: Staff's recommended average remaining lives, net salvages, reserve percentages, and resultant depreciation rates for FPUC are shown on Attachment A. The reserve percentages and depreciation rates are calculated using the reserve transfers recommended in Issue 3. The result of staff's proposals is a decrease in annual depreciation expense of approximately \$229,415 in total, which is shown on Attachment B. Depreciation expenses are based on plant investment levels as of January 1, 2015. (Wu, Higgins)

Staff Analysis: This issue addresses the derivation of depreciation rates, and amortization schedules by plant account and by function, i.e. transmission, distribution, and general plant. Once formulated, depreciation rates are applied to account investment balances to derive annual expense amounts. Attachment A shows a comparison of FPUC's currently-approved depreciation rates along with staff's proposed rates for future use.⁴ Attachment B is a comparison of the resulting expenses (current and proposed) based on investment levels as of January 1, 2015. Staff notes that the values listed on both Attachments A and B include recommended reserve transfers (revisions) and associated effects in accordance with its recommendation on Issue 3.

In its original 2015 depreciation study filing, FPUC provided the necessary elements for conducting a review of the company's plant and reserve activity. The filing included: annual investment and reserve data; life and retirement data; average age data; salvage data; as well as current and proposed depreciation components and rates. As a result of the study review, discovery and analytical processes, staff and FPUC agree on lives, net salvage amounts, and resulting depreciation rates for all accounts presented in this recommendation.⁵ Below is an account-by-account discussion on the development of staff's proposals for Transmission Plant, Distribution Plant, and General Plant.

Transmission Plant

Account 350.1 – Land Rights

For this account, FPUC proposed to change the Average Service Life (ASL) from 65 years to 70 years. The company proposed no change in curve shape or Net Salvage (NS). Staff notes that more than 69 percent of the plant in this account is over 40 years old, with the remaining plant being over 50 years old. The company has no plans to retire any of this plant. Staff also notes that the proposed increase in ASL is moderate, and the resulting ASL is still in line with other investor-owned electric utilities (IOUs) in the state. Thus, staff recommends that an ASL of 70 years is appropriate. This results in an Average Remaining Life (ARL) of 26 years and a remaining life depreciation rate of 1.4 percent for Account 350.1.

⁴ Order No. PSC-12-0065-PAA-EI, issued February 13, 2012, in Docket No. 110207-EI, In re: 2011 depreciation study by Florida Public Utilities Company.

⁵ Florida Public Utilities Company's Response to Staff's Report on FPUC's 2015 Depreciation Study, Schedule 2 (revised 10/20/2015).

Account 352 – Structures and Improvements

After reviewing the information provided by the company in this docket, staff recommends a remaining life depreciation rate of 1.8 percent for Account 352.

Account 353 – Station Equipment

FPUC proposed no change in the ASL of 40 years or the curve shape (S3). The average age of assets in this account is 13.4 years. Based on this combination of depreciation parameters, the ARL is 27 years (26.6 years before rounding) rather than 30 years as the company proposed. This account has experienced an average retirement rate of 1.72 percent and a growth rate of 44.8 percent over the study period. Staff recommends the S2 curve with a 40-year ASL as better matching the account's activity. This results in an ARL of 27 years. FPUC concurs with staff's recommendation.

The company proposed to retain a 10 percent NS level. Staff notes that FPUC is the only IOU in Florida that has a positive NS level for this account; and this account has experienced less than 2 percent retirement and an average of negative 21 percent NS during the current study period. Given the low frequency of retirement activity, staff believes reliance on the industry average is necessary.⁶ Staff recommends reducing the NS level from 10 percent to 5 percent. This moderate change reflects the account's current activity and will bring FPUC closer to the industry average at the same time. FPUC concurs with staff's recommendation. The resulting remaining life depreciation rate is 2.6 percent for Account 353.

Account 354 – Towers & Fixtures

The company proposed no change in ASL, curve shape, or NS level for this account. There was no retirement or addition activity during the study period, which makes reliance on industry averages for guidance on life and salvage characteristics necessary. FPUC's proposed 55-year ASL and negative 15 percent NS level are in the range of reasonableness compared to other IOUs in the state. Staff recommends that a 55-year ASL and negative 15 percent NS be approved.

