

Notice of Proposed Rule

PUBLIC SERVICE COMMISSION

RULE NO.: RULE TITLE:

25-7.045: Depreciation

25-7.046: Subcategories of Gas Plant for Depreciation

PURPOSE AND EFFECT: To update, clarify and streamline depreciation rules for investor-owned gas utilities.
Docket No. 150200-PU.

SUMMARY: The rule amendments modify and define the rules which prescribe accounting principles and procedures for the calculation of depreciation by gas utilities. Rule 25-7.045 is amended to eliminate the requirement for multiple copies of depreciation studies, provide a specific reference to the Uniform System of Accounts, and codify the Commission's authority to require a depreciation study at a time set by the Commission. Rule 25-7.046 is amended to specifically reference the Uniform System of Accounts as the standard for depreciation accounts and new depreciation subaccounts.

SUMMARY OF STATEMENT OF ESTIMATED REGULATORY COSTS AND LEGISLATIVE RATIFICATION:

The Agency has determined that this will not have an adverse impact on small business or likely increase directly or indirectly regulatory costs in excess of \$200,000 in the aggregate within one year after the implementation of the rule. A SERC has been prepared by the Agency.

The rules are also not likely to have an adverse impact on economic growth, private sector job creation or employment, private sector investment, business competitiveness, productivity, or innovation in excess of \$1 million in the aggregate within 5 years after implementation of the rule. The SERC examined the factors required by Section 120.541(2), FS, and concluded that the rule amendments will not have an adverse impact on economic growth, business competitiveness, or small business and that there would likely be transactional cost savings to the individual and entities required to comply with the rules. The amendments to these rules should benefit affected entities by codifying current practices. Affected entities also potentially may benefit from the removal of the requirement for paper copies.

The Agency has determined that the proposed rule is not expected to require legislative ratification based on the statement of estimated regulatory costs or if no SERC is required, the information expressly relied upon and described herein: based upon the information in the SERC.

Any person who wishes to provide information regarding a statement of estimated regulatory costs, or provide a proposal for a lower cost regulatory alternative must do so in writing within 21 days of this notice.

RULEMAKING AUTHORITY: 350.115, 350.127(2), 366.05(1), F.S.

LAW IMPLEMENTED: 350.115, 366.04(2)(f), 366.05(1), 366.06, 366.06(1), F.S.

IF REQUESTED WITHIN 21 DAYS OF THE DATE OF THIS NOTICE, A HEARING WILL BE SCHEDULED AND ANNOUNCED IN THE FAR.

THE PERSON TO BE CONTACTED REGARDING THE PROPOSED RULE IS: Pamela H. Page, Office of General Counsel, 2540 Shumard Oak Blvd., Tallahassee, FL 32399-0850, (850) 413-6214, phpage@psc.state.fl.us.

THE FULL TEXT OF THE PROPOSED RULE IS:

25-7.045 Depreciation.

(1) For the purpose of this rule part, the following definitions shall apply:

(a) Category or Category of Depreciable Plant – A grouping of plant for which a depreciation rate is prescribed.

At a minimum it ~~shall~~ ~~should~~ include each plant account prescribed in Rule 25-7.046, F.A.C.

(b) No change.

(c) Mortality Data – Historical data by study category showing plant balances, additions, adjustments and retirements, used in analyses for life indications or for calculations of realized life. Preferably This is aged data in accord with the following:

1. through 4. No change.

(d) Net Book Value - The book cost of an asset or group of assets minus the accumulated depreciation or amortization reserve associated with those assets.

(e)(d) Remaining Life Technique Method – The method of calculating a depreciation rate based on the unrecovered plant balance, the less average future net salvage and the average remaining life. The formula ~~for calculating a Remaining Life Rate~~ is:

$$\text{Remaining Life Rate} = \frac{100\% - \text{Reserve \%} - \text{Average Future Net Salvage \%}}{\text{Average Remaining Life in Years}}$$

(f) Reserve (Accumulated Depreciation) – The amount of depreciation/amortization expense, salvage, cost of removal, adjustments, transfers, and reclassifications accumulated to date.

