

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: October 26, 2017

TO: Office of Commission Clerk (Stauffer)

FROM: Division of Economics (Wu) *Wu*
Office of the General Counsel (Taylor) *WTJ*

RE: Docket No. 20170182-EI – Petition for approval of depreciation rates for various accounts, by Tampa Electric Company.

AGENDA: 11/07/17 – Regular Agenda – Proposed Agency Action – Interested Persons May Participate

COMMISSIONERS ASSIGNED: All Commissioners

PREHEARING OFFICER: Polmann

CRITICAL DATES: None

SPECIAL INSTRUCTIONS: None

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CLERK

Case Background

Pursuant to Rule 25-6.0436(6) and 25-6.135, Florida Administrative Code (F.A.C.), Tampa Electric Company (TECO or company) submitted its 2016 Annual Depreciation Status Report on April 28, 2017.¹ During staff's review of this report, it became clear that the company used the Florida Public Service Commission (Commission) approved remaining life depreciation rates (depreciation rates), under seven subaccounts in Account 345 – Accessory Electric Equipment, as the depreciation rates for seven subaccounts in Account 346 – Miscellaneous Power Plant Equipment, and inadvertently failed to seek approval from the Commission.²

¹ Document No. 07653-2017, "Memo dated 9/14/17 to CLK/Stauffer with attached letter dated 4/28/17 with annual status report for docket file."

² Document No. 07652-2017, "Memo dated 9/14/17 to CLK/Stauffer with attached letter dated 8/25/17 with revised response to staff's first data request."

Docket No. 20170182-EI

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On August 28, 2017, TECO filed a petition to request the Commission to approve the depreciation rates for the aforementioned seven subaccounts 346.xx – Miscellaneous Power Plant Equipment, to rectify its inadvertence.

Pursuant to Rule 25-6.0436(3)(a), F.A.C., electric utilities are required to maintain depreciation rates and accumulated depreciation reserve in accounts or subaccounts as prescribed in Rule 25-6.014(1), F.A.C. Rule 25-6.0436(3)(b), F.A.C., provides that “[u]pon establishing a new account or subaccount classification, each utility shall request Commission approval of a depreciation rate for the new plant category.” Staff is not aware of any public comments or concerns on this matter. The Commission has jurisdiction in this matter pursuant to Sections 366.04, 366.05, and 366.06, Florida Statutes (F.S.).

Discussion of Issues

Issue 1: Should the Commission approve TECO’s petitioned depreciation rates for seven subaccounts 346.xx – Miscellaneous Power Plant Equipment?

Recommendation: Yes. Staff recommends that the annual depreciation rates applicable to TECO’s seven subaccounts 346.xx – Miscellaneous Power Plant Equipment, as detailed in Table 1-1 in Staff Analysis, be approved. (Wu)

Staff Analysis: TECO is seeking Commission approval of depreciation rates for seven depreciation subaccounts as detailed in Table 1-1 below:

**Table 1-1
TECO’s Petitioned Depreciation Rates**

	Depreciation Account	Depreciation Rate
1	346.44 – Miscellaneous Power Plant Equipment of Big Bend Combustion Turbine No. 4	4.0 percent
2	346.84 – Miscellaneous Power Plant Equipment of Polk Unit No. 4	3.9 percent
3	346.85 – Miscellaneous Power Plant Equipment of Polk Unit No. 5	3.9 percent
4	346.33 – Miscellaneous Power Plant Equipment of Bayside Combustion Turbine No. 3	4.0 percent
5	346.34 – Miscellaneous Power Plant Equipment of Bayside Combustion Turbine No. 4	4.0 percent
6	346.35 – Miscellaneous Power Plant Equipment of Bayside Combustion Turbine No. 5	4.0 percent
7	346.36 – Miscellaneous Power Plant Equipment of Bayside Combustion Turbine No. 6	4.0 percent

Source: TECO’s petition filed in this docket, page 2.

