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Dianne M. Triplett
813.229.4145 direct
dtriplett@carltonfields.com

4221 W. Boy Scout Boulevard
Suite 1000
Tampa, Florida 33607-5780
P.O. Box 3239
Tampa, Florida 33601-3239

813.223.7000
813.229.4133 fax
www.carltonfields.com

August 28, 2009

Ms. Ann Cole, Director
Division of the Commission Clerk
and Administrative Services
Florida Public Service Commission
2540 Shumard Oak Blvd.
Tallahassee, FL 32399-0850

VIA HAND DELIVERY

Re: Nuclear Power Plant Cost Recovery Clause, Docket 090079-EI

Dear Ms. Cole:

Enclosed for filing on behalf of Progress Energy Florida, Inc. ("PEF") in the above-referenced docket are an original and 15 copies of the following rebuttal testimony and exhibits of PEF witnesses:

Vincent Dolan
David Sorrick
Steven Harris
Jeffrey Kopp
Dale Oliver
Jackie Joyner
Joe Donahue
Thomas Sullivan
William Slusser
Michael Vilbert
John Benjamin Crisp
James Vander Weide
Earl Robinson
Will Garrett
Masceo DesChamps
Peter Toomey

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PEF is also filing a Notice of Adoption of Jeffrey Lyash's testimony by Vincent Dolan.

Please acknowledge your receipt and filing of the above on the enclosed copy of this letter and return same to me.

Sincerely,

A handwritten signature in black ink that reads "Dianne M. Triplett". The signature is written in a cursive style with a large, looping initial "D".

Dianne M. Triplett

Enclosures

cc: Counsel of record (w/enclosures)

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

In re: Petition for increase in rates by
Progress Energy Florida, Inc.

DOCKET NO. 090079-EI

Submitted for filing: August 31, 2009

**REBUTTAL TESTIMONY
OF
WILL GARRETT**

On behalf of Progress Energy Florida, Inc.

DOCUMENT NUMBER DATE

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FPSC-COMMISSION CLERK

**In re: Petition for rate increase by Progress Energy Florida, Inc.
Docket No. 090079-EI**

REBUTTAL TESTIMONY OF WILL GARRETT

1 **I. INTRODUCTION AND SUMMARY.**

2 **Q. Please state your name and business address.**

3 A. My name is Will Garrett. My business address is 299 First Avenue North, St.
4 Petersburg, FL 33701.

5
6 **Q. By whom are you employed and in what capacity?**

7 A. I am employed by Progress Energy Service Company, LLC as Controller of Progress
8 Energy Florida, Inc. ("PEF" or "the Company").

9
10 **Q. What are your responsibilities in that position?**

11 A. As legal entity Controller for PEF, I am responsible for all accounting matters
12 that impact the reported financial results of this Progress Energy entity. I have
13 direct management and oversight of the employees involved in PEF Regulatory
14 Accounting, Property Plant and Materials Accounting, and PEF Financial
15 Reporting and General Accounting. In this capacity, I am also responsible for the
16 retention of AUS Consultants and Mr. Earl Robinson to prepare the Depreciation
17 Study for the Company that was filed with the Florida Public Service
18 Commission ("FPSC" or the "Commission") in this docket with Mr. Robinson's
19 direct testimony.

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Q. Please describe your educational background and professional experience.

A. I joined the company as Controller of PEF on November 7, 2005. My direct relevant experience includes 2 ½ years as the Corporate Controller for DPL, Inc. and its major subsidiary, Dayton Power and Light, headquartered in Dayton, Ohio. Prior to this position, I held a number of finance and accounting positions for 8 years at Niagara Mohawk Power Corporation, Inc. (NMPC) in Syracuse, New York, including Executive Director of Financial Operations, Director of Finance and Assistant Controller. As the Director of Finance and Assistant Controller, my responsibilities included regulatory proceedings, rates, and financial planning, having provided testimony on a variety of matters before the New York Public Service Commission. Prior to joining NMPC, I was a Senior Audit Manager at Price Waterhouse (PW) in upstate New York, with 10 years of direct experience with investor owned utilities and publicly traded companies. I am a graduate of the State University of New York in Binghamton, with a Bachelor of Science in Accounting and I am a Certified Public Accountant in the State of New York.

Q. Have you previously filed testimony before the Commission in this proceeding?

A. No.

Q. What intervenor testimony are you addressing in your rebuttal testimony?

A. I have read and I am addressing in my rebuttal testimony the direct testimony of Mr. Jacob Pous and Mr. Daniel Lawton filed on behalf of the Office of Public Counsel

1 (“OPC”) and the direct testimony of Mr. Jeffrey Pollock filed on behalf of the Florida
2 Industrial Power Users Group (“FIPUG”).

3
4 **Q. What is the purpose of your rebuttal testimony?**

5 A. I address the recommendation by intervenor witnesses Mr. Pous, Mr. Lawton, and Mr.
6 Pollock that the calculated hypothetical variance of about \$646 million between the
7 Company’s book depreciation reserve and the theoretical depreciation “reserve” in the
8 Company’s Depreciation Study should be paid to customers in the form of an annual
9 reduction in depreciation expense over a period of time. This recommendation rests
10 on the characterizations by these witnesses that this variance represents an
11 “excessive” or “surplus” reserve that means PEF has over-collected and PEF
12 customers have overpaid depreciation expense. They also argue the Commission has
13 a long-standing policy of returning such “excessive” reserves to customers. (see, e.g.,
14 Pous Test., p. 16, L. 14 and L. 24-25).

15 Simply put, these characterizations and arguments are not true. The theoretical
16 depreciation “reserve” is a calculated reserve, not a real depreciation reserve, and the
17 variance between the theoretical and book depreciation reserves under this calculation
18 does not mean PEF customers have paid more than they should have paid. Their
19 recommendation also is contrary to the industry-standard, average remaining life
20 method, which addresses reserve variances by adjusting rates over the remaining asset
21 lives. The Commission’s long-standing policy is in fact to apply the average
22 remaining life methodology to resolve reserve variances. Their recommendation also
23 ignores the benefits customers have already received from the changing depreciation

1 estimates that are reflected in the calculated reserve variance and the costs customers
2 will incur if their recommendation is accepted. Finally, their recommendation is
3 contrary to the Federal Energy Regulatory Commission ("FERC") depreciation
4 accounting under the Uniform System of Accounts, which are adopted by rule in
5 Florida, and Generally Accepted Accounting Principles ("GAAP"). For all these
6 reasons, as more fully explained below, this recommendation must be rejected.
7

8 **Q. Do you have any exhibits to your rebuttal testimony?**

9 **A.** Yes. I have prepared or supervised the preparation of the following exhibits:

- 10 ● Exhibit No. ___ (WG-1), explanation chart of theoretical to book depreciation reserve
11 variance;
- 12 ● Exhibit No. _____ (WG-2), PEF chart of production plant terminal dates;
- 13 ● Exhibit No. ___ (WG-3), a composite exhibit of the Commission orders cited by the
14 intervenor witnesses and other Commission depreciation orders I cite;
- 15 ● Exhibit No. ___ (WG-4), a composite exhibit of decisions by the Federal Energy
16 Regulatory Commission ("FERC") regarding depreciation principles;
- 17 ● Exhibit No. ___ (WG-5), PEF's response to OPC Interrogatory No. 56; and
- 18 ● Exhibit No. ___ (WG-6), revenue requirement impact of intervenors proposed
19 amortization.

20 These exhibits are true and accurate.

21
22 **Q. Please summarize your rebuttal testimony?**

23 **A.** The following is a summary of my testimony:

- 1 • The existence of theoretical reserves for accumulated depreciation in excess of book
2 reserves, i.e. a theoretical “surplus,” should be addressed through the established
3 and long standing depreciation policy of the Commission by consistent application
4 of the remaining life depreciation method.
- 5 • The proposed accelerated reduction to actual accumulated book depreciation
6 reserves to refund alleged “surpluses” by intervenors does not fully reflect the
7 implications of such a proposal and ignores future rate implications.
- 8 • The retroactive application and adjustment to book accumulated depreciation
9 reserves to reflect current depreciation estimates is not supported by Generally
10 Accepted Accounting Principles.

11
12 **DEPRECIATION RESERVE ISSUE**

13
14 **Q. Did the Company file a Depreciation Study with the Commission in this**
15 **proceeding?**

16 **A.** Yes. Pursuant to Rule 25-6.0436(8)(a), F.A.C., the Company is required to prepare and
17 file a Depreciation Study with the Commission every four (4) years. The Company last
18 prepared and filed with the Commission a Depreciation Study in 2005 as part of the
19 Company’s base rate proceeding at that time. Pursuant to Section 11b of the Stipulation
20 and Settlement of the Company’s 2005 base rate proceeding, which was approved by
21 the Commission in Order No. PSC-05-0945-S-EI, the Company further agreed to
22 update its Depreciation Study on or before July 31, 2009.

1 The Company retained Mr. Earl Robinson with AUS Consultants to prepare its
2 2005 Depreciation Study and its 2009 Depreciation Study. As indicated in Mr.
3 Robinson's direct testimony in this proceeding, AUS Consultants is a consulting firm
4 specializing in preparing depreciation studies and other financial studies for the utility
5 industry. Mr. Robinson is a Certified Depreciation Professional, a founding member and
6 past President of the Society of Depreciation Professionals, and has over forty (40)
7 years experience in the utility industry, including depreciation analyses. Mr. Robinson
8 is also providing rebuttal testimony in this proceeding.

9 The Company's 2009 Depreciation Study was prepared based on the Company's
10 continuing property records ("CPR") through the end of December 2007 with pro forma
11 adjustments to account for the changes in the Company's depreciable assets through
12 2009. The Company's Depreciation Study employed the Straight Line Method, Broad
13 Group procedure, and Average Remaining Life technique to determine the appropriate
14 depreciation rate for the depreciable asset property groups over the remaining lives of
15 those assets in order to determine the depreciation expense necessary for the Company
16 to recover its capital investment in the property used and useful for electric service to its
17 customers. As Mr. Robinson explained, the Straight Line Method, Broad Group
18 procedure, and Average Remaining Life Technique used in the Company's 2009
19 Depreciation Study are the most widely used depreciation method, procedure, and
20 technique in the utility industry.

21
22 **Q. Do any of the intervenor witnesses claim that a different depreciation method,**
23 **procedure, or technique should have been used by the Company?**

1 A. No, they do not. Mr. Lawton does not address the Company's depreciation methods,
2 procedures, or techniques at all. Mr. Pous agrees that the straight-line method is
3 normally employed for utility depreciation proceedings (Pous Test., p. 26, L. 2-3), the
4 average life group procedure is used by the vast majority of utilities (Id., at L. 8-9), and
5 that most utilities rely on a remaining life technique in utility rate matters (Id. at L. 21-
6 22). Mr. Pollock apparently agrees too, going so far as to note that the remaining life
7 technique for determining depreciation rates is prescribed by the Commission rule.
8 (Pollock Test., p. 41, L. 18-21). Mr. Pous and Mr. Pollock challenge only the
9 application of the average remaining life technique to the calculated depreciation
10 reserve variance and Mr. Pous challenges the application of that depreciation technique
11 to some but not all Company FERC account property groups. Mr. Robinson and I will
12 address Mr. Pous' and Mr. Pollock's recommendation with respect to the calculated
13 depreciation reserve variance and Mr. Robinson will address Mr. Pous'
14 recommendations with respect to some but not all of the Company's FERC property
15 accounts. Mr. Crisp will also address Mr. Pous' and Mr. Pollock's claims that certain
16 generation assets should have longer lives than the Company proposes in its
17 depreciation study.

18
19 **Q. What is the intervenor witnesses' recommendation that you are addressing in your**
20 **rebuttal testimony?**

21 A. Mr. Pous recommends that the Company's calculated hypothetical variance of
22 approximately \$646 million, that appears in its 2009 Depreciation Study at Exhibit No.
23 ____ (EMR-2), Table 5F-Future (Pro Forma), at pages 2-74 to 2-79, be amortized over

1 four years, reducing depreciation expense, according to his calculations, by \$161
2 million a year over that four-year period of time. (Pous Test. P. 14, L. 19-20). Mr.
3 Pollock does not go that far, arguing that \$100 million of the claimed “surplus” reserve
4 should be amortized annually for three (3) years. (Pollock Test., p. 49, L. 1-9).
5 Properly understood, then, Mr. Pous and Mr. Pollock want to return to current
6 customers between \$300 million and \$646 million in depreciation expense collected
7 over the time these depreciable assets have been in service from prior and current
8 customers under depreciation rates *previously approved by this Commission*. This
9 recommendation is contrary to the very same depreciation methods they recognize are
10 industry standards, contrary to regulatory ratemaking principles and prior Commission
11 policy, and contrary to accepted utility accounting standards.

12
13 **Q. Do the intervenor witnesses give any reasons for recommending such a departure**
14 **from industry and regulatory practice and standards?**

15 **A.** Yes, they do, but their “reasons” are built on a false premise that (1) directly challenges
16 this Commission’s prior orders determining fair, just, and reasonable rates, including
17 depreciation rates, and (2) fails to account for the reasons for the variance in the first
18 place and any resulting benefit to customers. The intervenor witnesses assume the
19 variance between the depreciation book reserve and the calculated theoretical reserve
20 represents an “excess” or “surplus” reserve. Based on that faulty assumption they make
21 several highly charged accusations, that PEF has “collected more than is needed,”
22 customers have “over paid” or “paid a disproportionate share,” and that PEF’s rates are
23 “neither fair nor equitable,” resulting in claimed intergenerational inequities. (See, e.g.

1 Pous Test., p. 30, L. 15-16; Pollock, p. 43, L. 10-11). They then spend their time
2 explaining how their recommendations are supposed to work and repeatedly saying that
3 a reduction in depreciation expense of \$300 million to \$646 million does not harm the
4 Company or customers. Other than the mere citation to Commission orders they claim
5 support their recommendation (see Pous Test., pp. 32-33), and Mr. Lawton's
6 unsupported statement that this recommendation is consistent with GAAP (see Lawton
7 Test., p. 14, L. 12-13), they offer no analysis whatsoever of the reasons for the variance
8 between the calculated theoretical reserve and book depreciation reserve, the
9 Commission orders they cite, or regulatory ratemaking and accounting principles.

10
11 **Q: Please explain the concept of a theoretical reserve.**

12 **A:** The theoretical depreciation reserve is a calculated, hypothetical "reserve" that is
13 measured once every four years in the utility's depreciation study under the
14 Commission rule. See Rule 25-6.0436(1)(k) and (6)(d), F.A.C. This mathematical
15 calculation compares the Company's accumulated book reserve under prior and current
16 approved depreciation rates to the "prospective" theoretical reserve "based on proposed
17 rates." (Id.). Because the book depreciation reserve represents prior and current rates,
18 and the theoretical reserve is based on proposed rates for the future when, of course,
19 rates are set, the only way to perform this mathematical calculation is to assume that the
20 "proposed" rates have always been in effect. Mr. Pous agrees, acknowledging that the
21 calculation of the theoretical reserve calculates the reserve at a point in time "if current
22 depreciation parameters (i.e., current life and salvage estimates) had been applied from
23 the outset." (Pous Test., p. 30, L. 7-11) (emphasis supplied). This assumption, of

1 course, is not true, but it is the only way to mathematically perform the comparison of a
2 prior period to the prospective period that the mathematical comparison of the book to
3 theoretical depreciation reserve requires.
4

5 **Q. Is there in fact a depreciation reserve “surplus?”**

6 **A.** No, there is not. There is no actual cash surplus in an account for the Company’s
7 depreciation reserve. The depreciation reserve is an accounting function that reduces
8 rate base to reflect the cumulative wear and tear experienced by the investment that has
9 been dedicated to providing customer electrical service. The money received from
10 customers, which includes the recognition of the utilization of investments as used and
11 useful assets recovered through depreciation expense, is cash-flow available to be used
12 by the Company to replace and repair consumed Electric Plant in Service, build new
13 power plants, substations, and lines, pay employees, and pay all other expenses of
14 providing customers with quality electric service. These accumulated book reserves are
15 not funded liabilities that are supported by readily convertible to cash investments. A
16 material reduction to these reserves reflected in the cost of service charged customers as
17 proposed by intervenors will lower cash flow and increase PEF’s external financing
18 requirements.
19

20 **Q. Does the comparison of the book depreciation reserve to the theoretical**
21 **depreciation reserve create a depreciation reserve “surplus” or “deficiency”?**

22 **A.** No, not in the way the intervenor witnesses use those terms. There is no actual
23 “theoretical” depreciation reserve account on the Company’s books. That’s why it is

1 called the “theoretical” depreciation reserve; it does not really exist. There is only the
2 book depreciation reserve account on the Company’s books.

3 The theoretical reserve is not an exact measurement for determining the
4 condition of the actual accumulated depreciation reserves. As a result of this
5 mathematical comparison between the theoretical and actual accumulated depreciation
6 reserves there can be, as in this case, a variance between the calculated theoretical
7 reserve and the book depreciation reserve where the book depreciation reserve is larger
8 than the calculated theoretical reserve. This difference may be called an excess or a
9 surplus to indicate that there is in fact a difference by which the depreciation book
10 reserve exceeds the theoretical depreciation reserve. But this difference or variance
11 cannot be said to be an “excess” or “surplus” the way the intervenor witnesses use those
12 terms, namely, to mean that PEF has over-charged and customers have over-paid the
13 depreciation expense.