⁶ Staff derived industry averages throughout this recommendation are based or relied upon NS or ASL information (underlying data of final rates) shown on the following Commission Orders:

Order No. PSC-10-0131-FOF-EI, issued March 5, 2010, in Docket No. 090079-EI, In re: Petition for increase in rates by Progress Energy Florida, Inc.; Order No. PSC-11-0089-S-EI, issued February 1, 2011, in Docket Nos. 080677-EI and 090130-EI, In re: Petition for increase in rates by Florida Power & Light Company and 2009 depreciation and dismantlement study by Florida Power & Light Company (Order No. PSC-11-0089-S-EI settled all outstanding issues and appeals of Order No. 10-0153-FOF-EI, issued March 17, 2010, in Docket Nos. 080677-EI and 090130-EI, In re: Petition for increase in rates by Florida Power & Light Company and 2009 depreciation and dismantlement study by Florida Power & Light Company); Order No. PSC-12-0175-PAA-EI, issued April 3, 2012, in Docket No. 110131-EI, In re: Petition for approval of 2011 depreciation study and annual dismantlement accrual amounts by Tampa Electric Company; Order No. PSC-13-0670-S-EI, issued December 19, 2013, in Docket No. 130140-EI, In re: Petition for rate increase by Gulf Power Company (Order No. PSC-13-0670-S-EI continues depreciation rates prescribed by Order No. PSC-10-0458-PAA-EI, issued July 19, 2010, in Docket No. 090319-EI, In re: Depreciation and dismantlement study at December 31, 2009, by Gulf Power Company).

FPUC proposed to retain the currently prescribed curve shape of S5. Given the current average age of the assets in this account, staff recommends an S6 curve shape as better fitting and reflective of plant activity since the last study. This results in a 14.5-year ARL. FPUC concurs with staff's recommendation. The resulting remaining life depreciation rate is 2.1 percent for Account 354.

Account 355 – Poles and Fixtures

FPUC proposed to retain an ASL of 40 years and the R4 curve shape. This account has experienced an average retirement rate of 0.16 percent, and an average growth rate of 2.2 percent over the study period. Staff recommends that a 40-year ASL be approved because it is in line with other IOUs in the state. Staff also recommends an R5 curve shape as being more indicative of expected retirement dispersion given the asset's average age of 23.2 years. By using an R5 curve and an average asset age of 23.2 years, the resulting ARL is 16.9 years. FPUC concurs with staff's recommendation.

FPUC proposed a change in NS from negative 30 percent to negative 40 percent. This account has experienced an average NS of negative 261 percent over the study period. However, the company believes that this low level/percentage of retirement activity should not be taken as indicative of future retirement expectations for this account. Staff notes the proposed change represents a modest increase in expected removal costs upon asset retirement and will bring FPUC more in line with the average NS of other IOUs in the state. Staff recommends a NS level of negative 40 percent be approved. The resulting remaining life depreciation rate is 4.1 percent for Account 355.

Account 355.1 – Poles and Fixtures - Concrete

FPUC proposed to retain a 45-year ASL and the R4 curve, but to decrease the NS from negative 30 percent to negative 40 percent. After reviewing the account's average age and plant activity, staff recommends that FPUC's proposed 45-year ASL and R4 curve be approved. This results in a 41-year ARL.

With respect to NS, given there was no retirement activity recorded in this account during the study period, staff recommends the negative 30 percent NS be retained. The negative 30 percent NS is still reasonable compared to other IOUs in the state. FPUC concurs with staff's recommendation. The resulting remaining life depreciation rate is 2.9 percent for Account 355.1.

Account 356 – Overhead Conductors and Devices

This account experienced an approximate 21 percent growth rate during the current study period, with a retirement rate of 0.5 percent. The average age of assets in this account is 13.9 years. FPUC proposed a change in ASL from 45 years to 50 years, and to retain the current S2 curve shape. Staff notes that the company's proposed change in ASL is moderate, reflective of account activity, and is still within industry average for the state. Staff recommends a 50-year ASL be approved for this account. The resulting ARL is 36 years.

Account 356 has experienced a NS of negative 123 percent. FPUC proposes to reduce this account's NS from negative 10 percent to negative 20 percent (resulting in a greater capitalized amount to be recovered). Other IOUs in the state are estimating a NS ranging from negative 50 percent, to negative 20 percent, with FPUC's estimate being the highest. Staff recommends that a NS of negative 20 percent be approved. The negative 20 percent NS level reflects the account's recent activity and will bring FPUC more in line with other IOUs in the state. The resulting remaining life depreciation rate is 2.5 percent for Account 356.

Account 359 – Roads and Trails

After reviewing the information provided by the company in this docket, staff recommends a remaining life depreciation rate of 1.5 percent for Account 359.

Distribution Plant

Account 360.1 – Land Rights

FPUC proposed a moderate increase in ASL from 56 years to 60 years. The average age of this account's assets is 29.5 years. The account experienced no asset additions or retirements activity over the study period. The company indicated there have been no additions to this account since 2006, and there are no near-term plans for any retirements of existing investment. Staff recommends that a 60-year ASL be approved because it reflects this account's activity and is in line with other IOUs in the state. The resulting ARL is 31 years, and the remaining life depreciation rate is 1.6 percent for Account 360.1.