TECO normally reviews changes in plants or utility experience that may require a revision of depreciation rates, amortization, or capital recovery schedules once every four years in compliance with Rule 25-6.0436, F.A.C. At the conclusion of TECO’s 2011 Depreciation Study,³ the Commission issued an order to approve a depreciation rate of zero percent for each of the subaccounts 346.xx listed in Table 1-1.⁴ At that time, there were no forecasted plant assets in these subaccounts.⁵ Since the time of the 2011 Depreciation Study, assets have been added to the 346.xx subaccounts. TECO claimed that “at the time these assets were placed-in-service, it was Tampa Electric’s practice to apply an approved starter rate for depreciation. During

³ It is the company’s latest depreciation study that is approved by the Commission.

⁴ 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*, pp. 19 - 21.

⁵ *Id.* pp. 7 - 9, and Document No. 07652-2017 “Memo dated 9/14/17 to CLK/Stauffer with attached letter dated 8/25/17 with revised response to staff’s first data request,” pp. 3 - 5.

implementation of the approved rates from the 2011 Depreciation Study, the 346 Accounts were updated to match the approved depreciation rates for Account 345 – Accessory Electric Equipment.”⁶ Consequently, TECO has been utilizing the depreciation rates listed in Table 1-1 to report and depreciate the assets in each corresponding subaccount. In reviewing TECO’s 2016 Annual Depreciation Status Report, staff inquired about the appropriateness of the depreciation rates the company used, and TECO realized that it had been improperly utilizing the approved depreciation rates, under subaccount 345.xx – Accessory Electric Equipment, as the depreciation rates for the assets in subaccount 346.xx – Miscellaneous Power Plant Equipment without seeking approval from the Commission.

Rule 25-6.0436(2)(a), F.A.C., states that “no utility shall change any existing depreciation rate or initiate any new depreciation rate without prior Commission approval.” TECO understands that the depreciation rates it reported and applied to the subaccounts 346.xx are not Commission approved rates;⁷ hence, it filed the instant petition to seek approval to use the depreciation rates listed in Table 1-1 as interim rates for the affected subaccounts until its next depreciation study is approved by the Commission.⁸ TECO indicated that the depreciation rates are reasonable compared to depreciation rates applied to other similar asset accounts. The company further confirmed that during its next depreciation study, the 346 Accounts will be properly examined and rated accordingly and the company plans to revise the interim depreciation rates approved in this docket at that time. Currently, TECO is between depreciation study filings. The company is excused from compliance with the every four-year filing requirement of Rule 25-6.0436, F.A.C., until no more than one year nor less than sixty days before the filing of its next general rate proceeding in accordance with Order No. PSC-13-0443-FOF-EI.⁹

To assess the potential impairment resulting from TECO’s improper utilization of depreciation rates, staff requested the company to identify the cumulative impacts to the company’s customer bills, if any, for the period 2011 through 2016. The company responded:

Customers’ bills have not been impacted by Tampa Electric’s application of depreciation rates to the assets in accounts 346.44, 346.84, 346.85, 346.33, 346.34, 346.35, and 346.36 (“346 Accounts”). During the period of time that Tampa Electric has been applying depreciation rates in the 346 Accounts, there was only one Petition for Rate Increase (“Petition”) filed by Tampa Electric on February 4, 2013, in Docket No. 130040-EI. That Petition was resolved by a

⁶ Document No. 07652-2017 “Memo dated 9/14/17 to CLK/Stauffer with attached letter dated 8/25/17 with revised response to staff’s first data request,” pp. 2 – 3.

⁷ Document No. 07652-2017 “Memo dated 9/14/17 to CLK/Stauffer with attached letter dated 8/25/17 with revised response to staff’s first data request,” p. 3.