14 The assertion that the “excess” or “surplus” means PEF has over-collected and
15 customers have over-paid is non-sensical, relies on the false assumption that the
16 proposed rates have always been in effect, and further says that the Commission’s prior
17 approval and collection of these rates from customers for the past was wrong. This
18 assumption only serves to allow the theoretical-to-book depreciation comparison
19 calculation to be made. The “proposed” rates have not always been in effect, in fact,
20 they will be in effect only for a future period of time, commencing in 2010, if approved
21 by the Commission. Rather, the depreciation rates that have been in effect *were*
22 *approved by the Commission – not once, but twice in the last seven years.* Indeed, Rule

1 25-6.0436(2)(a). F.A.C. provides that no utility shall change any existing rate or charge
2 any new depreciation rate without Commission approval.

3 The intervenor witnesses' recommendations that the alleged "excess" or
4 "surplus" (which does not exist) of the book depreciation reserve over the calculated
5 theoretical reserve should be paid back to customers is therefore improper. Their
6 recommendation requires the Commission to make prospective rate adjustments based
7 on the application of the "proposed," future depreciation rates under the "prospective"
8 theoretical reserve to the past period represented by the "accumulated" book reserve.
9 See Rule 25-6.0436(6)(d), F.A.C. The Commission cannot adjust prospective rates
10 based on future depreciation rate estimates applied to a prior period of time. That is
11 improper retroactive ratemaking. It is also a direct attack on the propriety of the prior
12 and current Commission-approved depreciation rates.

13
14 **Q. Were the Company's prior and current depreciation rates approved by the**
15 **Commission?**

16 **A.** Yes. Most recently, the Company's depreciation rates were approved in Order No.
17 PSC-05-0945-S-EI in Docket No. 050078-EI. That Order approved a Stipulation and
18 Settlement between the Company and the intervenors, including OPC and FIPUG. At
19 paragraph 11a(3) of that Stipulation, PEF, OPC, and FIPUG agreed that PEF shall apply
20 the depreciation rates consistent with those set forth in the Depreciation Study that PEF
21 filed in Docket No. 0500078-EI as modified by Exhibit 2 to the Agreement. That
22 Depreciation Study was the 2005 Depreciation Study prepared for PEF by Mr.
23 Robinson and AUS Consultants. The Commission expressly found in Order No. PSC-

1 05-0945-S-EI, page 6, that the Stipulation “establishes rates that are fair, just, and
2 reasonable, and that approval of the Stipulation is in the public interest.”

3 Prior to this Order, the Company also settled its prior base rate proceeding in
4 Docket No. 000824-EI. That settlement, which again included PEF, OPC, and FIPUG,
5 was approved by the Commission in Order No. PSC-02-0655-AS-EI dated May 14,
6 2002. The Commission approved the Company’s depreciation rates and again found
7 that the Stipulation established rates that are fair, just, and reasonable. Consistent with
8 Rule 25-6.0436(2)(a), the Company’s depreciation rates prior to the settlement of its
9 2001 base rate proceeding in Order No. PSC-02-0655-AS-EI were approved by the
10 Commission.

11
12 **Q. If there is a variance between the calculated theoretical reserve and the**
13 **accumulated book reserve do you agree with Mr. Pous’ assertion at page 30 that it**
14 **nevertheless means that the utility has collected more than is needed?**

15 **A.** No. Mr. Pous is careful to limit that assertion to “that point in time,” referencing the
16 very moment the calculation is performed. This is a meaningless statement when the
17 Commission is setting depreciation rates prospectively for a more extended time period.
18 If the calculation was performed at another specific point in time, the calculated
19 variance will be different. The Company’s assets for its generation, transmission, and
20 distribution system are constantly changing, with additions and retirements every day.
21 Furthermore, depreciation rates depend on estimates of asset service lives, salvage,
22 retirements, and cost of removal, among other factors. As new events occur, and as
23 more experience is acquired or as additional information is obtained regarding the

1 Company's assets and operations, depreciation estimates will change. That is why the
2 Commission requires the Company to update its depreciation study at least every four
3 years.

4 In addition to the fact that the Company's assets are constantly changing, setting
5 depreciation rates is based on estimations and no estimates can be said to be entirely
6 accurate. Mr. Pous in fact recognizes that estimating depreciation rates is not an exact
7 science, acknowledging that "depreciation is a forecast or estimation process that is
8 never precisely accurate" and that "[a]ny process that involves estimates will result in
9 actual values that differ from predicted values." (Pous Test., p. 26, L. 17; p. 35, L. 18-
10 19). Despite his recognition of the inherent lack of certainty in estimating depreciation
11 rates, Mr. Pous wants to treat the current calculated theoretical reserve variance to the
12 depreciation book reserve as if it is absolutely 100 percent accurate, such that the full
13 amount of the reserve variance should be returned to customers over four years. This
14 inherent fallacy in his recommendation cannot be overcome. In fact, Mr. Pous never
15 tries to overcome it, instead he chooses to ignore it.

16 The Company's prior and current depreciation rates, however, were based on the
17 best estimates at that time given the information available --- or they were agreed to by
18 all the parties -- including OPC and FIPUG -- in the prior rate case settlements.

19 Therefore, one cannot assume from the mere calculation of the theoretical reserve that
20 the Company's current rates unreasonably required current customers to pay more (or
21 less) than their fair share of the Company's plant assets as the intervenor witnesses do.
22 Instead, those prior and current depreciation rates represented the best or agreed-upon
23 depreciation estimates at that time, based on the system changes and information then

1 available. Similarly, the Company's new depreciation study accounts for changes in
2 prospective life and net salvage values to reflect the Company's current experience with
3 its depreciation plant and the Company's best estimate of what future depreciation rates
4 should be.

5
6 **Q. Do you agree with the intervenor witnesses that the Company's current variance**
7 **between the theoretical and book depreciation reserve is so significant that the**
8 **Commission should take action to eliminate it by refunding the amount to**
9 **customers?**

10 **A.** No. The principles underlying the existence of the calculated theoretical reserve
11 variance to the accumulated book reserve that I have explained above do not change
12 because of the amount of the variance. Further, an understanding of the calculated
13 theoretical reserve variance and the primary drivers behind it will put this reserve
14 variance in perspective. Mr. Pous, Mr. Pollock, and Mr. Lawton completely ignore and
15 fail to analyze the primary drivers behind the variance between the theoretical and book
16 depreciation reserve in the Company's current depreciation study.

17 In evaluating the magnitude of the estimated theoretical reserve variance it
18 should be noted that it is approximately \$646 million at 12/31/09 (Table 5f – Future Pro
19 Forma Page 2-79 of 2009 PEF Depreciation Study) compared to an estimated \$714
20 million at 12/31/07 (Table 5 Page 2-157 of 2005 PEF Depreciation Study) or 14.3%
21 and 16.7% of the PEF accumulated book depreciation reserve, respectively. First, this
22 is not a substantial percentage when you consider PEF's capital expenditure program to
23 meet current and future customer service needs has added almost \$2.5 billion in

1 depreciable assets to the Company's system over the comparable time period.

2 Secondly, it appears that the averaging remaining life is working as the estimated
3 theoretical reserve variance declined \$68 million based on the application of current
4 approved depreciation rates during this time period.

5 Additionally, over seventy (70) percent of the calculated theoretical reserve
6 variance to the book depreciation reserve arises in the Company's production plant
7 accounts involving the Company's power plants. See Exhibit No. ___ (WG-1) to my
8 rebuttal testimony. The significant drivers here are the extension of production plant
9 service lives. The Company increased the service lives for its Anclote oil-fired steam
10 plant and its Crystal River Units 1 and 2 coal-fired plants by several years and
11 significantly extended the service lives for its coal-fired steam plants at Crystal River
12 Units 4 and 5 by fourteen years since its last depreciation study. See Exhibit No
13 _____(WG 2). These extended service lives drive the calculated theoretical to book
14 variance up, because the theoretical reserve calculation assumes the proposed life
15 extension assumptions for these generation units were known and factored into the
16 depreciation rates the day these generation units became operational. That assumption,
17 of course, is not true, but again, it is a necessary assumption to perform the theoretical
18 reserve calculation. There is now a longer period of time to collect these production
19 account balances than before, so the proposed depreciation rates upon which the
20 theoretical reserve is calculated will, all else being equal, be lower than the current rates
21 upon which the book reserve is calculated, and that calculation is made over the entire
22 operational life of the production assets.

1 It does not mean that the Company's current depreciation rates for these same
2 production plant assets, based on the information available at the time the current rates
3 were set, were wrong or unreasonable. The fact that over time, a facility that was
4 expected to be in operation for 40 years may now be able to continue operating for 50
5 years does not mean that customers have over paid. It just means some of the
6 depreciation estimates, namely the service lives for these production assets, have
7 changed based on additional Company investments in these assets, operating experience
8 with the assets and changing operational conditions. The result is a change in the
9 depreciation rates going forward to account for these changes in estimates. Customers
10 will benefit from the longer service lives for this asset because the impact of this change
11 in estimate lowers the depreciation rate and lowers the resulting depreciation expense.

12 Nowhere is this more clearly seen than with the Company's nuclear unit, Crystal
13 River Unit 3 ("CR3"). The nuclear production accounts represent 25 percent of the
14 calculated theoretical to book depreciation reserve variance. See Exhibit No. ____ (WG-
15 1) to my rebuttal testimony. In its 2005 Depreciation Study, the Company assumed for
16 the first time that it will obtain a license renewal extension from the Nuclear Regulatory
17 Commission ("NRC") for CR3 extending the life of the unit from 40 years to 60 years.
18 The Company, however, does not yet have that NRC license extension for CR3 and
19 does not anticipate receiving it until 2011 at the earliest. The point is not, as Mr. Pous
20 asserts, that PEF is likely to obtain the license extension. (Pous Test., p. 37, L. 16-17).
21 PEF agrees it is likely that PEF will obtain the requested license extension for CR3.
22 The point is, PEF does not have the license extension and will not have it for a couple
23 more years, but the Company, nevertheless, gave customers the benefit of the lower

1 depreciation rates that arise from extending the period to recover the depreciable
2 nuclear production account balances over 60 years rather than 40 years commencing
3 with its 2005 Depreciation Study. The Company's decision to extend the service life of
4 CR3 before PEF obtained the NRC license extension has resulted in lower rates to
5 customers than would otherwise been the case.

6 Finally, the Company has provided customers with an extended period of stable
7 base rates. Base rates were lowered as a result of the Company's settlement of its 2002
8 base rate proceeding and maintained thereafter with the exception of limited increases
9 to account for two new generation units added to the Company's system. The
10 Company's depreciation rates were an integral part of the settlements that maintained
11 base rates for almost a decade. OPC and FIPUG both agreed to the settlements of the
12 Company's last two base rate proceedings that included the settlement of all Company
13 rates, including depreciation rates. The Commission should not allow them to challenge
14 the rates achieved under those settlements with their proposals now to return to
15 customers depreciation expenses properly paid by customers under those settlements.

16
17 **Q. What is the appropriate regulatory treatment of the calculated variance between**
18 **the theoretical and the book depreciation reserves in the Company's current**
19 **depreciation study?**

20 **A.** The appropriate and reasonable regulatory treatment is to adjust the Company's
21 depreciation rates prospectively over the remaining service lives of the depreciable
22 plant, just as the Company proposes in its Depreciation Study. In fact, the average
23 remaining life depreciation method automatically accounts for reserve imbalances under

1 the calculated theoretical reserve comparison to the book depreciation reserve through
2 the re-setting of rates over the remaining life of the plant assets. This approach is in the
3 best long-term interests of customers because it provides a gradual, levelized, and
4 systematic approach to factoring into depreciation the changes in estimates in the
5 Company's Depreciation Study consistent with industry standard depreciation
6 methodology and utility practice.

7 While Mr. Pous criticizes the Company for applying the average remaining life
8 method to correct any reserve imbalance as "business as usual" (Pous Test., p. 34, L. 9-
9 12), he himself agrees on the very next page that "[w]hen reserve imbalances occur,
10 they are normally treated through the remaining life process." (Pous Test., p. 35, L. 23-
11 24) (emphasis supplied). Indeed, in the Company's 2005 base rate proceeding, Mr.
12 Pous agreed that prospective treatment of imbalances created as a result of changes in
13 depreciation estimates under the remaining life technique was appropriate. He proposed
14 to "return" the full reserve imbalance calculated by the Company in its 2005
15 Depreciation Study to customers using the remaining life process, (he proposed
16 amortizing his additional calculation of the reserve imbalance by his own changes in
17 depreciation parameters for the Company over a four year period). (Pous Test., Docket
18 No. 050078-EI, Pous Test., p. 33, L. 22-25). Likewise, Mr. Pollock agrees that the
19 remaining life method allows for the un-depreciated portion of plant in service to be
20 recovered over the average remaining life of the assets. (Pollock Test., p. 41, L. 20-22).
21 In fact, he apparently proposes to use the remaining life method to resolve the reserve
22 imbalance for over one-half of the calculated reserve imbalance with his proposal to
23 return to customers \$100 million over three years. (Pollock Test., p. 49, L. 1-10). The

1 intervenor witnesses themselves demonstrate the propriety and reasonableness of the
2 Company's depreciation study in this regard.

3
4 **Q: Do Mr. Pous, Mr. Lawton, and Mr. Pollock explain the full impact of their**
5 **recommendations on the Company and its customers?**

6 A. No, they do not. The intervenor witnesses focus solely on the short-term reduction in
7 depreciation expense that occurs as a result of their recommendations. They do not
8 explain what changes necessarily follow from their recommendations and what the
9 impact of those changes are on customers and the Company.

10 First, they overlook the current benefit reflected in the Company's proposed
11 revenue requirements related to the calculated theoretical reserve "surplus." As a result
12 of the higher book depreciation reserve currently on PEF's books, this serves to lower
13 rate base eligible for a return. Customers are currently receiving the benefit of the
14 lower rate base. As illustrated in my Exhibit No. __ (WG-6), Page 1 of 3, the impact of
15 the \$646 million theoretical reserve "surplus" as a reduction to rate base results in a
16 direct benefit to customers in the current proposed depreciation rates as this "surplus" is
17 part of the rates derived from the application of the average remaining life depreciation
18 method, and it lowers 2010 revenue requirements by \$127 million.

19 Second, customers may pay lower rates now under the intervenors'
20 recommendation but they will pay significantly higher rates immediately thereafter.
21 Intervenor witnesses Pous and Pollack completely ignore the large increase to revenue
22 requirements of up to \$258.6 million and \$145.1 million, respectively, after the three to
23 four year amortization as a result of their recommendations. As illustrated in Exhibit

1 No. __ (WG-6), page 2 of 3, Witness Pous' recommendation would result in a \$161.5
2 million reduction in 2010, but would increase revenue requirements by as much as
3 \$258.6 million in 2014 after the four year amortization period was completed. As
4 illustrated in Exhibit No. __ (WG-6), Page 3 of 3, witness Pollack's recommendation
5 would result in a \$100 million reduction in 2010, but would increase revenue
6 requirements by as much as \$ 145.1 million in 2013 after the three year amortization
7 was completed.
8

9 **Q: Would the intervenors' proposals have any other financial impacts?**

10 A: Yes their proposals would adversely impact the cost of capital as outlined in detail in
11 the rebuttal testimony of Michael J Vilbert. In summary, the proposed reduction in
12 depreciation expense levels will increase the Company's need to raise capital to fund
13 this rate reduction, as much as \$646 million over the five year period ending in 2013.
14 Therefore, as this reduced cash flow weakens the Company's credit ratios the cost of
15 debt may increase. The cost of equity will increase because of the uncertainty and risk
16 introduced to investors as this retroactive ratemaking approach introduces risk that the
17 Commission's previous decisions could be reversed in the future. These considerations
18 and real impacts are not reflected in intervenors' proposals.
19

20 **Q: Did Mr. Pous and Mr. Pollack's proposed depreciation rates reflect fully their**
21 **proposed reduction in book accumulated depreciation reserves?**

1 A: No, Witnesses Pous and Pollack do not recalculate their proposed depreciation rates for
2 the average remaining life methodology using their proposed theoretical reserve as a
3 book reserve. This would in fact serve to increase depreciation rates.

4
5 **Q. Do you agree with the intervenor witness assertions that applying the average**
6 **remaining life method to address the theoretical and book depreciation reserve**
7 **imbalance results in intergenerational inequity?**

8 A. Absolutely not. In fact, the intervenor witnesses' recommendations will result in
9 intergenerational inequity. Under their recommendations, current customers will
10 receive back depreciation expense reductions paid by prior customers under previously
11 approved depreciation rates. The only way to justify this windfall to current customers
12 is for them to directly challenge the propriety of this Commission's prior orders setting
13 rates, including depreciation rates, by claiming that PEF has over-collected and
14 customers have over-paid depreciation expense. This is simply not true.

15
16 **Evaluation of Prior FPSC Orders**

17 **Q. The intervenors claim their recommendations with respect to the theoretical**
18 **reserve variance are consistent with prior Commission Orders. Is that correct?**

19 A. No, it is not. While they cite Commission orders they claim support their
20 recommendations they never explain what these orders actually say. There is a reason
21 for this omission in their testimony, the Commission orders do not support what they
22 recommend. I have included copies of these orders and the ones I add as a composite
23 exhibit to my rebuttal testimony, Exhibit No. __ (WG-2).