Account 361 – Structures and Improvements

FPUC proposed to increase the ASL from 55 years to 60 years, retain the SQ curve, and a NS level of negative 5 percent. This account experienced approximately 81 percent growth during the study period with no retirement activity. Currently, the company has no firm plans for any near-term retirements. As with other accounts having limited near-term retirement activity, reliance on industry expectations is necessary for life and salvage projections. Staff recommends that a 60-year ASL and NS level of negative 5 percent be approved. The recommended ASL will bring FPUC more in line with other IOUs in the state while the recommended NS level is closer to the industry average. The resulting ARL is 47 years, and the remaining life depreciation rate is 1.7 percent for Account 361.

Account 362 – Station Equipment

FPUC proposed to increase the ASL from 40 years to 45 years, retain the S3 curve, and a NS level of negative 10 percent. This account has experienced an approximate 21 percent growth rate during the study period, with the retirement rate being less than 0.3 percent. Other IOUs in the state are estimating ASLs ranging from 38 to 60 years, with FPUC being the lowest. Staff recommends that a 45-year ASL be approved. The change in ASL is moderate and it will bring FPUC more in line with the other IOUs in the state. The resulting ARL is 34 years, and the remaining life depreciation rate is 2.4 percent for Account 362.

Account 364 – Poles, Towers, and Fixtures

After reviewing the information provided by the company in this docket, staff recommends a remaining life depreciation rate of 3.9 percent for Account 364.

Account 365 – Overhead Conductors and Devices

FPUC proposed a moderate increase in ASL from 37 years to 40 years, changing the curve shape from R5 to R4, and retaining a NS level of negative 35 percent. This account experienced a growth rate of 21 percent during the study period, with the retirement rate being less than 0.4 percent. Staff recommends a 40-year ASL be approved because it is reflective of account activity and is also in the range of reasonableness when compared to other IOUs in the state. Staff also recommends retaining the R5 curve due to the combination of depreciation parameters (40-year ASL, average asset age of 19.3 years, and a retirement rate of 0.3 percent) being a better fit. The resulting ARL is 21 years (using the R5 curve). FPUC concurs with staff's recommendation.

With respect to NS, staff recommends that a NS level of negative 35 percent be approved primarily because it continues to be in the range of reasonableness compared to other electric IOUs in the state. The resulting remaining life depreciation rate is 3.4 percent for Account 365.

Account 366 – Underground Conduit

This account has experienced an approximate 0.1 percent retirement rate during the study period. FPUC proposed to retain the currently prescribed R5 curve shape with an ASL of 60 years. Staff recommends that a 60-year ASL and R5 curve be approved. These recommended parameters are within the state's industry range. Given the average asset age is 10.4 years, the resulting ARL is 50 years for this account.

Account 366 has experienced an approximate negative 60 percent average NS over the study period. The company proposes to change this account's NS rate from zero to negative 5 percent. Staff recommends a NS of negative 5 percent be approved because it is reflective of account activity and is still within the industry average range. The resulting remaining life depreciation rate is 1.8 percent for Account 366.

Account 367 – Underground Conductors and Devices

The retirement rate of this account over the study period is 0.4 percent. FPUC proposed to retain the current ASL of 35 years and the R3 curve shape. Staff recommends that a 35-year ASL be approved as it continues to be in the range of reasonableness compared to other IOUs in the state. Staff also recommends changing the curve shape to R4. Staff recommends changing the curve shape because a 35-year ASL with the R4 curve better matches account activity, which has an average asset age of 12.2 years. The resulting ARL is 23 years. FPUC concurs with staff's recommendation.

FPUC proposed to change this account's NS level from zero to negative 5 percent. Staff notes that this account has experienced nearly 50 percent removal costs during the study period. Staff recommends that FPUC's proposal, which is moderate, reflective of activities in the account, and within the range of industry averages, be approved. The resulting remaining life depreciation rate is 3.2 percent for Account 367.

Account 368 – Line Transformers

FPUC proposed to slightly increase the ASL from 29 to 30 years. This account has experienced an approximate 0.5 percent retirement rate with an approximate 9 percent growth rate. Staff believes this proposal reflects the account's activity and is in the range of reasonableness compared to other IOUs in the state. Staff recommends the 30-year ASL be approved. In FPUC's 2011 Depreciation Study review, staff proposed the continued use of the S6 curve. In FPUC's 2015 Depreciation Study, the company proposes to change the curve shape from S6 to S4. Given the current average asset age, ASL, and the retirement activity, staff recommends that a 30-year ASL with an S4 curve be approved because it better matches the account's activity. The resulting ARL is 12.4 years.