(g)(e) Reserve Data – Historical data by study category showing reserve balances, debits and credits, such as booked depreciation expense, salvage and cost of removal, and adjustments to the reserve utilized in monitoring reserve activity and position.

(h)(f) Reserve Deficiency – An inadequacy in the reserve of a category as evidenced by a comparison of that reserve indicated as necessary under current projections of life and salvage with that reserve historically accrued. The latter figure may be available from the utility's records or may require retrospective calculation.

(i)(g) Reserve Surplus – An excess in the reserve of a category as evidenced by a comparison of that reserve indicated as necessary under current projections of life and salvage with that reserve historically accrued. The latter figure may be available from the utility's records or may require retrospective calculation.

(j)(h) Salvage Data – Historical data by study category showing bookings of retirements, gross salvage and cost of removal used in analysis of trends in gross salvage and cost of removal or for calculations of realized salvage.

(k)(i) Theoretical Reserve or Prospective Theoretical Reserve – A calculated reserve based on components of the proposed rate using the formula:

Theoretical Reserve = Book Investment – Future Accruals – Future Net Salvage.

(l)(j) Vintage – The year of placement of a group of plant items or investment under study.

(m)(k) Whole Life Technique Method – The method of calculating a depreciation rate based on the wWhole life (aAverage service life) and the aAverage net salvage. Both life and salvage components are the estimated or calculated composite of realized experience and expected activity. The formula is:

$$\text{Whole Life Rate} = \frac{100\% - \text{Average Net Salvage \%}}{\text{Average Service Life in Years}}$$

(2)(a) No utility ~~shall~~ ~~may~~ change any existing depreciation rate or initiate any new depreciation rate without prior Commission approval.

(b) No utility ~~shall~~ ~~may~~ reallocate accumulated depreciation reserves among any primary accounts and sub-accounts without prior Commission approval.

(c) When plant investment is booked as a transfer from a regulated utility depreciable account to another or from a regulated company to an affiliate, its associated reserve amount shall also be booked as a transfer. When plant investment is sold from one regulated utility to an affiliate, the associated reserve amount shall also be

determined to calculate the net book value of the utility investment being sold. Methods for determining the reserve amount associated with plant transferred or sold are as follows:

1. Where vintage reserves are not maintained, synthesization using the currently prescribed curve shape shall be required. The same reserve percent associated with the original placement vintage of the related investment shall then be used in determining the amount of reserve to transfer.

2. Where the original placement vintage of the investment being transferred is unknown, the reserve percent applicable to the account in which the investment being transferred resides shall be assumed for determining the reserve amount to transfer.

3. Where the age of the investment being transferred is known and a history of the prescribed depreciation rates is known, a reserve can be determined by multiplying the age times the investment times the applicable depreciation rate(s).

4. The Commission shall consider any additional methods submitted by the utilities for determining reserve amounts to transfer.

(3)(a) Each utility shall maintain depreciation rates and accumulated depreciation reserves in accounts or subaccounts in accordance with the Uniform System of Accounts for Natural Gas Companies (USOA) as found in the Code of Federal Regulations, Title 18, Subchapter F, Part 201, as revised April 1, 2013, which is incorporated by reference in Rule 25-7.014(1), F.A.C. as prescribed by Rule 25-7.046, F.A.C. Utilities may maintain further sub-categorization.

(b) No change.

(4)(a) Each company shall file a study for each category of depreciable property for Commission review at least once every five years from the submission date of the previous study or pursuant to Commission order and within the time specified in the order. A utility filing a depreciation study, regardless if a change in rates is being requested or not, shall submit to the Office of Commission Clerk ~~six copies~~ of the information required by paragraphs (5)(6)(a) through (g) ~~(f) and (h)~~ of this rule in electronic format with formulas intact and unlocked and at least three copies of the information required by paragraph (6)(g).