1 Mr. Pous first cites Order No. 19901, issued August 30, 1988, in Docket No.
2 880053-EI regarding Gulf Power Company's ("Gulf") depreciation study. This Order
3 supports the Company's position, not Mr. Pous' recommendation. The context in
4 which Order No. 19901 was issued begins almost four years earlier with the issuance of
5 Commission Order No. 13681 on September 17, 1984, which addressed Gulf's request
6 for approval of new depreciation rates. Prior to this request, Gulf's depreciation rates
7 had been based on the "whole life" methodology but, pursuant to Rule 25-6.0436(7),
8 Gulf's then-current depreciation study was required to be based on the average
9 remaining life methodology. This one-time transition from whole life to remaining life
10 depreciation produced a reserve deficiency. In addressing the variance created by the
11 change in depreciation methodology, the Commission articulated a policy adopting the
12 remaining life methodology to address reserve variances in its 1984 Gulf Order. The
13 following quotation from Order No. 13681 expresses this Commission policy:

14 "While it is possible to make the reserve correction of these accounts through the
15 new depreciation rates allowed for embedded plant, we have
16 chosen to amortize this reserve deficit over the composite remaining life
17 of the associated investment. ... We are ordering a 19-year amortization
18 schedule for use in recovering the reserve deficit associated with the
19 Transmission, Distribution and General Plant accounts."
20 (Emphasis added).

Mr. Pous ignores this statement of general Commission policy regarding the
treatment of overall reserve variances and the fact that Gulf's reserve variance was
created by a one-time change in depreciation methodology. Mr. Pous instead refers to
an issue in Gulf's next depreciation study regarding a surplus in one particular reserve
account related to the Job Development Investment Tax Credit (JDIC). In Order No.
19901, cited by Mr. Pous, the Commission simply authorized a reserve account transfer

1 which allowed the account surplus created by the implementation of the JDIC to be
2 used as a contribution toward the 19-year remaining life amortization of the overall
3 reserve deficiency that the Commission established in Order No. 13681 from Gulf's
4 prior depreciation proceeding.

5 As this Order indicates, the Commission has authorized the limited use of intra-
6 reserve account transfers to address specific equipment or facility reserve issues under
7 its rule authorizing the investigation of depreciation rates for the "possibility" of
8 corrective reserve account transfers. Rule 25-6.0436(7)(b), F.A.C. Mr. Lawton
9 acknowledges this limited policy, noting the Commission policy allowing reserve
10 transfers within the same function, but not across functions. (Lawton Test., p. 14, L. 2-
11 4). Lawton cites Commission Order No. PSC-94-1199-FOF-EI, where the Commission
12 approved certain recommended reserve transfers to correct variances brought about by
13 the unitization of certain production plants and previously unanticipated dismantlement
14 costs of certain units. This is certainly not what Mr. Pous, Mr. Lawton, and Mr. Pollock
15 are recommending the Commission do by forcing the utility to pay customers back
16 depreciation expenses paid by other, prior customers under Commission-approved rates.

17
18 **Q. Did this policy change by the time of the 2001 Commission Order cited by Mr.**
19 **Pous?**

20 **A.** No. Mr. Pous does cite Order PSC-01-2270-PAA-E1, issued November 19, 2001,
21 regarding the depreciation study for the Marianna Division of Florida Public Utilities
22 Company. Far from supporting the severe departure from remaining life depreciation
23 principles that witnesses Pous, Lawton, and Pollock recommend, however, this case

1 deals with corrective action taken by the Commission to remedy a negative reserve
2 balance created when specific plant investments, which in fact *had not been made*, were
3 removed from a reserve account. Again, the Commission simply authorized a reserve
4 transfer which applied a surplus from another reserve account to offset the deficiency in
5 the corrected plant account. Importantly, the surplus was not flowed back to ratepayers
6 through a shortened, arbitrary amortization, as the intervenor witnesses propose, but
7 instead was used to maintain the utility's depreciation rates based on remaining life
8 principles.

9 Order No. 19438, issued June 6, 1988, regarding a change in Tampa Electric
10 Company's depreciation rates, cited by Mr. Pous is also not a supportive "example." In
11 this order, as in the 1988 Gulf depreciation order discussed above, the Commission was
12 addressing a prior order in which it had found that the most efficient mechanism for
13 addressing the unique depreciation impact on customers from implementation of the
14 JDIC was through a depreciation reserve adjustment. As before, the adjustment is
15 tailored to address a specific situation created by a federal tax initiative. Other
16 specialized amortization schedules approved by the Commission in this order were
17 designed to address unrecovered investment in specific assets that were being taken out
18 of service earlier than would normally be the case if not for a change in technology,
19 federal and state regulations, or other equipment-specific issues.

20
21 **Q. What about Mr. Pous' reliance on the Commission's Order in the General**
22 **Telephone Company proceeding, does that support his recommendation?**

1 A. Not at all. In fact, Mr. Pous' reliance on Order No. 14929, issued September 11, 1985,
2 establishing new depreciation rates for General Telephone is particularly difficult to
3 understand. One might have expected depreciation experts such as the intervenor
4 witnesses to appreciate the unique circumstances of the telephone and communication
5 industry as a whole regarding the difficulty in estimating the useful lives of depreciable
6 assets because of premature obsolescence resulting from, as the Commission put it,
7 "substantial developments in the area of technology and competition." It is virtually
8 common knowledge that the telephone industry has and continues to be plagued with
9 technical obsolescence that drives significant retirements much earlier than would have
10 been initially expected, a problem that is exacerbated by the anticipation of wide-spread
11 competition. As the Commission stated in the cited order, "we believe it is our duty and
12 in the best interest of the Company and ratepayers to move forward with re-prescription
13 of the Company's intrastate depreciation rates." The circumstances and facts in this
14 case, and the regulatory response required, have no relevance to PEF's current
15 depreciation study.

16 Indeed, in a later Commission decision, Order No. 16269 dated June 20, 1986
17 involving West Florida Natural Gas Corporation's application for new depreciation
18 rates, the Commission noted that the effect of prior rates and allocations resulted in
19 surpluses in some accounts and deficits in others but "[b]ecause these imbalances have
20 not been brought about by technological changes, such as those seen in the telephone
21 industry, we believe that the appropriate treatment is to apply the standard remaining
22 life rate to write-off each account's imbalance over the remaining life." (emphasis
23 supplied). The Commission reiterated its policy of applying the average remaining life

1 method to “write-off” or resolve “each account’s imbalance” in the absence of
2 technological changes that required more rapid amortization. That is exactly the
3 situation with respect to PEF’s current depreciation study and exactly what PEF
4 proposes, to “write-off” each “account’s imbalance” through the remaining life method.
5

6 **Q. Did the Commission do what Mr. Pous recommends in any of the other**
7 **Commission Orders he cites?**

8 A. No. Mr. Pous also cites to Order No. 22115, issued October 31, 1989, regarding the
9 establishment of new depreciation rates for City Gas Company. The intervenor
10 witnesses have again ignored the context in which this order was issued. Instead, they
11 have focused on the implementation specifics of a Commission policy without regard to
12 the policy itself. In this case, the policy that gave rise to the recovery schedule
13 discussed in Order No. 22115 was addressed in Order No. 13538 issued in the
14 predecessor proceeding. In that order, the Commission stated: “We are ordering two
15 amortization schedules for use in recovering the reserve deficit. That portion of the
16 deficit that is attributable to changes in prospective life and salvage values is to be
17 amortized over the composite remaining life of the embedded plant, which is estimated
18 to be 24 years. That portion of the deficit that is attributable to past incorrect estimates
19 of life and salvage factors and historic technological change and growth should be
20 recovered over a shorter period. Therefore, we are ordering a 5-year amortization period
21 for this portion of the deficit.” (emphasis supplied). The Commission took the same
22 action in Order No. 13918, another telephone utility depreciation order cited by Mr.
23 Pous. (Pous Test., p. 33, L. 3). The policy described by the Commission in which

1 reserve variances attributable to changes in prospective life and salvage values are
2 amortized over the assets' remaining life is instructive, since this is precisely the kind of
3 changes that brought about the reserve variance in the Company's current depreciation
4 study. The Company's study is consistent with Commission policy.

5 This statement of the Commission's policy is similar to what we understand to
6 be the Federal Energy Regulatory Commission's ("FERC's") policy. In 2008, the
7 FERC rejected a utility request to decrease accumulated depreciation below amounts
8 previously accrued because the over accrual was not shown to result from an accounting
9 error but rather was the result of a change in estimates in setting depreciation rates. As
10 a result, in such cases the FERC determined that the over or under accrued provisions
11 for depreciation should be corrected prospectively by an upward or downward
12 adjustment in the depreciation rate. Startrans IO, LLC, Docket Nos. EC08-33-000,
13 EC08-33-001, March 31, 2008, included in Exhibit No. __ (WG-3) to my rebuttal
14 testimony.

15 Indeed, as far back as the 1970's, the FERC has stated that, because of the
16 estimates inherent in depreciation accounting, "it is the Commission's policy that over
17 or under provisions for depreciation are corrected prospectively by an upward or
18 downward adjustment in the depreciation rate," rather than by transfers to or from the
19 accumulated provision for depreciation. See Michigan Wisconsin Pipe Line Company,
20 Docket No. RP83-27-002, 1983 FERC LEXIS 1967, April 8, 1983, quoting Equitable
21 Gas Company, 56 FPC 1655 at 1657 (1976). (Id.). The FERC reaffirmed this policy in
22 1992, holding that a utility's depreciation study was not a basis to adjust the recorded
23 balance in the utility's depreciation reserve. The FERC noted that accumulated

1 depreciation was dependent on a number of assumptions and that, as new events occur
2 and more experience is acquired or additional information obtained, depreciation
3 estimates will change. The FERC then stated that it “does not use depreciation studies
4 to adjust past depreciation charges that were properly recorded in prior periods based on
5 the depreciation practices and information at the time they were recorded. Changes in
6 depreciation estimates resulting from new information or subsequent developments or
7 from better insight or improved judgment should be accounted for in the period of
8 change and future periods, but not through retroactive restatement of prior period’s
9 depreciation amounts.” Carnegie Natural Gas Company, Docket No. FA89-16-000,
10 August 7, 1992. (Id.). The FERC policy, consistent with the Commission policy, is to
11 apply the average remaining life methodology of adjusting prospective depreciation
12 rates to address any reserve variances. PEF’s 2009 Depreciation Study is consistent
13 with this policy.

14
15 **Q. What about his other “example” cited on page 32 of Mr. Pous’ direct testimony,**
16 **does it support his recommendation?**

17 **A.** No. Order No. PSC-97-0499-FOF-E1, issued April 29, 1997, regarding Florida Power
18 & Light’s (“FPL’s”) proposal for plant life extensions is a unique situation unlike PEF’s
19 current situation. Like many of the other orders quoted in Mr. Pous’ testimony, this
20 order addresses a specific deficiency associated with a specific facility under FPL’s
21 particular and unique circumstances at the time. These unique circumstances are
22 explained by Mr. Terry Deason, who was a Commissioner at the time of this decision,
23 in FPL’s current base rate proceeding. They are also reflected in the Commission’s

1 statement in the Order that the accounting adjustments “will facilitate the establishment
2 of a level “accounting” playing field between FPL and possible non-regulated
3 competitors.” It should be clear at this point that it is not unusual for the Commission to
4 establish accelerated amortization schedules to address equipment or facility-specific
5 reserve issues. It is another thing entirely to suggest that amortization be accelerated
6 well ahead of the composite remaining lives of all depreciable equipment and facilities
7 to address the non-specific, overall net variance from every reserve account.
8

9 **Q. But Mr. Pous claims the Commission has stated a policy of addressing reserve
10 differences or intergenerational inequities as fast as possible at pages 32 and 33 of
11 his direct testimony. Is he correct?**

12 **A.** No. Mr. Pous has taken a statement from the Commission’s order out of context. With
13 respect to Order No. PSC-93-1839-FOF-E1, issued December 27, 1993, regarding the
14 depreciation study for the Marianna Division of Florida Public Utilities Company, he
15 quotes from the order as follows: “According to our Staff such deficiencies should be
16 recovered as fast as possible, unless such recovery prevents the Company from earning
17 a fair and reasonable return on its investment.” This statement, of course, reflects the
18 opinion of the Commission staff at that time, not the Commission itself. Suffice it to
19 say that the Commission did not order a change in the rates of customers as a means to
20 accelerate the write-down of this reserve variance, as the intervenor witnesses have
21 proposed in the present case. Instead, the Commission employed the practice of reserve
22 transfers to address the matter in that case, as it has done in many of the cases cited by
23 the intervenor witnesses.

1 Also, in Order No. 13427, issued June 15, 1984, which Mr. Pous also cites, the
2 Commission was investigating the appropriate accounting and ratemaking treatment of
3 nuclear power generators. This order has no relevance to a discussion regarding the
4 treatment of depreciation reserve variances. In the order, the Commission states:
5 “Further, our principle purpose in the case was not to correct deficiencies in revenue
6 recovery, but to correct an accounting and ratemaking problem. We determined that the
7 current method of recovery of decommissioning costs was deficient from both an
8 accounting standpoint and a ratemaking standpoint.” The issue of reserve variances in
9 PEF’s Depreciation Study is neither an accounting nor a ratemaking problem, since the
10 Commission satisfactorily dealt with the accounting and ratemaking aspects of this
11 issue in many proceedings over the years based upon the best available information at
12 the time and by applying sound remaining life depreciation principles.

13 Moreover, the statement quoted by Mr. Pous concerns the then-pending question
14 of whether the Commission should establish a funded or unfunded nuclear
15 decommissioning reserve. This is not an issue pending before the Commission in this
16 proceeding.

17 It is quite clear after actually analyzing the Commission Orders that the
18 intervenor witnesses cite that they do not support their recommendations and, in fact,
19 support the Company’s position. The long-standing policy of the Commission is not to
20 resolve reserve variances that arise from the calculated theoretical reserve comparison
21 to the book depreciation reserve by re-stating reserves and adjusting past depreciation
22 charges that were properly recorded in prior periods by refunding customers
23 depreciation expenses, as the intervenor witnesses recommend. Rather, the long-

1 standing Commission (and FERC) policy is to correct any such reserve variances
2 prospectively by a downward (or upward) adjustment in depreciation rates through the
3 remaining life methodology, just as PEF proposes in its Depreciation Study.
4

5 **Generally Accepted Accounting Principles (GAAP)**

6 **Q. Mr. Lawton claims that Mr. Pous' recommendation is consistent with GAAP. Is**
7 **he correct?**

8 **A.** No, he is not. He provides no support whatsoever for this assertion. In fact, Statement
9 of Financial Accounting Standards No. 154, "Accounting Changes and Error
10 Corrections" (FAS154) provides in relevant part that a "change in accounting estimate
11 shall be accounted for in (a) the period of change if the change affects that period only
12 or (b) the period of change and future periods if the change affects both. A change in
13 accounting estimate shall not be accounted for by restating or retrospectively adjusting
14 amounts reported in financial statements of prior periods or by reporting pro forma
15 amounts for prior periods." (FAS154-paragraph 9). A change in accounting estimate is
16 defined to include "a change that has the effect of ... altering the subsequent accounting
17 for existing or future assets or liabilities" and further "result[s] from new information."
18 Examples included "service lives and salvage values of depreciable assets." (FAS154-
19 2d). Under GAAP, if there is a change in a depreciation-related accounting estimate,
20 the impact is reflected in the current and future periods as a prospective change and not
21 through restatement or retrospectively adjusting amounts previously reported. Thus,
22 Mr. Lawton is wrong. Mr. Pous (and Mr. Pollock's) recommendation is not consistent
23 with GAAP, it is inconsistent with GAAP. It is my opinion that the amortization of

1 accumulated book reserves to reflect a retroactive adjustment to depreciation expense
2 violates GAAP. The theoretical reserve calculation essentially applies depreciation rates
3 and assumptions retrospectively, but the disposition of reserve variances created by that
4 calculation should be handled as a change in estimate that is recognized prospectively,
5 in compliance with FAS 154. The current, Commission-approved methodology of
6 average remaining life depreciation accomplishes this objective.

7
8 **OTHER ACCOUNTING ISSUES.**

9 **Q. Mr. Pous claims that the Company has inappropriately accounted for**
10 **Contributions In Aid of Construction (CIAC) in violation of NARUC**
11 **Interpretation No. 67 at pages 105-106 and 116 of his testimony. Is he correct?**

12 **A.** No, Mr. Pous is incorrect. He is asserting this position without specific exceptions
13 noted in his testimony in order to account for CIAC as recoverable salvage. The
14 Company receives reimbursements from third parties for new capital construction or for
15 capital replacement projects. These are to be accounted for in accordance with the
16 Uniform System of Accounts in the Code of Federal Regulations (CFR) 18 Part 101,
17 Electric Plant Instructions (excerpt below – emphasis added):

2. *Electric Plant to Be Recorded at Cost.* D. The electric plant accounts shall not include the cost or other value of electric plant contributed to the company. **Contributions in the form of money or its equivalent toward the construction of electric plant shall be credited to accounts charged with the cost of such construction.** Plant constructed from contributions of cash or its equivalent shall be shown as a reduction to gross plant constructed when assembling cost data in work orders for posting to plant ledgers of accounts. The accumulated gross costs of plant accumulated in the work order shall be recorded as a debit in the plant ledger of accounts along with the related amount of contributions concurrently be recorded as a credit.