FPUC proposed to retain a NS level of negative 20 percent. FPUC recognizes that the average negative NS this account has experienced over the study period is much higher than 20 percent, but believes it is not indicative of future NS expectations. Given that this account has experienced limited retirement activity over the study period, staff believes statistical analyses is not solely reliable for determining salvage levels, and reliance upon industry data becomes necessary. Staff does not recommend any change to the NS level because FPUC's proposed NS of negative 20 percent is in line with other Florida IOUs. The resulting remaining life depreciation rate is 4.0 percent for Account 368.

Account 369 – Services

This account has experienced a 5.8 percent growth rate and less than a 0.2 percent retirement rate over the study period. FPUC proposed to increase the ASL for this account from 34 years to 37 years. This increase brings the ASL closer to the average of other IOUs in the state. FPUC proposed to retain the R3 curve. Staff proposes to change the curve from R3 to R5, due to the current average asset age and retirement activity. Staff recommends a 37-year ASL with the R5 curve because it is more indicative of expected retirement dispersion. The resulting ARL is 19.9 years. FPUC concurs with staff's recommendation.

FPUC proposed to retain a NS level of negative 35 percent. This level of NS continues to be in the range of reasonableness compared to other IOUs in the state. Staff does not recommend any modification at this time. The resulting remaining life depreciation rate is 3.6 percent for Account 369.

Account 370 – Meters

FPUC proposed no change to the currently-approved ASL and curve shape. Based on a review of this account's retirement activity, and reviewing depreciation parameters prescribed to other

IOUs in the state, staff recommends that FPUC's current 30-year ASL and R5 curve combination be approved as it continues to be reasonable. The resulting ARL is 11.9 years.

FPUC proposed to change the NS level from negative 5 to negative 10 percent. The company believes a level of negative 10 percent is more in line with expected activity. Staff notes this account's actual NS level experienced over the study period is negative 13.2 percent. The average NS level of other IOUs in the state is negative 12.6 percent. Staff recommends that a NS level of negative 10 percent be approved. The resulting remaining life depreciation rate is 3.7 percent for Account 370.

Account 371 – Installation on Customers' Premises

FPUC proposed to increase the ASL from 16 to 20 years, and retain the S3 curve. This account has experienced a 17 percent growth rate and a 0.7 percent retirement rate over the study period. Staff recommends the company's proposals be approved. These modifications reflect the account's recent activity and will bring FPUC closer to the state's industry average. The resulting ARL is 9.6 years.

FPUC proposed to retain a NS level of 15 percent. Staff notes that this account has experienced an approximate negative 39 percent removal cost and zero salvage each year during the study period. Staff also notes that FPUC is the only IOU in Florida that has a positive NS for this account. The state's industry average of NS is negative 3.3 percent. Staff inquired whether the high level of negative NS (due to removal costs) during the last four years is indicative of future expectations. The company responded:

The investment in this account is primarily commercial lighting equipment located on a customer's premise. The in-plant cost relates to the cost of the equipment and installation thereof on the customer's side of the meter. The retirement rate has averaged less than 1 percent making statistical analysis results meaningless for determining life or salvage factors.⁷

Staff agrees that lack of retirement activity renders statistical analysis inconclusive for determining life and/or salvage factors. Reliance on industry averages is therefore necessary. Staff recommends reducing the NS level of this account from 15 to 10 percent. This renders FPUC's NS level being closer to the industry average and at the same time reflects the account's current cost of removal activity. The resulting remaining life depreciation rate is 4.5 percent for Account 371.

Account 373 – Street Lighting & Signal Systems

After reviewing the information provided by the company in this docket, staff recommends a remaining life depreciation rate of 4.9 percent for Account 373.

⁷ Florida Public Utilities Company's Responses to Commission Staff's First Set of Data Requests, No. 50.

General Plant – Amortizable

Below are staff’s recommendations for general plant amortizable accounts, which generally constitute a continuation of FPUC’s previously authorized amortizable accounts and associated periods.⁸ However, in this proceeding the company has requested to combine two previously separated amortization sub-accounts, re-number two existing sub-accounts, and establish one new amortizable sub-account.⁹

The company requested to combine Accounts 391.0 – Office Furniture & Equipment with 391.2 – Office Machines. If approved, the combined property will all be classified/amortized as Account 391.0 – Office Furniture & Equipment. Both accounts are currently amortized over 7 years and no change to the period is being proposed.

The company requested re-numbering (and renaming) Account 391.1 – Office Furniture to Account 391.3 – Office Furniture & Fixtures. This property currently amortizes over 7 years and no change to the period is being proposed nor recommended. FPUC has also requested to re-number Account 391.3 – Computer Equipment, to Account 391.2 – Computer Equipment. This property currently amortizes over 5 years and no change to the period is being proposed.

The company also requested that a new sub-account of Account 391 be established. This new sub-account, Account 391.1 - Computers & Peripherals, is being proposed with an amortization period of five years. Staff recommends FPUC’s request to establish Account 391.1 – Computers & Peripherals be approved by the Commission.