⁸ On September 27, 2017, TECO filed a petition for approval of “2017 Amended and Restated Stipulation and Settlement Agreement” (2017 Agreement) in Docket No. 20170210-EI. The 2017 Agreement indicates that “the depreciation and amortization accrual rates approved by the FPSC and currently in effect as of the Effective Date of this 2017 Agreement shall remain in effect during the Term or the company’s next depreciation study, whichever is later.” (Paragraph 8 (a)) TECO has confirmed, in its response to Staff’s Second Data Request, in Docket No. 20170210-EI, that the depreciation rates resulting from the Commission’s approval in this docket (Docket No. 20170182-EI), extending through the Term of the 2017 Agreement, is acceptable to the Parties of the 2017 Agreement, the language of Paragraph 8(a) of the 2017 Agreement notwithstanding.

⁹ Order No. PSC-13-0443-FOF-EI, issued September 30, 2013, in Docket No. 130040-EI, *In re: Petition for rate increase by Tampa Electric Company*.

Stipulation and Settlement Agreement (“Agreement”), approved by the Public Service Commission in Order No. PSC-13-0443-FOF-EI, issued September 30, 2013. The provisions of the Agreement included a negotiated rate increase and return on equity that were less than Tampa Electric requested in its Petition. Since the Petition resulted in a negotiated base rate settlement, there was no correlation between the impact of the depreciation rates applied to the 346 Accounts and the Tampa Electric customer bills from 2011 through 2016.¹⁰

The impacts to TECO’s depreciation reserve accounts were also gauged by the company in responding to staff’s inquires. Up to December 31, 2016, the total amount of depreciation reserve for these seven subaccounts is \$111,830.¹¹ Staff notes that any potential reserve imbalance resulting from this will be automatically resolved through the implementation of new remaining life depreciation rates, and/or reserve transfer if necessary, as prescribed by the Commission at the conclusion of its review of TECO’s next depreciation study.

Staff believes that it is reasonable for the company to continue applying the depreciation rates listed in Table 1-1 to each corresponding 346.xx subaccount, on an interim basis, until such time as depreciation rates are examined in detail in the company’s next depreciation study and approved by the Commission. No costs or harm has occurred to the general body of ratepayers as a result of TECO’s accounting error addressed in this specific case. However, staff believes that TECO should be advised to take care in the future to not apply an approved depreciation rate to inapplicable accounts, and to seek approval for all proposed depreciation rates for new plant assets prior to their application, in compliance with Rule 25-6.0436(2)(a), F.A.C.

Conclusion

Staff recommends that TECO’s proposed depreciation rates for subaccounts 346.xx, as detailed in Table 1-1, be approved so that the company’s inadvertent mistake may be rectified.

¹⁰ TECO’s response to Staff’s First Data Request, No. 1.

¹¹ TECO’s response to Staff’s First Data Request, No. 3.

Issue 2: What should be the effective date if TECO's petitioned depreciation rates discussed in Issue 1 are approved?

Recommendation: Staff recommends that any Commission newly-approved depreciation rates applicable to the seven subaccounts 346.xx – Miscellaneous Power Plant Equipment, become effective upon the Commission's issuance of a Consummating Order in this docket. (Wu)

Staff Analysis: Depreciation is the recovery of invested capital representing equipment that is providing service to the public. This recovery is designed to take place over the related period of service to the public, which begins with the equipment's in-service date. In its petition, TECO requests the Commission to approve an effective date of its petitioned depreciation rates as of the date of the Commission order disposing of the instant petition. The affected plant assets associated with the petitioned depreciation rates have already been placed into service. Since the objective of this petition is to rectify the company's inadvertence of using Commission-approved depreciation rates, under similar plant asset subaccounts 345.xx, as subaccounts 346.xx for booking the affected plant assets, staff believes that TECO's requested effective date is appropriate. Therefore, staff recommends that if the Commission authorizes the company's petitioned depreciation rates, the effective date of the rates should be upon the Commission's issuance of a Consummating Order in this docket.

Issue 3: 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. (Taylor)

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.