1 Thus, reimbursements from third parties for the construction of assets shall be
2 charged as a credit to Electric Plant in Service, account 101. PEF complies and
3 properly accounts for these items as prescribed by the Uniform System of
4 Accounts. Additionally, these items charged as contributions in aid of
5 construction do meet the criteria noted by Mr. Pous from the NARUC guidance
6 he sites. PEF enters into contractual arrangements with third parties for amounts
7 charged as CIAC.

8
9 **Q: Does the Company also receive third party reimbursements for the**
10 **retirement of plant?**

11 **A:** Yes, the Company receives reimbursement for the sale of scrap or salvage of
12 utility assets. These are to be accounted for in accordance with the Uniform
13 System of Accounts in the Code of Federal Regulations (CFR) 18 Part 101,
14 Electric Plant Instructions (excerpt below – emphasis added):

- 2) When a retirement unit is retired from electric plant, with or without replacement, the book cost thereof shall be credited to the electric plant account in which it is included, determined in the manner set forth in paragraph D, below. If the retirement unit is of a depreciable class, the book cost of the unit retired and credited to electric plant shall be charged to the accumulated provision for depreciation applicable to such property. **The cost of removal and the salvage shall be charged or credited, as appropriate, to such depreciation account.**

15 These are properly accounted for as a gross salvage which is an offset to
16 the costs of removing the retired asset and included in the Company's

1 accounting records as gross salvage, a credit to the accumulated
2 depreciation reserve.

3 **Q: Does the Company have any concern that its accounting records are**
4 **incorrect as Mr. Pous suggests?**

5 **A:** No, PEF has properly accounted for both its contribution of aid for
6 construction and salvage charges.

7

8 **Q: Does Mr. Pous site any specific examples of incorrect accounting to support**
9 **his assertion?**

10 **A:** No, Mr. Pous does not cite any specific examples that the Company has
11 not applied proper accounting procedures.

12

13 **Q. Mr. Pous claims that the Company's continuing property records differ from**
14 **the actual work order reported values based on one example he provides at**
15 **page 115 of his testimony. Is Mr. Pous right?**

16 **A.** No, he is not. In fact, the Company's continuing property records demonstrate on
17 their face that he is wrong and he either doesn't understand how retirements, cost
18 of removal and gross salvage are recorded or he is intentionally misrepresenting
19 the records. Mr. Pous claims he reviewed five work orders relevant to Account
20 356 – Transmission Overhead Conductors and Devices in 2005 that reflect a total

1 level of gross salvage of approximately \$250,000. He claims that the Company's
2 reported value in its continuing property records for Account 356 is zero for 2005
3 and, therefore, concludes that all of the Company's CPR are suspect. (Pous Test.,
4 p. 115). He is correct that the entry for gross salvage for 2005 in Account 356 is
5 zero, but the entry for gross salvage for 2006 in that account is \$249,263.32, or
6 approximately \$250,000. (See Exhibit EMR-2, page 8-87). These work orders
7 commenced in 2005 and the property removed was retired that year but the work
8 was not completed and the project was not closed out until 2006 when the gross
9 salvage of approximately \$250,000 was properly recorded. This process was
10 explained in detail in answer to OPC Interrogatory No. 56, which is attached as
11 Exhibit No. ___ (WG-5) to my rebuttal testimony.

12
13 **Q. Have the Company's Continuing Property Records and work orders been**
14 **maintained consistent with regulatory and industry standards?**

15 A. Yes, the Company's Continuing Property Records (CPR) and work orders (WO)
16 have been maintained consistent with regulatory and industry standards. These
17 standards consist of practices and procedures established based upon Generally
18 Accepted Accounting Principles (GAAP), the FERC Code of Federal Regulations
19 (CFR), and Florida Public Service Commission guidance as appropriate.

20 This guidance is summarized in the Company's capitalization policy
21 which is intended to provide the basis for determining what costs represent capital
22 assets in the accounting records. All assets recorded as Electric Plant in Service
23 are recorded at original cost which consists of all expenditures that are necessary

1 to bring the asset to working condition for its intended use. The components of
2 construction costs as outlined in the policy are based upon information obtained
3 from FERC Electric Plant Instructions No. 3, Item A.

4 From a process perspective, asset costs are accounted for in work orders
5 (also referred to as projects) as established in the Oracle Project Accounting
6 system and transferred to the PowerPlant system which is the Company's Fixed
7 Asset Sub ledger. (The Power Plant System is an industry standard used by over
8 75% of the investor owned utilities in North America.) PowerPlant tracks status
9 (i.e. Active, In-service, Posted to CPR) changes for all capital projects and
10 maintains all asset records. The system records asset values, calculates
11 depreciation, and retires assets from the books. The underlying principles for the
12 property unit catalog and the general regulations governing the PowerPlant
13 System are referenced from the Electric Plant Instructions of the FERC Uniform
14 System of Accounts. Certain interpretations and clarifications are driven by
15 actions of the Florida Public Service Commission.

17 CONCLUSION

18 **Q: Please summarize your conclusions.**

19 **A:** In summary the application of the remaining life approach to setting depreciation
20 rates as proposed by the Company reflects the Commission's long standing
21 preferred practice in setting depreciation rates. The existence of a theoretical
22 reserve and the calculated reserve "surplus" or "deficit" is nothing more than a
23 measured impact from retroactive application of current facts and circumstances.

1 The method adopted by prior Commission precedent and supported by the
2 Company reduces customer rates both now and the long term, thus eliminating the
3 significant rate volatility introduced by the intervenors' approach. It results in
4 clear immediate and significant reduction in rate base and depreciation expense
5 that treats customers fairly. Alternatively, to adjust actual book accumulated
6 depreciation reserves to the theoretical reserves as proposed by intervenors, is
7 retroactive ratemaking and an inappropriate application of the remaining life
8 approach in setting depreciation rates and these proposed depreciation reductions
9 should be rejected.

10
11 **Q. Does this conclude your testimony?**

12 **A. Yes, it does.**
13
14
15
16
17
18
19

PROGRESS ENERGY FLORDIA, INC.
Explanation Chart of Theoretical to Book Depreciation Reserve Variance
(IN MILLIONS)

Line
No.

	Theoretical Depr		Book Depr		Resr. Variance	
	Reserve 12/31/09	% of Total	Reserve 12/31/09	% of Total	Book Over (Under) Theoretical	% of Total
1						
2						
3	\$ 1,054	28%	\$ 1,236	28%	\$ 182	28%
4	337	9%	498	11%	161	25%
5	497	13%	626	14%	129	20%
6						
7	\$ 1,888	51%	\$ 2,360	54%	\$ 472	73%
8						
9	449	12%	507	12%	58	9%
10	1,373	37%	1,491	34%	118	18%
11						
12	\$ 3,710	100%	\$ 4,358	100%	\$ 648	100%
13						
14						
15						
16						
17						
18						

PROGRESS ENERGY FLORIDIA, INC.
 Comparison of Plant Terminal Dates (Prior Study versus Current Study)

Line
 No.

Line No.	In-Service Year	Prior Study		Current Study		Increase (Decrease) in Average Service Life	
		Terminal Dates per Prior Study (1)	Average Service Life	Terminal Dates per Current Study	Average Service Life		
1							
2							
3							
4	Steam and Nuclear						
4	Anclote	1974	2019	45	2022	48	3
5	Bartow Steam	1958	2016	58	2009	51	(7)
6	CR 1 & 2	1966	2018	52	2020	54	2
7	CR 4 & 5	1982	2021	39	2035	53	14
8	Suwanee Steam	1953	2016	63	2013	60	(3)
9	CR 3 - Nuclear	1977	2036	59	2036	59	0
10							
11	Peakers & CC						
12	Avon Park Peaking	1968	2016	48	2016	48	0
13	Bartow Peakers	1972	2016	44	2027	55	11
14	Bartow CC	2009	n/a	n/a	2039	30	n/a
15	Bayboro	1973	2017	44	2029	56	12
16	Debary	1975	2020	45	2020	45	0
17	Debary New	1992	2023	31	2023	31	0
18	Higgins	1969	2016	47	2016	47	0
19	Hines PB1	1999	2030	31	2028	29	(2)
20	Hines PB2	2003	2033	30	2033	30	0
21	Hines PB3	2005	n/a	n/a	2035	30	n/a
22	Hines PB4	2007	n/a	n/a	2037	30	n/a
23	Intercession City P11	1997	2022	25	2022	25	0
24	Intercession City P1-P6	1974	2019	45	2020	46	1
25	Intercession City P12-P14	2000	2027	27	2036	36	9
26	Intercession City P7-P10	1993	2024	31	2031	38	7
27	Rio Pinar	1970	2016	46	2016	46	0
28	Suwanee Peaking	1980	2018	38	2024	44	6
29	Tiger Bay	1995	2025	30	2038	43	13
30	Turner 1&2	1970	2017	47	2016	46	(1)
31	Turner 3&4	1974	2020	46	2023	49	3
32	University of Florida	1993	2016	23	2033	40	17

(1) Docket 050078

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In re: Application of Gulf Power Company for New Depreciation Rates

DOCKET NO. 880053-EI; ORDER NO. 19901

Florida Public Service Commission

1988 Fla. PUC LEXIS 1311

88-8 FPSC 359

August 30, 1988

PANEL:

The following Commissioners participated in the disposition of this matter: KATIE NICHOLS, Chairman; THOMAS M. BEARD; GERALD L. GUNTER; JOHN T. HERNDON; MICHAEL MCK. WILSON

OPINION: NOTICE OF PROPOSED AGENCY ACTION

ORDER PRESCRIBING DEPRECIATION RATES

BY THE COMMISSION:

NOTICE is hereby given by the Florida Public Service Commission that the action discussed herein is preliminary in nature and will become final unless a person whose interests are adversely affected files a petition for a formal proceeding, pursuant to Rule 25-22.029, Florida Administrative Code.

Rule 25-6.046(7), Florida Administrative Code, adopted November, 1982, requires electric utilities subject to this Commission's jurisdiction to file a comprehensive depreciation study at least once every four (4) years. In compliance with that rule, Gulf Power Company (Gulf or utility) filed a depreciation study on January 7, 1988. Gulf's last represcription of depreciation rates was implemented January 1, 1984. Rates prescribed at that time were based on a remaining life methodology. As part of its filing in this docket, Gulf requested implementation, on a preliminary basis, of its proposed depreciation rates. By Order No. 19152 Gulf was authorized on an interim basis to implement rates based on the lives and salvages it proposed but as modified by our Staff to reflect actual investments and reserves as of January 1, 1988. Order No. 19152 also provide that the interim rates would be adjusted, if necessary, upon completion of further review of the study.

The Commission Staff has reviewed Gulf's study and has recommended certain modifications to depreciation rate components. Having reviewed the utility's study and having considered the modifications proposed by Staff, we find that Gulf's rates should be represcribed consistent with the Staff's recommendation. The specific rates and components being approved by this Order are set forth on Attachment 1. Major adjustments to individual accounts are discussed below.

CORRECTIVE RESERVE TRANSFERS

Gulf, like other utilities, has in the past had its depreciation rates for production assigned by accounts. Production depreciation rates are now being

1988 Fla. PUC LEXIS 1311

assigned by plant site, which causes the rates to vary depending upon the type and age of the equipment and structures at each site. We foresee the next step to be rates assigned by units, since at a particular plant site the newest and oldest units can have different characteristics and expected retirement dates.

In the transformation from account rates to plant-site rates, there is the prospect of seeing some reserve surpluses at the newer plants and deficits at the older plants. To rectify this situation, our Staff has developed corrective reserve transfers. We find the following corrective reserve transfers to be appropriate and approve them:

	Jan. 1, 1988	Theoretical	Approved	Restated
Production	Book Reserve	Reserve	Reserve Transfer	Reserve
Daniel Plant	\$ 56,103,009	\$ 52,142,867	(3,960,142)	\$ 52,142,867
Crist Plant	106,581,673	113,728,035	5,424,009	112,005,682
Scholz Plant	15,992,615	16,899,228	906,613	16,899,228
Smith Plant	38,236,751	37,244,635	(906,613)	37,330,138
Scherer Plant	5,520,011	4,056,144	(1,463,867)	4,056,144
Production Totals	\$222,434,059	\$224,070,909	\$0	\$222,434,059

INTEREST SYNCHRONIZATION OF JOB DEVELOPMENT INVESTMENT TAX CREDITS (JDIC) ADJUSTMENTS

In Order No. 16257, issued June 19, 1986, we decided that depreciation reserve adjustments should be used to offset revenue requirements associated with the interest synchronization of JDIC. In the utility's 1984 depreciation study a net reserve deficit of \$7,589,000 was calculated relating to the Transmission, Distribution and General Plant accounts. At that time a nineteen-year amortization schedule was ordered to recover that deficit. That schedule shall be accelerated using the reserve adjustments shown below relating to the interest synchronization of JDIC.

As shown in the schedule below, the accumulated interest synchronization amount as of January 1, 1988, is to be applied to the remainder of the reserve deficit calculated in the 1984 represcription. For the year 1988, the on-going interest synchronization adjustment, in addition to the currently approved amortization expenses shall be applied to the write-off of the deficit. Beginning January 1, 1989, the monthly interest synchronization adjustment shall again be booked to a non-account-specific reserve entry, until base rates are changed. At the next represcription of depreciation rates, these accumulated amounts from January 1, 1989 forward shall be allocated to specific accounts as needed.

Reserve Deficit, 1-1-88	\$ (5,991,316)
Interest Synchronization Adjust. Accumulated, 1-1-88 (total company)	5,033,755
Adjusted Reserve Deficit	\$ (957,561)
Current annual expenses to write off deficit	\$ 399,421
Current annual interest synchronization (total company)	505,413
Total to be applied in 1988 to Reserve Deficit	\$ 904,834
Reserve Deficit, 1-1-89	\$ (52,727)
Current monthly expense to write off deficit	33,285

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Reserve Deficit, 2-1-89	(19,442)
To be written off in February, 1989	\$ 19,442

DEPRECIATION RATES AND COMPONENTS - ATTACHMENT 1

The depreciation components for production plant are based on current planning estimates of retirement dates and interim retirement patterns for each plant site. This represents Gulf's first step towards stratification in its development of interim retirement patterns for each plant site. As discussed previously, prior approved components and rates were developed on a primary account basis and represented the composite of all individual plant sites. Our Staff endorses the concept of determining components by stratification into groups of assets with similar lives as it allows a more accurate assessment of capital recovery needs. We concur with Staff's endorsement and find that the rates proposed by Gulf correctly represent an initial step towards this result.

The major differences between the rates we approved on an interim basis and those we are now approving are due to our use of updated data, the selection of different lives and salvages for some Transmission, Distribution and General plant accounts, and revised estimates of dismantling costs at Plants Daniel and Scherer. We agree with our Staff that the dismantling cost estimates for these two plants were understated by Gulf and we approve those estimates shown in Attachment 1.

AMORTIZATION SCHEDULES - ATTACHMENT 2

In accordance with the retirement unit rule (Rule 25-6.0142, Florida Administrative Code) for electric utilities, certain general plant assets are to be amortized over a set time period in lieu of maintaining detailed property records. The amortization schedules for the embedded net investments of each of these equipment types, associated amortization period and the resultant annual expense are shown on Attachment 2. On a going-forward basis, each vintage year's additions associated with this equipment will be amortized over a similar time period (e.g., 1988 vintage additions will be amortized over 7 years). In order to simplify record keeping, any net salvage amounts associated with these amortized investments should be netted against the additions in the year of occurrence, also the investments being amortized should be retired from the books on completion of their amortization.

In consideration of the above, it is

ORDERED by the Florida Public Service Commission that the depreciation rates and amortization schedules set forth in Attachments 1 and 2 to this Order are approved for Gulf Power Company. It is further

ORDERED that the corrective reserve transfers set forth in the body of this Order are approved. It is further

ORDERED that the accumulated and on-going interest synchronization of Job Development Investment Tax Credits amounts shall be applied as described in the body of this Order. It is further

ORDERED that the depreciation expenses recorded under the interim rates and schedules authorized by Order No. 19152 shall be trued-up to reflect the incremental difference between the interim rates and schedules and those approved in this Order. It is further

ORDERED that the effective date of the new rates and schedules is January 1, 1988. It is further

1988 Fla. PUC LEXIS 1311

ORDERED that this Order shall become final unless a petition for formal proceeding is received by the close of business on September 20, 1988.

By ORDER of the Florida Public Service Commission, this 30th day of AUGUST, 1988.