Table 2-1 contains staff’s proposed amortization accounts and associated periods.

**Table 2-1
 Proposed Amortization Periods**

Acct. #	Account Name	Amortization Period
391.0	Office Furniture & Equipment	7-Year Amortization
391.1	Computers & Peripherals	5-Year Amortization
391.2	Computer Equipment	5-Year Amortization
391.3	Office Furniture & Fixtures	7-Year Amortization
391.4	Software	5-Year Amortization
393	Stores Equipment	7-Year Amortization
394	Tools/Shop Equipment	7-Year Amortization
395	Lab Equipment	7-Year Amortization
397	Communications Equipment	5-Year Amortization

⁸ Order No. PSC-12-0065-PAA-EI, issued February 13, 2012, in Docket No. 110207-EI, In re: 2011 depreciation study by Florida Public Utilities Company.

⁹ Florida Public Utilities Company’s Response to Staff’s Report on FPUC’s 2015 Depreciation Study, page 2.

Acct. #	Account Name	Amortization Period
397.3	Communications Equipment Post 98	5-Year Amortization
398	Miscellaneous Equipment	7-Year Amortization

General Plant - Depreciable

Account 390 – Structures & Improvements

This account experienced an approximate 196 percent investment growth over the four-year study period from 2011-2014. Staff discovered that the majority of this increase stems from the addition of costs associated with a new company office building located in Fernandina Beach to this account's investment balance.¹⁰ Staff understands this level of addition/growth for Account 390 to be an unusual event, and that going forward the company expects this account will return to its historical growth pattern. For this reason, staff agreed with the company's proposed depreciation parameters for Account 390 – Structures & Improvements, which result in a remaining life depreciation rate of 2.0 percent.

Account 392.1 – Transportation - Cars

After reviewing the information provided by the company in this docket, staff recommends a remaining life depreciation rate of 11.9 percent for Account 392.1.

Account 392.2 – Transportation - Light Truck & Vans

After reviewing the information provided by the company in this docket, staff recommends a remaining life depreciation rate of 7.8 percent for Account 392.2.

Account 392.3 – Transportation - Heavy Trucks

After reviewing the information provided by the company in this docket, staff recommends a remaining life depreciation rate of 7.0 percent for Account 392.3.

Account 392.4 – Transportation - Trailers

After reviewing the information provided by the company in this docket, staff recommends a remaining life depreciation rate of 3.7 percent for Account 392.4.

Account 396 – Power Operated Equipment

After reviewing the information provided by the company in this docket, staff recommends a remaining life depreciation rate of 4.4 percent for Account 396.

¹⁰ Florida Public Utilities Company's Responses to Commission Staff's First Set of Data Requests, No. 57.

Issue 3: What, if any, corrective reserve allocations should be made?

Recommendation: Staff recommends the reserve allocations shown in Attachment C. These allocations bring these accounts more in line with their theoretically correct reserve levels. (Higgins)

Staff Analysis: As part of its review of FPUC's depreciation study, staff reviewed the book reserve (accumulated depreciation) position relative to total investment for each account. Based on staff's recommended life and salvage parameters for this study, staff determined FPUC's theoretical or calculated reserve. The difference between an account's book and calculated reserve may be described as a positive or negative imbalance, or as a surplus or deficiency. When negative or positive imbalances occur, as was the case in FPUC's prior depreciation filing, the Commission found that corrective transfers should be considered and implemented as appropriate.¹¹

Staff's proposed reserve transfers are based on analysis of FPUC's reserve imbalances and responses to staff data requests. Staff is in agreement with the company on all recommended reserve transfers, which are shown on Attachment C.¹²

¹¹ Order No. PSC-12-0065-PAA-EI, issued February 13, 2012, in Docket No. 110207-EI, In re: 2011 depreciation study by Florida Public Utilities Company.

¹² Florida Public Utilities Company's Response to Staff's Report on FPUC's 2015 Depreciation Study, page 3, and Schedule 5 (revised 10/20/2015).

Issue 4: If the Commission votes in Issue 1 to change FPUC's depreciation rates and amortization schedules, what should be the implementation date for FPUC's revised depreciation rates and amortization schedules that may be approved in Issue 2?

Recommendation: Staff recommends approval of FPUC's proposed January 1, 2015, date of implementation for the company's revised depreciation rates. (Higgins)

Staff Analysis: Rule 25-6.0436(6)(b), F.A.C., requires that the data submitted in a depreciation study, including plant and reserve balances or company estimates, "shall be brought to the effective date of the proposed rates." The supporting data and calculations provided by FPUC match an implementation date of January 1, 2015. Therefore, if the Commission votes in Issue 1 to change FPUC's depreciation rates and amortization schedules, staff recommends the Commission find January 1, 2015 as the appropriate date for implementing any new depreciation rates and amortizations for FPUC's investments that may be approved in Issue 2.