(b) A utility proposing an effective date of the beginning of its fiscal year shall submit its depreciation study no later than the mid-point of that fiscal year.

(c) A utility proposing an effective date coinciding with the expected date of additional revenues initiated through a rate case proceeding shall submit its depreciation study no later than the filing date of its Minimum Filing Requirements.

(d) The plant balances may include estimates. Submitted data including plant and reserve balances or company planning involving estimates shall be brought to the effective date of the proposed rates.

(e) The possibility of corrective reserve transfers shall be investigated by the Commission prior to changing depreciation rates.

(f)(5) Upon Commission approval by final order establishing an effective date, the utility shall may reflect on its books and records the implementation of the depreciation proposed rates; approved by the Commission subject to adjustment when final depreciation rates are approved.

(5)(6) A depreciation study shall include:

(a) A comparison of current and proposed depreciation rates and components for each category of depreciable plant. Components include average service life, age, curve shape, net salvage, and average remaining life. Current rates shall be identified as to the effective date and proposed rates as to the proposed effective date.

(b) A comparison of current and proposed annual depreciation rates and expenses resulting from current rates with those produced by the proposed rates for each category of depreciable plant. The comparison of current and

proposed rates shall identify the proposed effective date for the proposed rates. The comparison of current and proposed annual expenses shall be calculated using current and proposed rates for each category of depreciable plant. Plant balances, reserve balances and percentages, remaining lives, and net salvage percentages shall be included in this comparison for each category of plant. The plant balances may involve estimates. Submitted data including plant and reserve balances or company planning involving estimates should be brought to the effective date of the proposed rates.

(c) Each recovery and amortization schedule currently in effect ~~shall~~ should be included with any new filing showing total amount amortized, effective date, length of schedule, annual amount amortized and reason for the schedule.

(d) through (e) No change.

(f) An explanation and justification for each study category of depreciable plant defining the specific factors that justify the life and salvage components and rates being proposed. Each explanation and justification shall include substantiating factors utilized by the utility in the design of the depreciation rates for the specific category, e.g., company planning, growth, technology, physical conditions, trends. The explanation and justification shall discuss any proposed transfers of reserve between categories or accounts intended to correct deficient or surplus reserve balances. It ~~shall~~ should also state any statistical or mathematical methods of analysis or calculation used in design of the category rate.

(g) ~~The filing shall contain~~ All calculations, analysis and numerical basic data used in the design of the depreciation rate for each category of depreciable plant. Numerical data shall include plant activity (gross additions, adjustments, retirements, and plant balance at end of year) as well as reserve activity (retirements, accruals for depreciation expense, salvage, cost of removal, adjustments, transfers and reclassifications and reserve balance at end of year) for each year of activity from the date of the last submitted study to the date of the present study. When available, to the degree possible, retirement data involving retirements shall ~~should~~ be aged.

(h) No change.

~~(i)(7)(a) Utilities shall provide~~ Calculations of depreciation rates using both the whole life technique and the remaining life technique method. The use of these techniques methods is required for all depreciable categories. Utilities may submit additional studies or methods for consideration by the Commission.

~~(b) The possibility of corrective reserve transfers shall be investigated by the Commission prior to changing depreciation rates.~~

~~(8)(a) Each company shall file a study for each category of depreciable property for Commission review at least once every five years from the submission date of the previous study unless otherwise required by the Commission.~~

~~(b) A utility proposing an effective date of the beginning of its fiscal year shall submit its depreciation study no later than the mid-point of that fiscal year.~~

~~(c) A utility proposing an effective date coinciding with the expected date of additional revenues initiated through a rate case proceeding shall submit its depreciation study no later than the filing date of its Minimum Filing Requirements.~~