[Material Omitted in Original Source]

GULF POWER COMPANY
1988 STUDY
Depreciation Rates and Components

ACCOUNT	REMAINING	COMMISSION APPROVED			REMAINING RATE
		AVERAGE NET LIFE	BOOK SALVAGE	LIFE RESERVE	
	STEAM PRODUCTION PLANT				
	Daniel Plant	25.0	(13)	*28.00	3.4
	Daniel Coal Cars	8.8	10	39.93	5.7
	Crist Plant	23.0	(22)	*38.61	3.6
	Scholz Plant	19.4	(38)	*66.22	3.7
	Smith Plant	21.0	(31)	*47.11	4.0
	Scherer Plant	34.0	(11)	*2.20	3.2
	Caryville Plant			7 YEAR AMORTIZATION	
316	Prod. Plt. Furn.&Eqpt.			7 YEAR AMORTIZATION	
316	Prod. Plt. Furn.&Eqpt.			5 YEAR AMORTIZATION	
310	Easement - Crist	31.0	0	25.32	2.4
310.1	Easement - Daniel	29.0	0	31.37	2.4
	OTHER PRODUCTION PLANT				
341	Structures & Improvements	13.5	0	57.09	3.2
342	Fuel Hldrs, Prod.& Access.	13.5	0	78.75	1.6
343	Prime Movers	13.5	0\$	71.68	2.1
344	Generators	13.5	0	78.46	1.6
345	Access. Elec. Eqpt.	13.5	0	80.62	1.4
346	Misc. Power Plant Eqpt.	13.5	0	80.54	1.4
	TRANSMISSION				
352	Structures & Improvements	30.0	(5)	27.54	2.6
353	Station Equipment	23.0	(5)	29.82	3.3
354	Towers and Fixtures	25.0	(20)	42.43	3.1
355	Poles and Fixtures	27.0	(30)	37.75	3.4
356	'hd Conductors & Devices	23.0	(20)	45.88	3.2
358	U'gd Conductors & Devices	13.5	(5)	88.76	1.2
359	Roads & Trails	45.0	0	31.91	1.5
350.2	Easements & Rights-of-Way	51.0	0	30.80	1.4
	DISTRIBUTION				
361	Structures & Improvements	30.0	(5)	22.73	2.7
362	Station Equipment	26.0	0	26.02	2.8
364	Poles, Towers & Fixtures	19.9	(30)	39.56	4.5
365	O'hd Conductors & Devices	23.0	(10)	31.91	3.4
366	Underground Conduit	31.0	0	39.77	1.9
367	U'gd Conductors & Devices	21.0	0	21.23	3.8
368	Line Transformers	18.4	(5)	28.56	4.2
369.1	Services - Overhead	20.0	(30)	37.33	4.6

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369.2	Services - Underground	26.0	(10)	8.81	3.9
369.3	Services - House Pwr Pnls	15.6	\$0	52.36	3.1
370	Meters	17.8	(3)	36.75	3.7
373	Street Lighting & Signal System	11.6	0	27.96	6.2
360	Easements & Rights-of-Way	33.0	0	63.00	1.1
GENERAL PLANT					
390	Structures & Improvements	35.0	0	9.74	2.6
391	Ofc. Furn. & Eqpt.		5 YR AMORTIZATION		
391	Ofc. Furn. & Eqpt.		7 YR AMORTIZATION		
392.1	Automobiles	3.1	20	29.69	16.2
392.2	Light Trucks	3.8	20	35.64	11.7
392.3	Heavy Trucks	8.2	20	32.66	5.8
392.4	Trailers	17.8	20	41.90	2.1
392	Marine & Other		5 YR. AMORTIZATION		
393	Stores Equipment	10.1	0	16.41	8.3
393	Stores Eqpt.		7 YR AMORTIZATION		
394	Tools, Shop & Garage Eqpt.	24.0	0	14.87	3.5
394	Tools Shop & Gar Eqpt		7 YR AMORTIZATION		
395	Laboratory Eqpt.	16.0	0	7.19	5.8
395	Laboratory Eqpt.		7 YR. AMORTIZATION		
396	Power Operated Eqpt.	14.5	15	38.62	3.2
397	Communication Eqpt.	16.2	(3)	26.83	4.7
398	Miscellaneous Equipment		7 YR. AMORTIZATION		

n* Reflects restated reserve.

An error occurred in the processing of a table at this point in the document.
Please refer to the table in the online document.

Legal Topics:

For related research and practice materials, see the following legal topics:
Administrative LawJudicial ReviewReviewabilityStandingEnergy & Utilities LawAd-
ministrative ProceedingsPublic Utility CommissionsGeneral OverviewEnergy &
Utilities LawUtility CompaniesRatesGeneral Overview



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In re: Application of Gulf Power Company for
depreciation rates

DOCKET NO. 830585-EI; ORDER NO. 13681

Florida Public Service Commission

1984 Fla. PUC LEXIS 245

84 FPSC 181

September 17, 1984

PANEL: [*1]

The following Commissioners participated in the disposition of this matter:
GERALD L. GUNTER, Chairman; JOSEPH P. CRESSE, JOHN R. MARKS, III, KATIE NICHOLS

OPINION: NOTICE OF PROPOSED AGENCY ACTION

ORDER GRANTING NEW DEPRECIATION RATES

BY THE COMMISSION:

This matter was initiated upon request of Gulf Power Company (Gulf or Company) for new depreciation rates. Gulf last applied for depreciation rates in 1979. At that time, whole life rates were prescribed for all accounts. The current study is an overall review of life and salvage factors in compliance with Florida Administrative Code Rule 25-6.436(7), in which the Company has proposed remaining life rates.

We have reviewed the requested changes and the supporting data and find that the depreciation rates effective January 1, 1984, as shown on Appendix A to this order and incorporated herein are approved.

Appropriate Depreciation Reserve Level and Correction of the Reserve Deficit

Because we have determined that new depreciation rates are appropriate, we must also provide for the recovery of the difference between the current booked reserve levels and what the reserve levels should be using the new depreciation [*2] rates.

A number of substantial and unique questions relate to Production Plant. These include the increase in investment versus increase in capacity of production plants, the question relating recovery to production, the potential impact of availability or acceptability of the various fuels, etc. These questions are currently being investigated in Docket No. 830525-EI. For this reason, the Production Plant, with its potential reserve imbalance, is not grouped with and netted with the remainder of the Company investment. That is to say, the book reserve of each separate Production Plant account is retained with and used in developing the Remaining Life Rate. This will facilitate any future treatment of individual accounts when the Docket No. 830525-EI is resolved.

1984 Fla. PUC LEXIS 245. *

We have calculated the net reserve deficit to be \$7,589,000 for the Transmission, Distribution and General Plant accounts. While it is possible to make the reserve correction for these accounts through the new depreciation rates allowed for embedded plant, we have chosen to amortize this reserve deficit over the composite remaining life of the associated investments. By allowing the Company to separately recover [*3] the reserve deficit, we are bringing the booked reserves for the Transmission, Distribution and General Plant accounts up to the theoretical reserve.

We are ordering a 19-year amortization schedule for use in recovering the reserve deficit associated with the Transmission, Distribution and General Plant accounts. This results in annual expenses of \$399,421.

The Company is to create a separate subaccount in the Accumulated Reserve account to reflect the amortization of the reserve deficit. No further deficits should be included in this subaccount without Commission approval. Likewise, each of the Transmission, Distribution and General Plant account's reserve should be restated to the level shown in Appendix B to this Order, which incorporated herein, and brought forward from that point. The book reserve total is not changed by the setting of the reserve imbalance and restatement of associated account reserves. These reserve levels should be shown on Company books or side records as of January 1, 1984, and brought forward from that time by account activity. These reserves should be shown in the Company's next depreciation study, updated to the implementation date of [*4] the new rates proposed in that study.

It is, therefore

ORDERED by the Florida Public Service Commission that depreciation rates and amortization schedules as set forth in this order be and the same is hereby approved for Gulf Power Company effective January 1, 1984. It is further

ORDERED that the provisions of this order, issued as proposed agency action, shall become final agency action unless a person adversely effected by the action taken herein files a petition for a formal proceeding, as provided by Florida Administrative Code Rule 25-22.29(4), that must be received by the Commission Clerk by the close of business on October 5, 1984, in the form provided by Florida Administrative Code Rule 25-22.367(a) and (f). It is further

ORDERED that in the absence of such a petition, this order shall become effective and final, as provided by Florida Administrative Code Rule 25-22.29(6), and reflected in a subsequent order.

By ORDER of the Florida Public Service Commission, this 17th day of September, 1984.

Appendix A

Account	Approved Depreciation Rates				Remaining Life Rate (%)
	Average Remaining Life (years)	Future Net Salvage (%)	Appropriate Reserve * (%)	Remaining Life Rate (%)	
Steam Production					
310	Land & Land Rights	26	0	16.83	3.2
311	Structures & Improvements	23	(10)	28.70	3.5
312	Boiler Plant Equipment	21	(10)	26.81	4.0
	Daniel Plant Railcars	13.8	10	19.52	5.1
314	Turbogenerator Units	22	0	35.43	2.9
315	Accessory Electric Equip.	23	0	26.52	3.2
316	Misc. Power Plant Equip.	19.9	0	16.84	4.2

1984 Fla. PUC LEXIS 245, *

Account	Average Remaining Life (years)	Approved Depreciation Rates		Future Net Salvage (%)	Appropriate Reserve * (%)	Remaining Life Rate (%)	
Other Production							
341	Structures & Improvements		7.5	0		15.64	11.2
342	Fuel Holders & Accessories		7.5	0		54.32	6.1
343	Prime Movers		7.5	0		38.84	8.2
344	Generators		7.5	0		54.21	6.1
345	Accessory Electric Equip.		7.5	0		58.18	5.6
346	Miscellaneous Equip.		7.5	0		58.10	5.6
Transmission Plant							
350	Land & Land Rights		50	0		25.0	1.5
352	Structures & Improvements		30	0		25.0	2.5
353	Station Equipment		26	(2)		26.6	2.9
354	Towers & Fixtures		28	(10)		31.6	2.8
355	Poles & Fixtures		25	(30)		37.5	3.7
356	Overhead Conductors/Devices		25	(20)		35.0	3.4
358	Undg. Conductors/Devices		7.5	0		75.25	3.3
359	Roads & Trails		44	0		25.2	1.7
Distribution Plant							
360	Land & Land Rights		17.9	0		57.04	2.4
361	Structures & Improvements		31	0		22.5	2.5
362	Station Equipment		25	0		27.5	2.9
364	Poles, Towers & Fixtures		17	(30)		41.6	5.2
365	Overhead Conductors/Devices		19.5	(10)		30.05	4.1
366	Underground Conduit		34	0		32.0	2.0
367	Undg. Conductors/Devices		19.6	0		21.6	4.0
368	Line Transformers		16.6	0		33.6	4.0
369.1	Overhead Services		19.2	(15)		26.68	4.6
369.2	Underground Services		26	0		14.2	3.3
369.3	Housepower Boxes		7.9	0		60.5	5.0
370	Meters		14.7	(3)		42.73	4.1
373	Street Lighting & Signal Systems		11	0		26.3	6.7
General Plant							
390	Structures & Improvements		28	0		18.8	2.9
391	Office Furniture & Equip. Computers		15.1	3		21.5	5.0
			3.5	5		39.7	15.8
392.1	Passenger Cars		4.7	20		26.42	11.4
392.2	Light Delivery Trucks		4.6	20		27.56	11.4
392.3	Light Trucks		3.9	20		35.54	11.4
392.4	Service Trucks		3.7	20		37.82	11.4
392.5	Line Trucks		7	20		28.9	7.3
392.6	Tractor Trucks		7.5	20		25.25	7.3
392.7	Trailers		7	20		28.9	7.3
392.8	Marine Equipment		14.5	20		3.15	5.3
393	Stores Equipment		24	0		13.6	3.6
394	Tools, Shop & Garage Equip.		24	0		20.8	3.3
395	Laboratory Equipment		22	0		16.4	3.8
396	Power Operated Equipment		9.6	15		16.84	7.1

1984 Fla. PUC LEXIS 245. *

Account	Approved Depreciation Rates				Remaining Life Rate (%)	
	Average Remaining Life (years)	Future Net Salvage (%)	Appropriate Reserve * (%)			
297	Communication Equipment	13.1	0	34.5	5.0	
298	Miscellaneous Equipment	12.3	0	17.59	6.7	

* Denotes Staff calculated theoretical reserve except for Steam Production and Other Production Plant accounts for which the book reserve has been used.

APPENDIX B

GULF POWER COMPANY
ANALYSIS OF RESERVE POSITION
(TRANSMISSION, DISTRIBUTION AND GENERAL PLANT ONLY)

Account	1/1/84 Restated Reserve By Account to be brought forward by Annual Activity * (\$000)
Transmission Plant	
350 Land & Land Rights	1,868
352 Structures & Improvements	367
353 Station Equipment	8,467
354 Towers & Fixtures	6,873
355 Poles & Fixtures	5,000
356 Overhead Conductors/Devices	6,685
358 Underground Conductors/Devices	126
359 Roads & Trails	7
Distribution Plant	
360 Land & Land Rights	115
361 Structures & Improvements	882
362 Station Equipment	10,995
364 Poles, Towers & Fixtures	13,198
365 Overhead Conductors/Devices	11,059
366 Underground Conduit	321
367 Underground Conductors/Devices	1,664
368 Line Transformers	16,868
369.1 Overhead Services	4,633
369.2 Underground Services	149
369.3 Housepower Boxes	3,733
370 Meters	5,185
373 Street Lighting & Signal Systems	1,140
General Plant	
390 Structures & Improvements	3,042
391 Office Furniture & Equipment	708
Computers	169
392.1 Passenger Cars	356
392.2 Light Delivery Trucks	289
392.3 Light Trucks	99
392.4 Service Trucks	675
392.5 Line Trucks	1,054
392.6 Tractor Trucks	119

1984 Fla. PUC LEXIS 245, *

GULF POWER COMPANY
ANALYSIS OF RESERVE POSITION
(TRANSMISSION, DISTRIBUTION AND GENERAL PLANT ONLY)

Account	1/1/84 Restated Reserve By Account to be brought forward by Annual Activity * (\$000)	
392.7 Trailers		124
392.8 Marine Equipment		0
393 Stores Equipment		137
394 Tools, Shop & Garage Equipment		230
395 Laboratory Equipment		241
396 Power Operated Equipment		52
397 Communication Equipment		856
398 Miscellaneous Equipment		156
TOTAL		\$107,642

[*6]

Legal Topics:

For related research and practice materials, see the following legal topics:
Energy & Utilities LawAdministrative ProceedingsPublic Utility CommissionsGen-
eral OverviewEnergy & Utilities LawUtility CompaniesRatesGeneral Overview

9 of 9 DOCUMENTS

In Re: Request for change in Depreciation Rates by Florida
Power and Light Company

DOCKET NO. 931231-EI; ORDER NO. PSC-94-1199-FOF-EI

Florida Public Service Commission

1994 Fla. PUC LEXIS 1219

94 FPSC 9:479

September 30, 1994

PANEL: [*1]

The following Commissioners participated in the disposition of this matter:
J. TERRY DEASON, Chairman, SUSAN F. CLARK, JOE GARCIA, JULIA L. JOHNSON, DIANE
K. KIESLING

OPINION: 80 NOTICE OF PROPOSED AGENCY ACTION ORDER ESTABLISHING DEPRECIATION
RATES, RECOVERY SCHEDULES, REVISING AMORTIZATION OF INVESTMENT TAX CREDITS AND
DEFERRING DECISION ON AMORTIZATION OF NON-LIFE RELATED COSTS

NOTICE IS HEREBY GIVEN by the Florida Public Service Commission that the ac-
tion discussed herein is preliminary in nature and will become final unless a
person whose interests are substantially affected files a petition for a formal
proceeding, pursuant to Rule 25-22.029, Florida Administrative Code.

Case Background

Rule 25-6.0436 (8)(a), Florida Administrative Code, requires each electric
utility to file a study for each category of depreciable property for Commission
review at least once every four years. In 1991 Florida Power and Light Company
(FPL) filed site-specific depreciation studies for its Martin and Turkey Point
(fossil) generating stations (Docket No. 900794-EI) and Putnam and St. Johns
River Power Park facilities [*2] (Docket No. 901001-EI). FPL filed its regular
quadrennial comprehensive depreciation study early in 1991 (Docket No. 910081-
EI).

By Order No. PSC-92-1303-FOF-EI issued on November 12, 1992, in Docket Nos.
900794-EI, 901001-EI and 910081-EI, the Commission authorized continued use of
the preliminary rates approved in Order No. 24161 for FPL for 1991 and 1992.
This action was based on concerns about the catastrophic effects of Hurricane
Andrew on FPL's operations and plant. FPL was directed to file an updated com-
prehensive depreciation study by June 1993 with an effective date of January 1,
1993.

Subsequently, as reflected in Order No. PSC-93-0211-FOF-EI, FPL agreed to
file a comprehensive study covering production, transmission, distribution and
general plant in December, 1993 with a January 1, 1994 implementation date. The
same Order provides that dismantlement studies and decommissioning studies will
be filed in December, 1994 with a January 1, 1995 implementation date. This
schedule facilitates a comprehensive review of depreciation parameters for all
categories of plant at the same time, while allowing the review of extraordinary

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removal costs (fossil dismantlement and nuclear [*3] decommissioning) at a later time.

On December 20, 1993, FPL filed its depreciation study in the current docket covering production, transmission, distribution and general plant, as required by Order No. PSC-93-0211-FOF-EI. At the February 15, 1994 Agenda, the Commission approved FPL's request to implement its proposed depreciation rates and recovery schedule on a preliminary basis effective, January 1, 1994 (Order No. PSC-94-0253-FOF-EI). This Order establishes the appropriate final depreciation rates and recovery schedules to be implemented by FPL. Commission action concerning certain accounting issues raised during the review of the study has been addressed in Order No. PSC-94-1173-FOF-EI, issued September 26, 1994.

81 The purpose of this depreciation study is to determine and provide for the appropriate depreciation rates and recovery schedules for FPL's production, transmission, distribution and general plant. We have completed our analysis and review of the Company's depreciation study and are ordering revisions to the approved preliminary rates.