Issue 5: Should the current amortization of investment tax credits (ITCs) and flow back of excess deferred income taxes (EDITs) be revised to reflect the approved depreciation rates and amortizations schedules?

Recommendation: Yes. The current amortization of ITCs should be revised to match the actual recovery periods for the related property. The company should file detailed calculations of the revised ITC amortization at the same time it files its earnings surveillance report covering the period ending December 31, 2015, as specified in Rule 25-6.1352, F.A.C. (Cicchetti)

Staff Analysis: In Issue 2, staff has recommended approval of revised depreciation rates for the company, to be effective January 1, 2015, which reflect changes to most accounts' remaining lives to be effective January 1, 2015. Revising a utility's book depreciation lives generally results in a change in its rate of ITC amortization in order to comply with the normalization requirements of the Internal Revenue Code (IRC or Code) set forth in sections 168(f)(2) and (i)(9),¹³ IRC section 167(l),¹⁴ former IRC Section 46(f),^{15,16} Federal Tax Regulations under the Code sections,¹⁷ and section 203(e) of the Tax Reform Act of 1986 (the Act).¹⁸

Staff, the Internal Revenue Service (IRS), and independent outside auditors look at a company's books and records, and the orders and rules of the jurisdictional regulatory authorities to determine if the books and records are maintained in the appropriate manner. The books are also reviewed to determine if they are in compliance with the regulatory guidelines in regard to normalization.

Former Section 46(f)(6) of the Code indicated that the amortization of ITC should be determined by the period of time actually used in computing depreciation expense for ratemaking purposes and on the regulated books of the utility.¹⁹ Since staff is recommending changes to the company's remaining lives, it is also important to change the amortization of ITCs to avoid violation of the provisions of former IRC section 46 and its underlying Treasury Regulations. The consequence of an ITC normalization violation is a repayment of unamortized ITC balances to the IRS. Therefore, staff recommends the current amortization of ITCs should be revised to match the actual recovery periods for the related property. The company should file detailed calculations of the revised ITC amortization at the same time it files its earnings surveillance report covering the period ending December 31, 2015, as specified in Rule 25-6.1352, F.A.C.

¹³ 26 USC §§168(f)(2) and (i)(9).

¹⁴ 26 USC §167(l).

¹⁵ 26 USC §46(f), repealed by Revenue Reconciliation Act of 1991, Pub. L. No. 101-508, §11812(a)(1-2)(1990).

¹⁶ Under IRC Section 50(d)(2), the terms of former IRC section 46(f) remain applicable to public utility property for which a regulated utility previously claimed ITCs, which is the case here. (I.R.S. Priv. Ltr. Rul. 200933023, 1n.1 (May 7, 2009)).

¹⁷ Treas. Reg. §1.168; Treas. Reg. §1.167; Treas. Reg. §1.46.

¹⁸ Tax Reform Act of 1986, Pub. L. No. 99-514 (100 Stat. 2085, 2146)(1986).

¹⁹ See 26 USC §46(f)(6) (establishing proper determination of ratable portion).

Issue 6: Should this docket be closed?

Recommendation: If no person whose substantial interests are affected by the proposed agency action files a protest within 21 days of the issuance of the order, this docket should be closed upon the issuance of a consummating order. (Leathers)

Staff Analysis: At the conclusion of the protest period, if no protest is filed, this docket should be closed upon the issuance of a consummating order.