~~(6)(9)~~ As part of the filing of the annual report under subsection 25-7.014(3), F.A.C., each utility shall include an annual depreciation status report. The annual depreciation status report shall be provided in electronic format. In the electronic format, the formulas must be intact and unlocked. The annual depreciation status report shall include booked plant activity (plant balance at the beginning of the year, additions, adjustments, transfers, reclassifications, retirements and plant balance at year end) and reserve activity (reserve balance at the beginning of the year, retirements, accruals, salvage, cost of removal, adjustments, transfers, reclassifications and reserve balance at end of year) for each category of investment for which a depreciation rate, amortization schedule, or capital recovery

schedule has been approved. The report shall indicate for each category ~~that~~ whether there has been a change of plans or utility experience since the filing of the last annual depreciation status report requiring a revision of the rates, amortization, or capital recovery schedules. For any category where current conditions indicate a need for revision of depreciation rates, amortization, or capital recovery schedules and no revision is sought, the report shall explain why no revision is requested.

~~(a) There has been no change of plans or utility experience requiring a revision of the rates, amortization, or capital recovery schedules; or~~

~~(b) There has been a change requiring a revision of rates, amortization, or capital recovery schedules. For any category where current conditions indicate a need for revision of depreciation rates, amortization, or capital recovery schedules and no revision is sought, the report shall explain why no revision is requested.~~

~~(7)(10)(a)~~ Prior to the date of retirement of major installations, the Commission may approve capital recovery schedules to correct associated calculated deficiencies where a utility demonstrates that (1) replacement of an installation or group of installations is prudent, and (2) the associated investment will not be recovered by the time of retirement through the normal depreciation process.

(b) The Commission shall ~~may~~ approve a special capital recovery schedule when an installation is designed for a specific purpose or for a limited duration.

(c) No change.

Rulemaking Authority 350.127(2), 350.115, 366.05(1) FS. Law Implemented 350.115, 366.04(2)(f), 366.06, 366.06(1) FS. History—New 11-11-82, Amended 1-6-85, Formerly 25-7.45, Amended 4-27-88, 12-12-91, 5-29-08,

25-7.046 Subcategories of Gas Plant for Depreciation.

(1) The accounts under subsection (3) below are to be used in the design of depreciation rates. They are intended to group together items which are relatively homogeneous in their expected life and salvage characteristics. Reserve, mortality data, salvage and costs of removal shall ~~should~~ be maintained accordingly for each depreciation category for which a depreciation rate is to be applied. This shall ~~should~~ be done on the books of the company, or as a side record for depreciation study use only.

(2)(a) through (b) No change.

(3) The depreciation accounts listed below shall be in accordance with the Uniform System of Accounts for Natural Gas Companies (USOA) as found in the Code of Federal Regulations, Title 18, Subchapter F, Part 201, as revised April 1, 2013, which is incorporated by reference in Rule 25-7.014(1), F.A.C. New depreciation subaccounts shall be established under these accounts as listed in subsection 25-7.014(1), F.A.C. The accounts listed below directly follow the primary plant accounts prescribed in the Uniform System of Accounts prescribed by the Federal Energy Regulatory Commission in the Code of Federal Regulations, Title 18, Subchapter F, Part 201, as revised, April 1, 1981, introducing sub-divisions within those accounts for the purpose of uniformity among the companies in depreciation studies.

(a)I. Local Storage Plant.

1.A. Structures and Improvements – (Account 361)

2.B. Gas Holders – (Account 362)

3.C. Other – (Account 363) – Equipment such as compressors, gauges and other instruments used in connection with the storage of gas in holders.

(b)H. Distribution Plant.

1.A. Structures and Improvements – (Account 375)

2.B. Mains – (Account 376) – The following sub-accounts shall ~~should~~ be used:

a.1. Plastic

b.2. Other – cast iron, steel, etc.