The only issue not being addressed at this time is what the appropriate amortization period should be for the remaining unrecovered [*4] costs associated with the major overhaul and asbestos abatement projects completed during the 1988 - 1993 period. There is no disagreement between FPL and the Commission Staff that these costs are non-life related. Therefore, amortization should be afforded as fast as economically practicable.

Staff and FPL do disagree as to what is the economically feasible amortization period. FPL has proposed a 4 year amortization period. Staff believes that more accurate information concerning the 1994 earnings position should be available before a determination of the most appropriate amortization period is made. We agree with Staff. The October 1994 surveillance report will be submitted on or before December 15, 1994. For this reason, we defer the decision regarding the amortization period for the non-life related unrecovered costs until the January 20, 1995 Agenda.

Accumulated Reserve Adjustments Attributable to Interest Synchronization (Job Development Investment Credit - JDIC)

By Order No. 16257, the Commission decided that depreciation reserve adjustments should be used to offset revenue requirements associated with the interest synchronization of investment tax credits until [*5] base rates were changed. In compliance with that order, FPL has been accumulating reserve adjustments attributable to JDIC to a bottom line unclassified depreciation reserve account. The accumulated amounts for the period 1990 - 1993 total \$ 8,326,512 on a System basis. These accumulated amounts are now subject to reallocation to specific accounts.

FPL has proposed that these amounts be applied as a contribution to the Storm Damage reserve. An alternative treatment is to apply these JDIC monies to reduce the unrecovered costs remaining from the pre-1994 major overhaul and asbestos abatement projects. With the Storm Damage docket currently pending (Docket No. 930405-EI), and a review of MMFRs due in 1995, we believe that these JDIC monies should continue to accumulate in a bottom line reserve account with disposition to be determined at a later date. Therefore we find that the \$ 8.3 million, System basis, attributable to JDIC (Order No. 16257) accumulated as of January 1, 1994 as well as the on-going monthly adjustments of \$ 171,785 shall remain in an unclassified depreciation reserve account.

Reserve Reallocations

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One aspect of a depreciation study is the review of the reserve [*6] status of all production sites and all transmission, distribution and general plant accounts to determine the need for corrective reserve transfers. Due to the effect reserve transfers may have on jurisdictional separations, purchase power agreements, or other lease arrangements, our approach to reserve reallocations is that they should, ideally, be made between accounts of 82 a given unit or function. The allocations discussed and approved below (shown in detail on Attachment C) address major imbalances generally brought about by transfers associated with the unitization of certain production plants and previously unanticipated final dismantlement costs of certain units.

The reserve reallocations approved for Ft. Myers Common and Port Everglades are needed to correct major imbalances brought about by the unitization of these plants.

Based on the recommended life and salvage components for the Riviera production plant, there is an apparent calculated reserve surplus for Unit 3, Account 311, in the amount of \$ 401,515. Part of this surplus is due to a JDIC reallocation of \$ 318,206 made in 1987. Further, Riviera Unit 4, Account 311, has a perceived reserve surplus of \$ 293,072 [*7] of which \$ 272,718 is also attributed to a JDIC allocation made in 1987. We find that these JDIC amounts shall be reallocated to help alleviate the negative reserve balances at Riviera Unit 1 and Cutler Unit 4 that are attributed to dismantlement activities that were not previously anticipated. This will still leave a minor negative dismantlement reserve balance of \$ 729 at the Cutler unit which shall be amortized during 1994. There remains an additional \$ 83,309 surplus at Riviera Unit 3, Account 311. Because a book reserve in excess of 100% still results without further corrective action, we find that this surplus shall be reallocated to help offset the remaining unrecovered costs associated with the pre-1994 major overhaul and asbestos abatement projects.

Another major imbalance is noted for Ft. Myers Unit 1, Account 311. This account reportedly has a January 1, 1994 book reserve over 150% with a calculated reserve surplus of \$ 552,618. In fact, the Ft. Myers site has an overall perceived surplus of about \$ 3.2 million. As discussed previously, due to concerns reserve transfers may have on jurisdictional separations, purchase power agreements, or other lease arrangements, [*8] reallocations are ideally made between accounts of a given unit. In this case, however, Unit 1 has an overall perceived surplus. For this reason, we find that this surplus shall be transferred to also help offset the remaining unrecovered costs associated with the pre-1994 major overhaul and asbestos abatement projects.

As part of the review of the 1993 activity, several accounts were found to have negative reserve balances resulting from dismantlement activities that were charged to the account reserves, rather than to the associated dismantlement reserve. Cutler Common, Accounts 312 and 314, are examples. Both these accounts show negative reserve balances as of January 1, 1994 in the amounts of \$ 122,851 and \$ 57,283, respectively. Purportedly, these negative reserves are the result of cost of removal charges associated with the dismantlement of Cutler Unit 4. These removal costs were charged to each account's reserve rather than correctly being charged to the appropriate dismantlement reserve. For this reason, we find that the removal costs of \$ 176,680 and \$ 66,365, respectively, shall be transferred out of each account's reserve and charged to the dismantlement reserve. [*9]

According to FPL, none of the sites/accounts for which reserve reallocations have been approved are affected by any lease arrangements or purchase power agreements. However, in light of the possible impact of reserve transfers on

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cost allocations and jurisdictional separations, we find that the Company shall make corresponding entries to the related depreciation expense accounts.

83 Appropriate Depreciation Rates and Recovery Schedules

Attachment A shows the approved life and salvage parameters and the resulting depreciation rates. Recommended recovery schedules are shown on Attachment B. The resulting annual expense of about \$ 533 million, based on actual January 1, 1994 investments, represents an increase of about \$ 11.7 million as compared to the preliminary rates approved by Order No. PSC-94-0253-POF-E1. Expenses for 1994 shall be trued-up accordingly.

The most significant changes in expenses are seen in the area of production plants and recovery schedules.

Production Plant

FPL's mechanized property record system affords it the ability to provide in-depth stratified information for the assets in an account at a specific unit. A generating station, or a generating [*10] unit, can be looked at as a box - a box containing an assortment of various types of assets which can be expected to experience varied service lives. The historic approach was to arrive at the pattern of interim retirement and life expectancy of the box without identifying the contents or quantifying the varying life characteristics of the contained assets. Stratification is the determination that this account at this unit has so many dollars of pumps, of piping, of rotors, or structures, etc., with each of these strata expected to have a certain service life. The life of the account can then be arrived at by compositing the expectations of the various strata - and with substantially more assurance of accuracy than guessing at the service life of the box with its unidentified contents. While there are some desirable changes that should be made to this study, it is nevertheless quite advanced and very well conceived.

The Company projections of lives for the various strata, and of expected interim net salvage values are reasonable. While unitization is not yet complete for all production plants, it is our understanding that this process will be completed by the time of the next [*11] overall review. For production plants that have not completed unitization, the Company's development of life is still based on a methodology using multiple iterations for sub-strata detail to determine the average service life of a strata. This approach is fundamentally flawed since it develops life characteristics based on the expected lives of embedded investments as well as future replacements. We are encouraged that the Company has completed unitization for most of its production facilities and will utilize a single iteration methodology in the next filing for all plants.

The primary difference between the interim approved life components and resultant rates and what is approved in this Order is associated with the St. Lucie and Turkey Point nuclear plants. In the original study, the average ages and remaining lives for each strata were as of January 1, 1991 and therefore, required updating to January 1, 1994. This Order reflects the updated average ages and remaining lives.

Recovery Schedules

There are five recovery schedules approved as shown on Attachment B. These schedules address the most current Company plans regarding the near term retirement of the 84 St. Lucie [*12] steam generators, the recovery of residual unrecovered costs associated with dismantlement activities at Cutler Unit 4 and Sanford Unit 1, the recovery of silicone injection costs and the unrecovered costs associated with asbestos abatement and major overhaul projects.

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The continued corrosion of the steam generator tubes at St. Lucie Unit 1 has resulted in 12% and 7% of the tubes at each of the steam generators being plugged. For this reason, current plans call for the replacement of the two steam generators in 1998. We find that FPL's proposed recovery schedule for the unrecovered costs associated with this replacement is reasonable and therefore, acceptable. The recovery period is designed to match the remaining period the generators will be in service.

A recovery schedule is also approved for Account 367.7, Underground Conductors and Devices-Direct Buried. FPL's cable injection program began in 1989 and was guaranteed for 10 years. Since the last depreciation review, the process has been modified and is now guaranteed for 20 years. In view of this, we approve the removal of the investment and reserve associated with the 10 year guaranteed cable injection investment and [*13] the amortization of the unrecovered cost over the remaining average guarantee period of eight years (based on the investment's average age of approximately 2 years). It is further approved that, for 1994 and subsequent years, the 10 year guaranteed cable injection costs shall be amortized over 10 years. The 20 year guaranteed cable injection shall be depreciated over the life of the cable.

In addition, there are two production units which are no longer in service but have existing residual negative reserve amounts resulting from unforeseen dismantlement costs. These unrecovered costs are non-life related in that they relate to plant no longer serving the public. Accordingly, recovery should be afforded as soon as economically practicable. Therefore, we approve a one year amortization period.

The Company has also identified major overhaul and asbestos abatement projects currently planned for specified units for the period January 1, 1994 through December 31, 1997. The associated unrecovered investments are estimated to be \$ 3,579,592. This amount should be recovered over a period matching the remaining period in service. A four year period is therefore approved.

Revision [*14] to Current Investment Tax Credit (ITC) Amortization and the Flowback of Excess Deferred Income Taxes

In this Order, we have approved revisions to FPL's depreciation rates and recovery schedules. Revising a utility's depreciation rates typically results in a change in its rate of ITC amortization and a change in its flowback of excess deferred taxes.

FPL is treated under Section 46(f)(2) of the Internal Revenue Code (IRC), which results in weighted cost ITCs in its capital structure and above-the-line ITC amortization in its income tax expense. Section 46(f)(6) of the IRC states that the amortization of ITCs should be determined by the period used in computing depreciation expense for purposes of reflecting regulated operating results of the utility. Rule 25-14.008(3)(b)(3), Florida Administrative Code, states that where an election was made under Section 46(f)(2) of the Internal Revenue Code, reductions to cost of service are made based on ratable allocations 85 of the credit in proportion to the regulated depreciation expense. [*15] Consequently, a change in depreciation rates usually results in a change in the amortization of ITCs.

Regarding the flowback of excess deferred taxes, Section 203(e) of the Tax Reform Act of 1986 (TRA) prohibits rapid write-back of excess protected (depreciation related) deferred taxes. Also, Rule 25-14.013, Florida Administrative Code, prohibits (without good cause shown) excess deferred income taxes from being reversed any faster than allowed under either the average rate assumption method of Section 203(e) of the TRA or Revenue Procedure 88-12, which-

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ever is applicable. Consequently, the flowback of excess deferred taxes should be altered to comply with the TRA and Rule 25-14.013, Florida Administrative Code.

FPL shall file a report with detailed calculations of the adjusting entries, revised ITC amortization and revised flowback of excess deferred taxes at the same time it files its December 1994 Earnings Surveillance Report.

Implementation Date for Approved Rates and Recovery Schedules

Company data and related calculations are based on a January 1, 1994 [*16] date. This is the earliest practicable date for utilizing the revised rates and recovery schedules. Therefore, we approve the Company's proposed January 1, 1994 date for implementation of the new depreciation rates and recovery schedules.

It is therefore,

ORDERED that the decision regarding the amortization period for the non-life related unrecovered costs shall be deferred until the January 20, 1995 Agenda. It is further

ORDERED that the remaining life and salvage parameters, and the resulting depreciation rates discussed in this Order and detailed in Attachment A are approved. It is further

ORDERED that the recovery schedules discussed in this Order and detailed in Attachment B are approved. It is further

ORDERED that the reserve reallocations discussed in this Order and detailed in Attachment C are approved. It is further

ORDERED that the Company's proposed January 1, 1994 date of implementation for the new depreciation rates and recovery schedules is approved. It is further

ORDERED that the \$ 8.3 million, system basis, attributable to JDIC (Order No. 16257) accumulated as of January 1, 1994 as well as the on-going monthly adjustments of \$ 171,785 shall remain in [*17] an unclassified depreciation reserve account. It is further

ORDERED that Florida Power and Light Company shall revise its ITC amortization and the flowback of excess deferred income taxes to reflect the approved depreciation rates and recovery schedules. It is further

ORDERED that Florida Power and Light Company shall file a report with detailed calculations of the adjusting entries, revised ITC amortization and revised flowback of excess deferred taxes at the same time it files its December 1994 Earnings Surveillance Report. It is further

86 ORDERED this docket shall remain open pending a determination of the appropriate economically practicable period to amortize the remaining costs associated with major overhaul and asbestos abatement projects completed during the 1988 - 1993 period.

By ORDER of the Florida Public Service Commission, this 30th day of September, 1994.

87 FLORIDA POWER AND LIGHT COMPANY

1993 DEPRECIATION STUDY

COMMISSION APPROVED RATES

AVERAGE

ACTUAL REMAINING

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ACCOUNT	REMAINING LIFE	NET SALVAGE	1-1-94 RESERVE	LIFE RATE
STEAM PRODUCTION				
Cape Canaveral-Common				
311 Structures and Improvements	16.1	(5.0)	* 42.6	3.9
312 Boiler Plant Equip.	21.0	(13.0)	* 22.9	4.3
314 Turbogenerator Units	16.4	(4.0)	64.7	2.4
315 Accessory Electric Equip.	19.0	(3.0)	79.6	1.2
316 Misc. Power Plant Equip.	13.8	(1.0)	43.3	4.2
Cape Canaveral-Unit 1				
311 Structures and Improvements	17.9	(5.0)	65.2	2.2
312 Boiler Plant Equip.	20.0	(13.0)	* 18.3	4.7
314 Turbogenerator Units	20.0	(4.0)	* 46.8	2.9
315 Accessory Electric Equip.	17.9	(3.0)	40.4	3.5
316 Misc. Power Plant Equip.	14.4	(1.0)	69.7	2.2
Cape Canaveral-Unit 2				
311 Structures and Improvements	15.0	(5.0)	59.4	3.0
312 Boiler Plant Equip.	16.4	(13.0)	* 29.8	5.1
314 Turbogenerator Units	10.1	(4.0)	* 70.6	3.3
315 Accessory Electric Equip.	14.3	(3.0)	41.1	4.3
316 Misc. Power Plant Equip.	8.1	(1.0)	* 82.2	2.3
Cutler-Common				
311 Structures and Improvements	9.5	0.0	* 51.9	5.1
312 Boiler Plant Equip.	9.5	0.0	* 17.5	8.7
314 Turbogenerator Units	9.5	0.0	* 1.0	10.4
315 Accessory Electric Equip.	9.4	0.0	* 17.5	8.8
316 Misc. Power Plant Equip.	9.1	0.0	66.1	3.7
Cutler-Unit 5				
311 Structures and Improvements	9.2	0.0	70.7	3.2
312 Boiler Plant Equip.	8.2	0.0	* 63.8	4.4
314 Turbogenerator Units	9.5	0.0	52.0	5.1
315 Accessory Electric Equip.	9.4	0.0	* 35.3	6.9
316 Misc. Power Plant Equip.	8.4	0.0	52.7	5.6
Manatee-Unit 1				
311 Structures and Improvements	15.2	(5.0)	49.0	3.7
312 Boiler Plant Equip.	10.9	(13.0)	* 56.6	5.2
314 Turbogenerator Units	12.5	(4.0)	* 33.7	5.6
315 Accessory Electric Equip.	11.1	(3.0)	48.3	4.9
316 Misc. Power Plant Equip.	16.2	(1.0)	55.9	2.8
Manatee-Unit 2				
311 Structures and Improvements	15.6	(5.0)	46.0	3.8
312 Boiler Plant Equip.	11.3	(13.0)	54.2	5.2
314 Turbogenerator Units	13.1	(4.0)	* 33.2	5.4
315 Accessory Electric Equip.	11.8	(3.0)	43.8	5.0
316 Misc. Power Plant Equip.	16.8	(1.0)	49.4	3.1
Martin Pipeline				
312 Boiler Plant Equip.	10.6	(13.0)	2.9	10.4
Martin-Common				