Account Number	Account Title	Comparison of Rates and Components							Remaining Life Rate (%)
		Currently Approved ²⁰			Staff Recommended				
		Average Remaining Life (yrs.)	Future Net Salvage (%)	Remaining Life Rate (%)	Average Remaining Life (yrs.)	Reserve (%)	Future Net Salvage (%)	Remaining Life Rate (%)	
TRANSMISSION PLANT									
350.1	Land Rights	25.0	0	2.3	26.0	63.60	*	0	1.4
352	Structures and Improvements	29.0	0	1.8	50.0	8.86		0	1.8
353	Station Equipment	23.0	10	2.4	27.0	25.30		5	2.6
354	Towers and Fixtures	17.6	(15)	2.1	14.5	84.65		(15)	2.1
355	Poles and Fixtures	19.3	(30)	3.4	16.9	70.82	*	(40)	4.1
355.1	Poles and Fixtures - Concrete	40.0	(30)	2.9	41.0	11.10	*	(30)	2.9
356	Overhead Conductors and Devices	31.0	(10)	2.4	36.0	29.35		(20)	2.5
359	Roads and Trails	15.5	0	1.5	12.5	81.03		0	1.5
DISTRIBUTION PLANT									
360.1	Land Rights	30.0	0	1.8	31.0	51.83		0	1.6
361	Structures and Improvements	46.0	(5)	1.9	47.0	23.65		(5)	1.7
362	Station Equipment	30.0	(10)	2.8	34.0	28.40	*	(10)	2.4
364	Poles, Towers, and Fixtures	23.0	(45)	4.1	24.0	50.28	*	(45)	3.9
365	Overhead Conductors & Devices	17.2	(35)	4.1	21.0	63.60	*	(35)	3.4
366	Underground Conduit	49.0	0	1.6	50.0	15.00	*	(5)	1.8
367	Underground Conductors & Devices	23.0	0	2.9	23.0	32.11		(5)	3.2
368	Line Transformers	12.0	(20)	4.3	12.4	70.40	*	(20)	4.0
369	Services	20.0	(35)	4.0	19.9	63.36	*	(35)	3.6
370	Meters	13.2	(5)	3.7	11.9	65.97	*	(10)	3.7
371	Installation on Customers' Premises	7.2	15	5.7	9.6	46.80	*	10	4.5
373	Street Lighting & Signal Systems	8.9	(10)	5.0	7.6	72.94		(10)	4.9
GENERAL PLANT									
390	Structures & Improvements	31.0	0	2.0	41.0	16.67		0	2.0
391.0	Office Furniture & Equipment	7-Year Amortization			7-Year Amortization				
391.1	Computers & Peripherals	N/A			5-Year Amortization				
391.2	Computer Equipment ²¹	5-Year Amortization			5-Year Amortization				
391.3	Office Furniture & Fixtures ²²	7-Year Amortization			7-Year Amortization				
391.4	Software	5-Year Amortization			5-Year Amortization				
392.1	Transportation - Cars	0.0	15	12.1	6.0	13.41		15	11.9

²⁰ Order No. PSC-12-0065-PAA-EI, issued February 13, 2012, in Docket No. 110207-EI, In re: 2011 depreciation study by Florida Public Utilities Company.

²¹ Listed as Account 391.3 in Order No. PSC-12-0065-PAA-EI, issued February 13, 2012, in Docket No. 110207-EI, In re: 2011 depreciation study by Florida Public Utilities Company.

²² Listed as Account 391.1 (Office Furniture) in Order No. PSC-12-0065-PAA-EI, issued February 13, 2012, in Docket No. 110207-EI, In re: 2011 depreciation study by Florida Public Utilities Company.

Comparison of Rates and Components									
		Currently Approved ²⁰			Staff Recommended				
Account Number	Account Title	Average Remaining Life (yrs.)	Future Net Salvage (%)	Remaining Life Rate (%)	Average Remaining Life (yrs.)	Reserve (%)	Future Net Salvage (%)	Remaining Life Rate (%)	
	TRANSMISSION PLANT								
392.2	Transportation - Light Trucks & Vans	2.9	12	9.8	4.9	49.90	12	7.8	
392.3	Transportation - Heavy Trucks	7.0	10	6.6	6.4	45.29	10	7.0	
392.4	Transportation - Trailers	13.9	5	3.8	13.8	44.38	5	3.7	
393	Stores Equipment	7-Year Amortization			7-Year Amortization				
394	Tools/Shop Equipment	7-Year Amortization			7-Year Amortization				
395	Lab Equipment	7-Year Amortization			7-Year Amortization				
396	Power Operated Equipment	5.5	0	2.8	8.4	63.23	0	4.4	
397	Communications Equipment	5-Year Amortization			5-Year Amortization				
397.3	Communications Equipment Post 98	5-Year Amortization			5-Year Amortization				
398	Miscellaneous Equipment	7-Year Amortization			7-Year Amortization				