3.C. Compressor Station Equipment – (Account 377)

~~4.D.~~ Measuring and Regulating Equipment – General – (Account 378) – Equipment used in measuring and regulating gas in connection with distribution systems other than the measurements of gas deliveries to customers.

~~5.E.~~ Measuring and Regulating Equipment – City Gate – (Account 379) – Equipment used in measuring of gas at entry points to distribution systems.

~~6.F.~~ Services – (Account 380) – The following sub-accounts shall ~~should~~ be used:

~~a.1.~~ Plastic

~~b.2.~~ Other – cast iron, steel, etc.

~~7.G.~~ Meters – (Account 381)

~~8.H.~~ Meter Installations – (Account 382)

~~9.I.~~ Regulators – (Account 383)

~~10.J.~~ Regulator Installations – (Account 384)

~~11.K.~~ Industrial Measuring and Regulating Equipment – (Account 385)

~~12.L.~~ Other Property on Customer's Premises – (Account 386) – Investment of equipment owned by the company installed on the customer's premises that is not includible in other accounts.

~~13.M.~~ Other Equipment – (Account 387) – Investment in equipment used for the distribution system not included in any of the above accounts such as fire protection equipment, leak detectors, pipe locators, ~~etc.~~

~~(c)H.~~ General Plant.

~~1.A.~~ Structures and Improvements – (Account 390)

~~2.B.~~ Office Furniture and Equipment – (Account 391) – The following sub-accounts shall ~~should~~ be used:

~~a.1.~~ Office Furniture – Regular office furniture and furnishings and miscellaneous equipment such as lounge equipment.

~~b.2.~~ Office devices such as typewriters, calculating, reproducing, addressing, blueprinting, cash registers, check writers and other office machines.

~~c.3.~~ Computers and peripheral equipment

~~3.C.~~ Transportation Equipment – (Account 392) – The following sub-accounts shall ~~should~~ be used:

~~a.1.~~ Passenger cars and light trucks (trucks of one ton capacity or less)

~~b.2.~~ Heavy trucks (trucks of greater than one ton capacity)

~~c.3.~~ Special purpose vehicles such as trailers

~~d.4.~~ Airplanes

~~4.D.~~ Stores Equipment – (Account 393)

~~5.E.~~ Tools, Shop and Garage Equipment – (Account 394)

~~6.F.~~ Laboratory Equipment – (Account 395)

~~7.G.~~ Power Operated Equipment – (Account 396)

~~8.H.~~ Communication Equipment – (Account 397)

~~9.I.~~ Miscellaneous Equipment – (Account 398) – Investment in miscellaneous equipment such as kitchen equipment, infirmary equipment, ~~etc.~~

(4) No change.

(a) through (b) No change.

(c) Where any existing accounts are, ~~in the opinion of the Commission, essentially~~ compatible with those listed in subsection (3) for depreciation study purposes, those existing accounts shall be deemed to be in compliance with this rule.

Rulemaking Authority 350.127(2), 366.05(1) FS. Law Implemented 366.05(1), 366.06(1) FS. History—New 11-7-85. Formerly 25-7.46. Amended, _____.

NAME OF PERSON ORIGINATING PROPOSED RULE: Sue Ollila

NAME OF AGENCY HEAD WHO APPROVED THE PROPOSED RULE: Florida Public Service Commission

DATE PROPOSED RULE APPROVED BY AGENCY HEAD: March 1, 2016

DATE NOTICE OF PROPOSED RULE DEVELOPMENT PUBLISHED IN FAR: Volume 41, Number 84, April 30, 2015.

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17248945	25-7.045,...	Depreciation, Subcategories of Gas Plant for Depreciation	Proposed	3/7/2016 Vol. 42/45	3/4/2016
17248557	25-6.0436,...	Depreciation, Electric Utilities Dismantlement Studies	Proposed	3/7/2016 Vol. 42/45	3/4/2016

Notices Confirmed by ACR

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None					

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