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COMMISSION APPROVED RATES

ACCOUNT	AVERAGE REMAINING LIFE	NET SALVAGE	ACTUAL 1-1-94 RESERVE	REMAINING LIFE RATE
311 Structures and Improvements	19.6	(5.0)	* 38.6	3.4
312 Boiler Plant Equip.	19.6	(13.0)	44.2	3.5
314 Turbogenerator Units	19.9	(4.0)	45.1	3.0
315 Accessory Electric Equip.	15.2	(3.0)	45.7	3.8
316 Misc. Power Plant Equip.	6.0	(1.0)	36.2	10.8
Martin-Unit 1				
311 Structures and Improvements	20.0	(5.0)	44.6	3.0
312 Boiler Plant Equip.	14.5	(13.0)	44.4	4.7
314 Turbogenerator Units	18.9	(4.0)	* 28.2	4.0
315 Accessory Electric Equip.	16.4	(3.0)	35.3	4.1
316 Misc. Power Plant Equip.	20.0	(1.0)	44.9	2.8
Martin-Unit 2				
311 Structures and Improvements	20.0	(5.0)	33.5	3.6
312 Boiler Plant Equip.	14.9	(13.0)	41.0	4.8
314 Turbogenerator Units	17.9	(4.0)	* 47.2	3.2
315 Accessory Electric Equip.	16.9	(3.0)	35.1	4.0
316 Misc. Power Plant Equip.	21.0	(1.0)	34.5	3.2
Cutler-Unit 6				
311 Structures and Improvements	8.6	0.0	88.3	1.4
312 Boiler Plant Equip.	8.3	0.0	* 62.1	4.6
314 Turbogenerator Units	6.0	0.0	80.5	3.2
315 Accessory Electric Equip.	9.4	0.0	57.3	4.5
316 Misc. Power Plant Equip.	9.3	0.0	93.9	0.7
Ft. Myers-Common				
311 Structures and Improvements	16.8	(5.0)	* 49.6	3.3
312 Boiler Plant Equip.	18.5	(13.0)	46.6	3.6
314 Turbogenerator Units	17.1	(4.0)	* 35.6	4.0
315 Accessory Electric Equip.	14.8	(3.0)	* 40.7	4.2
316 Misc. Power Plant Equip.	14.6	(1.0)	59.6	2.8
Ft. Myers-Unit 1				
311 Structures and Improvements	9.3	(5.0)	* 78.0	2.9
312 Boiler Plant Equip.	9.1	(13.0)	* 84.5	3.1
314 Turbogenerator Units	9.5	(4.0)	90.6	1.4
315 Accessory Electric Equip.	9.2	(3.0)	71.9	3.4
316 Misc. Power Plant Equip.	7.8	(0.7)	97.7	0.4
Ft. Myers-Unit 2				
311 Structures and Improvements	15.0	(5.0)	75.8	1.9
312 Boiler Plant Equip.	16.1	(13.0)	* 60.2	3.3
314 Turbogenerator Units	9.5	(4.0)	* 71.1	3.5
315 Accessory Electric Equip.	13.7	(3.0)	54.0	3.6
316 Misc. Power Plant Equip.	8.0	(1.0)	54.6	5.8
Manatee-Common				
311 Structures and Improvements	17.2	(5.0)	* 47.0	3.4
312 Boiler Plant Equip.	7.0	(13.0)	41.8	10.2
314 Turbogenerator Units	17.4	(4.0)	* 49.1	3.2

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COMMISSION APPROVED RATES

ACCOUNT	AVERAGE REMAINING LIFE	NET SALVAGE	ACTUAL 1-1-94 RESERVE	REMAINING LIFE RATE
315 Accessory Electric Equip.	13.7	(3.0)	49.5	3.9
316 Misc. Power Plant Equip.	9.6	(1.0)	42.7	6.1
Port Everglades-Common				
311 Structures and Improvements	13.1	(5.0)	* 41.2	4.9
312 Boiler Plant Equip.	15.5	(13.0)	52.0	3.9
314 Turbogenerator Units	15.5	(4.0)	49.3	3.5
315 Accessory Electric Equip.	14.4	(3.0)	34.4	4.8
316 Misc. Power Plant Equip.	12.7	(1.0)	39.8	4.8
Port Everglades-Unit 1				
311 Structures and Improvements	9.3	(5.0)	* 79.9	2.7
312 Boiler Plant Equip.	5.9	(13.0)	* 68.9	7.5
314 Turbogenerator Units	9.2	(4.0)	* 70.9	3.6
315 Accessory Electric Equip.	8.3	(3.0)	79.7	2.8
316 Misc. Power Plant Equip.	8.7	(1.0)	83.7	2.0
Port Everglades-Unit 2				
311 Structures and Improvements	9.4	(5.0)	* 75.5	3.1
312 Boiler Plant Equip.	7.2	(13.0)	* 79.2	4.7
314 Turbogenerator Units	9.1	(4.0)	80.6	2.6
315 Accessory Electric Equip.	7.8	(3.0)	71.1	4.1
316 Misc. Power Plant Equip.	7.4	(1.0)	62.7	5.2
Port Everglades-Unit 3				
311 Structures and Improvements	13.3	(5.0)	63.5	3.1
312 Boiler Plant Equip.	14.5	(13.0)	* 50.4	4.3
314 Turbogenerator Units	14.8	(4.0)	* 59.9	3.0
315 Accessory Electric Equip.	15.0	(3.0)	30.8	4.8
316 Misc. Power Plant Equip.	11.3	(1.0)	30.2	6.3
Port Everglades-Unit 4				
311 Structures and Improvements	13.9	(5.0)	71.3	2.4
312 Boiler Plant Equip.	14.7	(13.0)	* 31.5	5.5
314 Turbogenerator Units	14.1	(4.0)	* 71.5	2.3
315 Accessory Electric Equip.	15.1	(3.0)	28.0	5.0
316 Misc. Power Plant Equip.	7.2	(1.0)	56.4	6.2
Riviera -- Common				
311 Structures and Improvements	17.3	(5.0)	* 52.8	3.0
312 Boiler Plant Equip.	20.0	(13.0)	* 25.8	4.4
314 Turbogenerator Units	18.9	(4.0)	55.5	2.6
315 Accessory Electric Equip.	13.7	(3.0)	46.6	4.1
316 Misc. Power Plant Equip.	11.0	(1.0)	68.6	2.9
Riviera -- Unit 3				
311 Structures and Improvements	17.7	(5.0)	* 67.8	2.1
312 Boiler Plant Equip.	13.2	(13.0)	* 63.1	3.8
314 Turbogenerator Units	18.2	(4.0)	* 78.6	1.4
315 Accessory Electric Equip.	17.2	(3.0)	50.4	3.1
316 Misc. Power Plant Equip.	19.5	(1.0)	46.7	2.8
Riviera -- Unit 4				

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COMMISSION APPROVED RATES

ACCOUNT	AVERAGE	NET	ACTUAL	REMAINING
	REMAINING LIFE	SALVAGE	1-1-94 RESERVE	LIFE RATE
311 Structures and Improvements	18.2	(5.0)	* 84.8	1.1
312 Boiler Plant Equip.	13.2	(13.0)	* 57.3	4.2
314 Turbogenerator Units	19.9	(4.0)	* 46.8	2.9
315 Accessory Electric Equip.	17.6	(3.0)	41.8	3.5
316 Misc. Power Plant Equip.	21.0	(1.0)	32.7	3.3
Sanford -- Common				
311 Structures and Improvements	16.0	(5.0)	* 47.3	3.6
312 Boiler Plant Equip.	18.9	(13.0)	52.2	3.2
314 Turbogenerator Units	18.4	(4.0)	63.7	2.2
315 Accessory Electric Equip.	17.7	(3.0)	59.7	2.4
316 Misc. Power Plant Equip.	9.6	(1.0)	47.6	5.6
Sanford -- Unit 3				
311 Structures and Improvements	9.4	(5.0)	87.8	1.8
312 Boiler Plant Equip.	9.4	(13.0)	* 91.0	2.3
314 Turbogenerator Units	9.1	(4.0)	* 85.4	2.0
315 Accessory Electric Equip.	8.7	(3.0)	84.8	2.1
316 Misc. Power Plant Equip.	9.5	(1.0)	75.6	2.7
Sanford -- Unit 4				
311 Structures and Improvements	17.9	(5.0)	57.3	2.7
312 Boiler Plant Equip.	16.9	(13.0)	* 59.8	3.1
314 Turbogenerator Units	8.5	(4.0)	* 58.1	5.4
315 Accessory Electric Equip.	12.1	(3.0)	60.0	3.6
316 Misc. Power Plant Equip.	13.8	(1.0)	63.8	2.7
Sanford -- Unit 5				
311 Structures and Improvements	17.8	(5.0)	49.2	3.1
312 Boiler Plant Equip.	17.4	(13.0)	* 63.5	2.8
314 Turbogenerator Units	10.7	(4.0)	* 48.8	5.2
315 Accessory Electric Equip.	12.6	(3.0)	60.0	3.4
316 Misc. Power Plant Equip.	13.9	(1.0)	60.1	2.9
Scherer Site Common				
311 Structures and Improvements	32.0	(5.0)	17.0	2.8
312 Boiler Plant Equip.	29.0	(20.0)	21.4	3.4
314 Turbogenerator Units	25.0	(4.0)	18.6	3.4
315 Accessory Electric Equip.	25.0	(3.0)	19.3	3.3
316 Misc. Power Plant Equip.	6.0	(1.0)	43.8	9.5
Scherer Units 3 & 4 Common				
311 Structures and Improvements	25.0	(5.0)	18.7	3.5
312 Boiler Plant Equip.	33.0	(20.0)	17.3	3.1
314 Turbogenerator Units	24.0	(4.0)	19.2	3.5
315 Accessory Electric Equip.	23.0	(3.0)	20.3	3.6
Scherer Unit 4				
311 Structures and Improvements	31.0	(5.0)	10.9	3.0
312 Boiler Plant Equip.	27.0	(20.0)	13.9	3.9
314 Turbogenerator Units	25.0	(4.0)	13.6	3.6
315 Accessory Electric Equip.	23.0	(3.0)	14.0	3.9

1994 Fla. PUC LEXIS 1219, *

COMMISSION APPROVED RATES				
ACCOUNT	AVERAGE REMAINING LIFE	NET SALVAGE	ACTUAL 1-1-94 RESERVE	REMAINING LIFE RATE
316 Misc. Power Plant Equip.	15.8	(1.0)	17.7	5.3
Turkey Point -- Common				
311 Structures and Improvements	19.3	(5.0)	* 51.6	2.8
312 Boiler Plant Equip.	19.2	(13.0)	36.8	4.0
314 Turbogenerator Units	17.6	(4.0)	54.7	2.8
315 Accessory Electric Equip.	16.1	(3.0)	* 41.1	3.8
316 Misc. Power Plant Equip.	14.6	(1.0)	45.3	3.8
Turkey Point -- Unit 1				
311 Structures and Improvements	16.3	(5.0)	* 24.0	5.0
312 Boiler Plant Equip.	18.1	(13.0)	* 29.7	4.6
314 Turbogenerator Units	17.8	(4.0)	* 36.9	3.8
315 Accessory Electric Equip.	15.3	(3.0)	55.8	3.1
316 Misc. Power Plant Equip.	14.8	(1.0)	69.8	2.1
Turkey Point -- Unit 2				
311 Structures and Improvements	19.0	(5.0)	29.3	4.0
312 Boiler Plant Equip.	15.3	(20.0)	* 52.0	4.4
314 Turbogenerator Units	17.7	(4.0)	* 61.2	2.4
315 Accessory Electric Equip.	16.1	(3.0)	52.7	3.1
316 Misc. Power Plant Equip.	16.9	(1.0)	64.2	2.2
St. Johns Rvr Power Park -- Common				
311 Structures and Improvements	27.0	(5.0)	47.6	2.1
312 Boiler Plant Equip.	28.0	(20.0)	38.8	2.9
314 Turbogenerator Units	28.0	(4.0)	15.9	3.1
315 Accessory Electric Equip.	25.0	(3.0)	39.5	2.5
316 Misc. Power Plant Equip.	8.9	(1.0)	73.6	3.1
St. Johns Rvr Power Park -- Unit 1				
311 Structures and Improvements	28.0	(4.7)	27.8	2.7
312 Boiler Plant Equip.	23.0	(20.0)	29.4	3.9
314 Turbogenerator Units	22.0	(4.0)	23.7	3.7
315 Accessory Electric Equip.	21.0	(2.7)	24.6	3.7
316 Misc. Power Plant Equip.	19.9	(1.0)	23.8	3.9
St. Johns Rvr Power Park -- Unit 2				
311 Structures and Improvements	29.0	(4.7)	21.9	2.9
312 Boiler Plant Equip.	24.0	(20.0)	23.4	4.0
314 Turbogenerator Units	23.0	(4.0)	18.4	3.7
315 Accessory Electric Equip.	22.0	(2.7)	19.7	3.8
316 Misc. Power Plant Equip.	21.0	(1.0)	14.5	4.1
St. Johns Rvr Power Park -- Coal/Limestone				
311 Structures and Improvements	30.0	(5.0)	9.5	3.2
312.15 Coal Cars	8.5	(20.0)	40.6	9.3
312 Boiler Plant	24.0	(20.0)	42.5	3.2
315 Accessory Electric Equip.	19.7	(3.0)	14.5	4.5
316 Misc. Power Plant Equip.	22.0	(1.0)	28.9	3.3

1994 Fla. PUC LEXIS 1219, *

COMMISSION APPROVED RATES

ACCOUNT	AVERAGE REMAINING LIFE	NET SALVAGE	ACTUAL 1-1-94 RESERVE	REMAINING LIFE RATE
St. Johns Rvr Power Park -- Gypsum/Ash				
311 Structures	31.0	(5.0)	47.4	1.9
312 Boiler Plant	16.7	(20.0)	32.3	5.3
315 Accessory Electric Equip.	17.5	(3.0)	24.4	4.5
316 Misc. Power Plant Equip. [*18]	24.0	(1.0)	29.9	3.0

* Denotes Restated Reserve

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1993 DEPRECIATION STUDY

ACCOUNT	AVERAGE REMAINING LIFE	NET SALVAGE	ACTUAL 1-1-94 RESERVE	REMAINING LIFE RATE
OTHER PRODUCTION				
Ft. Lauderdale -- Common (Repowered)				
341 Structures and Improvements	24.0	(2.0)	* .09	4.2
342 Fuel Holders, Producers & Accessories	17.8	(2.0)	8.7	5.2
343 Prime Movers	27.0	(2.0)	3.7	3.6
344 Generators	16.5	(2.0)	34.9	4.1
345 Accessory Electric Equipment	28.0	(1.0)	8.4	3.3
346 Misc. Power Plant Equipment	10.5	(1.0)	32.0	6.6
Ft. Lauderdale -- Unit 4 (Repowered)				
341 Structures and Improvements	27.0	(2.0)	2.0	3.7
342 Fuel Holders, Producers & Accessories	24.0	(2.0)	1.2	4.2
343 Prime Movers	28.0	(2.0)	* 2.3	3.6
344 Generators	16.4	(2.0)	* 7.9	5.7
345 Accessory Electric Equipment	28.0	(1.0)	* 4.8	3.4
346 Misc. Power Plant Equipment	16.3	(1.0)	* 6.3	5.8
Ft. Lauderdale -- Unit 5 (Repowered)				
341 Structures and Improvements	28.0	(2.0)	* 7.4	3.4
342 Fuel Holders, Producers & Accessories	23.0	(2.0)	1.9	4.4
343 Prime Movers	28.0	(2.0)	* 4.8	3.5
344 Generators	16.1	(2.0)	* 6.3	5.9
345 Accessory Electric Equipment	28.0	(1.0)	* 10.0	3.3
346 Misc. Power Plant Equipment	15.9	(1.0)	* 2.3	6.2
Ft. Myers -- Gas Turbines				
341 Structures	9.5	(2.0)	86.1	1.7
342 Fuel Holders	9.5	(2.0)	89.1	1.4
343 Prime Movers	9.5	(2.0)	82.4	2.1
344 Generator	9.5	(2.0)	78.2	2.5
345 Accessory Electric Equip.	9.5	(2.3)	81.4	2.2
346 Misc. Power Plant Equip.	9.5	(6.4)	59.9	4.9

1994 Fla. PUC LEXIS 1219, *

ACCOUNT	COMMISSION APPROVED RATES			
	AVERAGE REMAINING LIFE	NET SALVAGE	ACTUAL 1-1-94 RESERVE	REMAINING LIFE RATE
Ft. Lauderdale-Gas Turbines				
341 Structures	9.5	(2.0)	74.2	2.9
342 Fuel Holders	9.5	(2.0)	86.9	1.6
343 Prime Movers	9.5	(2.0)	81.4	2.2
344 Generator	9.5	(2.0)	93.1	0.9
345 Accessory Electric Equip.	9.5	(1.0)	84.4	1.7
346 Misc. Power Plant Equip.	9.5	(1.0)	90.7	1.1
Port Everglades -- Gas Turbines				
341 Structures	9.5	(2.0)	81.7	2.1
342 Fuel Holders	9.4	(2.0)	92.2	1.0
343 Prime Movers	9.5	(2.0)	94.1	0.8
344 Generator	9.5	(1.0)	93.5	0.8
345 Accessory Electric Equip.	6.9	(1.0)	97.4	0.5
346 Misc. Power Plant Equip.	8.5	(1.0)	81.9	2.2
Martin Pipeline				
342 Fuel Holders	10.6	(2.0)	3.0	9.4
Putnam -- Common				
341 Structures	16.1	(2.0)	55.6	2.9
342 Fuel Holders	18.5	(2.0)	17.9	4.5
343 Prime Movers	16.6	(2.0)	19.2	5.0
344 Generator	14.5	(2.0)	34.8	4.6
345 Accessory Electric Equip.	13.1	(1.0)	41.1	4.6
346 Misc. Power Plant Equip.	12.8	(1.0)	49.0	4.1
Putnam -- Unit 1				
341 Structures	15.5	(2.0)	54.4	3.1
342 Fuel Holders	15.6	(2.0)	55.9	3.0
343 Prime Movers	15.6	(2.0)	* 25.1	4.9
344 Generator	13.0	(2.0)	60.0	3.2
345 Accessory Electric Equip.	14.4	(1.0)	54.0	3.3
Putnam -- Unit 2				
341 Structures	15.3	(2.0)	57.4	2.9
342 Fuel Holders	15.3	(2.0)	51.7	3.3
343 Prime Movers	15.6	(2.0)	* 27.3	4.8
344 Generator	12.4	(2.0)	63.6	3.1
345 Accessory Electric Equip.	14.0	(1.0)	58.1	3.1