*Denotes a Reserve Transfer

Account Number	Account Title	Comparison of Expenses Current ²³		Staff Proposed		Change In Expense (\$)
		Depreciation Rate (%)	Annual Expense (\$)	Depreciation Rate (%)	Annual Expense (\$)	
TRANSMISSION PLANT						
350.1	Land Rights	2.3	548	1.4	334	(215)
352	Structures and Improvements	1.8	3,560	1.8	3,560	0
353	Station Equipment	2.4	89,965	2.6	97,462	7,497
354	Towers and Fixtures	2.1	4,721	2.1	4,721	0
355	Poles and Fixtures	3.4	53,662	4.1	64,710	11,048
355.1	Poles and Fixtures - Concrete	2.9	77,032	2.9	77,032	0
356	Overhead Conductors and Devices	2.4	60,906	2.5	63,443	2,538
359	Roads and Trails	1.5	102	1.5	102	0
TOTAL TRANSMISSION PLANT			290,495		311,363	20,868
DISTRIBUTION PLANT						
360.1	Land Rights	1.8	1,026	1.6	912	(114)
361	Structures and Improvements	1.9	3,307	1.7	2,959	(348)
362	Station Equipment	2.8	247,926	2.4	212,508	(35,418)
364	Poles, Towers, and Fixtures	4.1	584,109	3.9	555,615	(28,493)
365	Overhead Conductors & Devices	4.1	537,261	3.4	445,533	(91,727)
366	Underground Conduit	1.6	88,818	1.8	99,920	11,102
367	Underground Conductors & Devices	2.9	236,535	3.2	261,004	24,469
368	Line Transformers	4.3	724,774	4.0	674,209	(50,566)
369	Services	4.0	407,483	3.6	366,735	(40,748)
370	Meters	3.7	144,806	3.7	144,806	0
371	Installation on Customers' Premises	5.7	173,473	4.5	136,953	(36,521)
373	Street Lighting & Signal Systems	5.0	72,306	4.9	70,860	(1,446)
TOTAL DISTRIBUTION PLANT			3,221,824		2,972,014	(249,810)
GENERAL PLANT						
390	Structures & Improvements	2.0	89,801	2.0	89,801	0
392.1	Transportation - Cars	12.1	6,089	11.9	5,989	(101)
392.2	Transportation - Light Trucks & Vans	9.8	94,153	7.8	74,938	(19,215)
392.3	Transportation - Heavy Trucks	6.6	233,285	7.0	247,423	14,138
392.4	Transportation - Trailers	3.8	5,475	3.7	5,331	(144)
396	Power Operated Equipment	2.8	8,483	4.4	13,331	4,848
TOTAL GENERAL PLANT			437,288		436,814	(474)
TOTAL PLANT			3,949,607		3,720,192	(229,415)

²³ Order No. PSC-12-0065-PAA-EI, issued February 13, 2012, in Docket No. 110207-EI, In re: 2011 depreciation study by Florida Public Utilities Company.

Theoretical Reserve Analysis						
Account Number	Account Title	Reserve 1/1/2015 (\$)	Theoretical Reserve (\$)	Reserve Imbalance (\$)	Reserve Transfer (\$)	Restated Reserve (\$)
TRANSMISSION PLANT						
350.1	Land Rights	18,962	15,163	3,799	(3,799)	15,163
352	Structures and Improvements	17,516	19,776	(2,260)	0	17,516
353	Station Equipment	948,485	1,132,053	(183,568)	0	948,485
354	Towers and Fixtures	190,300	190,070	230	0	190,300
355	Poles and Fixtures	1,073,934	1,276,052	(202,118)	43,786	1,117,720
355.1	Poles and Fixtures - Concrete	334,834	294,847	39,987	(39,987)	294,847
356	Overhead Conductors and Devices	744,898	852,680	(107,782)	0	744,898
359	Roads and Trails	5,500	5,515	(15)	0	5,500
TOTAL TRANSMISSION PLANT		3,334,429	3,786,156	(451,727)	0	3,334,429
DISTRIBUTION PLANT						
360.1	Land Rights	29,540	26,959	2,581	0	29,540
361	Structures and Improvements	41,158	35,502	5,656	0	41,158
362	Station Equipment	2,682,209	2,514,680	167,529	(167,529)	2,514,680
364	Poles, Towers, and Fixtures	6,805,379	7,664,645	(859,266)	357,983	7,163,362
365	Overhead Conductors & Devices	8,358,899	8,334,096	24,803	(24,803)	8,334,096
366	Underground Conduit	952,686	832,669	120,017	(120,017)	832,669
367	Underground Conductors & Devices	2,619,264	2,936,293	(317,029)	0	2,619,264
368	Line Transformers	11,953,804	11,866,072	87,732	(87,732)	11,866,072
369	Services	6,560,065	6,454,535	105,530	(105,530)	6,454,535
370	Meters	2,285,299	2,581,858	(296,559)	296,559	2,581,858
371	Installation on Customers' Premises	1,573,237	1,424,306	148,931	(148,931)	1,424,306
373	Street Lighting & Signal Systems	1,054,774	1,041,213	13,561	0	1,054,774
TOTAL DISTRIBUTION PLANT		44,916,314	45,712,828	(796,515)	0	44,916,314
GENERAL PLANT						
390	Structures & Improvements	748,472	808,211	(59,739)	0	748,472
392.1	Transportation - Cars	6,747	6,240	507	0	6,747
392.2	Transportation - Light Trucks & Vans	479,394	384,107	95,287	0	479,394
392.3	Transportation - Heavy Trucks	1,600,669	1,620,269	(19,600)	0	1,600,669
392.4	Transportation - Trailers	63,950	61,322	2,628	0	63,950
396	Power Operated Equipment	191,566	201,179	(9,613)	0	191,566
TOTAL GENERAL PLANT		3,090,798	3,081,328	9,470	0	3,090,798
TOTAL PLANT		51,341,541	52,580,312	(1,238,771)	0	51,341,541