* Denotes Restated Reserve

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1993 DEPRECIATION STUDY

ACCOUNT	COMMISSION APPROVED RATES			
	AVERAGE REMAINING LIFE	NET SALVAGE	ACTUAL 1-1-94 RESERVE	REMAINING LIFE RATE
NUCLEAR PRODUCTION				

1994 Fla. PUC LEXIS 1219, *

ACCOUNT	COMMISSION APPROVED RATES			
	AVERAGE REMAINING LIFE	NET SALVAGE	ACTUAL 1-1-94 RESERVE	REMAINING LIFE RATE
St. Lucie -- Common				
321 Structures & Improvements	24.0	(2.0)	34.7	2.8
322 Reactor Plant Equipment	28.0	(12.0)	15.1	3.5
323 Turbogenerator Units	23.0	(1.0)	11.4	3.9
324 Accessory Electric Equipment	26.0	0.0	19.4	3.1
325 Misc. Power Plant Equipment	23.0	0.0	25.1	3.3
St. Lucie -- Unit 1				
321 Structures & Improvements	19.7	(2.0)	40.8	3.1
322 Reactor Plant Equipment	18.4	(13.0)	* 31.4	4.4
323 Turbogenerator Units	18.6	(1.0)	37.5	3.4
324 Accessory Electric Equipment	21.0	0.0	35.2	3.1
325 Misc. Power Plant Equipment	22.0	0.0	37.9	2.8
St. Lucie -- Unit 2				
321 Structures & Improvements	21.0	(2.0)	27.3	3.6
322 Reactor Plant Equipment	24.0	(12.0)	29.0	3.5
323 Turbogenerator Units	26.0	(1.0)	22.4	3.0
324 Accessory Electric Equipment	28.0	0.0	23.3	2.7
325 Misc. Power Plant Equipment	30.0	0.0	19.3	2.7
Turkey Point Nuclear-Common				
321 Structures & Improvements	12.1	(2.0)	25.5	6.3
322 Reactor Plant Equipment	12.6	(13.0)	34.8	6.2
323 Turbogenerator Units	13.2	0.0	31.1	5.2
324 Accessory Electric Equipment	13.5	(2.0)	20.3	6.1
325 Misc. Power Plant Equipment	12.8	(2.0)	34.4	5.3
Turkey Point Nuclear-Unit 3				
321 Structures & Improvements	13.2	(2.0)	43.6	4.4
322 Reactor Plant Equipment	12.7	(13.0)	54.5	4.6
323 Turbogenerator Units	12.2	0.0	25.1	6.1
324 Accessory Electric Equipment	13.2	(2.0)	31.2	5.4
325 Misc. Power Plant Equipment	13.5	(2.0)	62.3	2.9
Turkey Point Nuclear-Unit 4				
321 Structures & Improvements	13.2	(2.0)	32.0	5.3
322 Reactor Plant Equipment	12.8	(13.0)	48.0	5.1
323 Turbogenerator Units	12.6	0.0	30.0	5.6
324 Accessory Electric Equipment	13.2	(2.0)	21.4	6.1
325 Misc. Power Plant Equipment	13.3	(2.0)	47.3	4.1

* Denotes Restated Reserve

00 FLORIDA POWER AND LIGHT COMPANY

1993 DEPRECIATION STUDY

ACCOUNT	COMMISSION APPROVED RATES			
	AVERAGE REMAINING LIFE	NET SALVAGE	ACTUAL 1-1-94 RESERVE	REMAINING LIFE RATE

1994 Fla. PUC LEXIS 1219, *

ACCOUNT	COMMISSION APPROVED RATES			
	AVERAGE REMAINING LIFE	NET SALVAGE	ACTUAL 1-1-94 RESERVE	REMAINING LIFE RATE
TRANSMISSION PLANT				
350.2 Easements	49.0	0.0	15.1	1.7
352.0 Structures and Improvements	36.0	(15.0)	23.6	2.5
353.0 Station Eqpt.	30.0	20.0	26.3	1.8
354.0 Towers and Fixtures	30.0	(15.0)	30.9	2.8
355.0 Poles and Fixtures	29.0	(35.0)	41.9	3.2
356.0 Overhead Cond. & Devices	26.0	(20.0)	40.8	3.0
357.0 Underground Conduit	27.0	0.0	40.8	2.2
358.0 Underground Conductors & Devices	17.5	0.0	51.2	2.8
359.0 Roads and Trails	52.0	0.0	20.5	1.5
DISTRIBUTION PLANT				
361.0 Structures & Improvements	35.0	(5.0)	23.4	2.3
362.0 Station Equipment	29.0	(5.0)	22.6	2.8
364.0 Poles, Towers & Fixtures	30.0	(30.0)	37.1	3.1
365.0 OH Conductors & Devices	27.0	(35.0)	38.6	3.6
366.6 Underground Conduit-Duct Sys.	44.0	0.0	21.7	1.8
366.7 Underground Conduit-Direct Buried	25.0	0.0	25.0	3.0
367.6 Underground Cond. & Devices-In Duct	27.0	10.0	22.2	2.5
367.7 Underground Cond. & Dev.-Direct Buried	17.8	0.0	* 50.9	2.8
368.0 Line Transformers	22.0	(15.0)	33.7	3.7
369.1 Services-Overhead	27.0	(60.0)	46.7	4.2
369.7 Services-Underground	27.0	(10.0)	27.0	3.1
370.0 Meters	18.5	5.0	42.2	2.9
371.0 Installations on Cust. Premises	10.7	(20.0)	35.4	7.9
373.0 Street Light & Signal Sys.	18.1	(20.0)	41.9	4.3
[*21]				

* Denotes Restated Reserve

01 FLORIDA POWER AND LIGHT COMPANY

1993 DEPRECIATION STUDY

ACCOUNT	COMMISSION APPROVED RATES			
	AVERAGE REMAINING LIFE	NET SALVAGE	ACTUAL 1-1-94 RESERVE	REMAINING LIFE RATE
GENERAL PLANT				
390.0 Structures & Improvements-FPL	39.0	0.0	15.0	2.2
390.0 Structures & Improvements-LRIC	39.0	0.0	22.2	2.0
392.0 Aircraft-Fixed Wing (Non-Jet)	3.1	50.0	49.1	0.3
392.0 Aircraft-Rotary Wing	6.5	50.0	8.5	6.4
392.0 Aircraft-Fixed Wing (Jet)	6.5	50.0	16.4	5.2
392.1 Transportation-Automobiles	2.1	10.0	34.5	26.4
392.2 Transportation-Light Trucks	3.5	15.0	45.5	11.3
392.3 Transportation-Heavy Trucks	6.8	15.0	39.1	6.8
392.9 Transportation-Trailers	10.5	20.0	39.3	3.9
393.1 Stores Equip-Handling Equip	19.9	10.0	20.1	3.5
394.1 Shop Equip.-Fixed/Stationary	24.0	(10.0)	17.8	3.8
395.1 Lab. Equip.-Fixed/Stationary	30.0	0.0	15.9	2.8

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ACCOUNT	COMMISSION APPROVED RATES			
	AVERAGE	ACTUAL	REMAINING	
	REMAINING LIFE	NET SALVAGE	1-1-94 RESERVE	LIFE RATE
396.1 Power Operated Eq. (Trans.)	6.0	20.0	47.0	5.5
396.8 Other Power Operated Equipment	5.1	20.0	72.2	1.5
397.1 Communications Equipment-Other	12.9	0.0	29.3	5.5
397.3 Communications Eqpt.-Official	5.1	0.0	27.4	14.2
397.8 Communications Eqpt.-Fiber Optics	7.8	5.0	20.9	9.5
AMORTIZABLE PLANT				
391.1 Office Furniture			7 Yr. Amortization	
391.2 Office Equipment			5 Yr. Amortization	
391.3 Computers			7 Yr. Amortization	
391.4 Duplicating & Mailing Equipment			7 Yr. Amortization	
391.5 EDP Equipment			5 Yr. Amortization	
392.7 Transportation Equipment-Marine Equip.			5 Yr. Amortization	
393.2 Storage Equipment			7 Yr. Amortization	
393.3 Portable Handling Equip.			7 Yr. Amortization	
394.2 Shop Equipment-Portable Handling			7 Yr. Amortization	
395.2 Portable Laboratory Equip.			7 Yr. Amortization	
398.0 Miscellaneous Equip. [*22]			7 Yr. Amortization	

02 FLORIDA POWER AND LIGHT COMPANY

1993 DEPRECIATION STUDY

ACCOUNT	COMMISSION APPROVED RECOVERY SCHEDULES				
	1-1-94	1-1-94	EXPECTED	NET TO BE	PERIOD OF
	INVESTMENT	RESERVE	SALVAGE	RECOVERED	RECOVERY
	(\$)	(\$)	(\$)	(\$)	(Yrs.)
St. Lucie Steam Generators	19,179,904	10,766,322	(53,600,000)	62,013,582	4.5 Yrs.
Cutler-Unit 4	0	(729)	0	729	1 Yr.
Sanford-Unit 1	0	(1,116)	0	1,116	1 Yr.
Asbestos and Overhauls 1994-1997	6,076,843	5,171,136	(2,673,885)	3,579,592	4 Yrs.
367.7-Silicone Injection	13,602,490	1,475,268	0	12,127,222	8 Yrs.
TOTAL	38,859,237	17,410,881	(56,273,885)	77,722,241	

03 COMMISSION APPROVED

ACCOUNT	CORRECTIVE RESERVE TRANSFERS		
	1-1-94 BOOK RESERVE	APPROVED TRANSFERS	1-1-94 ADJUSTED RESERVE
Ft. Myers-Common			
Account 314	\$ 81,329	\$ (54,413)	\$ 26,916
Account 315	207,157	54,413	261,570

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ACCOUNT	1-1-94 BOOK RESERVE	APPROVED TRANSFERS	1-1-94 ADJUSTED RESERVE
Pt Everglades- Common Account 311	6,513,072	457,425	6,970,497
Pt Everglades- Unit 1 Account 311	1,893,211	(457,425)	1,435,786
Riviera-Unit 3 Account 311	523,692	(401,515)	122,177
Riviera-Unit 4 Account 311	368,339	(272,718)	95,621
Ft. Myers- Unit 1 Account 311	1,089,743	at (552,618)	537,125
Cutler-Unit 4	*(568,762)	568,033	*(729)
Riviera-Unit 1	*(22,891)	22,891	* -0-
Pre-1994 O'haul/Asbest. Abatement Unrecovered Costs [*23]	at (46,908,506)	635,927	(46,272,579)

* Denotes dismantlement reserve.

at Represents remaining unrecovered costs associated with pre-1994 major overhaul and asbestos abatement projects.

Legal Topics:

For related research and practice materials, see the following legal topics:
Communications LawOwnershipOwnership RulesEnergy & Utilities LawAdministrative
ProceedingsPublic Utility CommissionsAuthorityEnergy & Utilities LawUtility Com-
paniesRatesGeneral Overview

2 of 2 DOCUMENTS

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

DOCKET NO. 010669-EI; ORDER NO. PSC-01-2270-PAA-EI

Florida Public Service Commission

2001 Fla. PUC LEXIS 1292

01 FPSC 11:233

November 19, 2001

PANEL: [*1] The following Commissioners participated in the disposition of this matter: E. LEON JACOBS, JR., Chairman; J. TERRY DEASON; LILA A. JABER; BRAULIO L. BAEZ; MICHAEL A. PALECKI

OPINION: NOTICE OF PROPOSED AGENCY ACTION ORDER REVISING DEPRECIATION RATES

NOTICE is hereby given by the Florida Public Service Commission that the action discussed herein is preliminary in nature and will become final unless a person whose substantial interests are substantially affected files a petition for a formal proceeding pursuant to Rule 25-22.029, Florida Administrative Code.

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

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

I. Corrective Reserve Measures

Corrective [*2] reserve measures shall be made as shown on Attachment A. Reserve imbalances are primarily a matter of differences in current and past projections. Such deficiencies should be recovered as fast as possible, unless such recovery prevents the company from earning a fair and reasonable return on its investments.

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

2001 Fla. PUC LEXIS 1292. *

Further, there is a perceived reserve deficiency in Account 371, Installation on Customers' [*3] Premises. The apparent surpluses in Accounts 366 and 367, Underground Conduit and Underground Conductors and Devices shall be transferred to offset the reserve deficiency in Account 371.

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

II. Depreciation Rates

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

The changes in the transmission and general plant depreciation rates can be [*4] attributed mainly to two factors - updated account ages to reflect activity since the last represcription and/or changes in the associated reserve position. The salvage values for three plant accounts will also change. The approved salvage values reflect a move more in line with company experience and industry expectations. A discussion of these accounts is presented below.

A. Overhead Conductors and Devices (Account 365)

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

B. Street Lighting and Signal Systems (Account 373)

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

C. Power Operated Equipment (Account 396)

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

III. Taxes

The current amortization of ITCs and the flowback of excess deferred income taxes (EDIT) shall be revised to match the actual recovery periods for the related property. FPU shall file detailed calculations of the revised ITC amortization and flowback of EDIT at the same time it files its surveillance report covering the quarter ending March 31, 2002.

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

Section 46(f)(6), IRC [*6], states that the amortization of ITCs should be determined by the period of time actually used in computing depreciation expense for rate making purposes and on the regulated books of the utility. Because there will be a change in remaining lives, the amortization of ITCs will change in order to avoid violation of the provisions of Section 46, IRC, and Section 1.46 of the Treasury Regulations.

Section 203(3) of the Tax Reform Act of 1986 (the Act) prohibits rapid flowback of depreciation related (protected) EDIT. Further, Rule 25-14.013 (Accounting for Deferred Income Taxes Under SFAS 109), Florida Administrative Code, generally prohibits EDIT from being written off any faster than allowed under the Act. The Act, SFAS 109, and Rule 25-14.013, Florida Administrative Code, regulate the flowback of EDIT. Therefore, the flowback of EDIT shall be adjusted to comply with the Act, SFAS 109, and Rule 25-14.013, Florida Administrative Code.

We look to a company's books and records, and at the orders and rules of the jurisdictional regulatory authorities to determine if [*7] the books and records are maintained in the appropriate manner and to determine the intent of the regulatory bodies in regard to normalization. Therefore, the current amortization of ITCs and the flowback of EDIT shall be revised to reflect the approved remaining lives. The utility shall also produce work papers to show how the revisions were made.

IV. Effective Date

Company data and related calculations are based on depreciation estimated through December 31, 2001. Therefore, the depreciation rates approved in this Order shall become effective on January 1, 2002. This is the earliest practicable date for utilizing the revised rates.

Based on the foregoing, it is

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

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

ORDERED that the provisions of this Order, issued as proposed agency action, shall become final and effective [*8] upon the issuance of a Consummating Order unless an appropriate petition, in the form provided by Rule 28-106.201, Florida Administrative Code, is received by the Director, Division of the Commission Clerk and Administrative Services, 2540 Shumard Oak Boulevard, Tallahassee, Florida 32399-0850, by the close of business on the date set forth in the "Notice of Further Proceedings" attached hereto. It is further

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

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

BLANCA S. BAYO, Director

2001 Fla. PUC LEXIS 1292, *

Division of the Commission Clerk and Administrative Services

Attachment A

FLORIDA PUBLIC UTILITIES - MARIANNA ELECTRIC DIVISION

DOCKET NO. 010669-EI

2001 DEPRECIATION STUDY

COMMISSION APPROVED RESERVE TRANSFERS

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

[*9]

Attachment B

FLORIDA PUBLIC UTILITIES - MARIANNA ELECTRIC DIVISION

DOCKET NO. 010669-EI

2001 DEPRECIATION STUDY

ACCOUNT

DISTRIBUTION PLANT

360.1 - Land Rights
361 - Structures and Improvements
362 - Station Equipment
364 - Poles, Towers, and Fixtures
365 - Overhead Conductors & Devices
366 - Underground Conduit

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- 367 - Underground Conductors & Devices
- 368 - Line Transformers
- 369 - Services
- 370 - Meters

- 371 - Installation on Customers' Premises
- 373 - Street Lighting & Signal Systems

GENERAL PLANT

- 390 - Structures & Improvements
 - 392.1 - Transportation-Cars
 - 392.2 - Transportation-Light Trucks & Vans
 - 392.3 - Transportation - Heavy Trucks & Vans
 - 392.4 - Transportation - Trailers
 - 396 - Power Operated Equipment
- COMMISSION APPROVED

AVERAGE REMAINING LIFE (YRS.)	NET SALVAGE (%)	ESTIMATED 1/1/02 RESERVE (%)	REMAINING LIFE RATE	
46.0	0.0	14.6	1.9	
45.0	0.0	0.0	2.2	**
21.0	(10.0)	49.1	2.9	
21.0	(25.0)	43.7	3.9	
17.8	(25.0)	48.9	4.3	
39.0	0.0	22.0	2.0	**
26.0	0.0	24.6	2.9	**
14.5	(10.0)	51.9	4.0	
17.4	(20.0)	43.8	4.4	
13.0	(10.0)	61.3	3.7	
8.9	15.0	27.1	6.5	**
13.9	(10.0)	33.4	5.5	
42.0	(5.0)	16.8	2.1	**
2.7	15.0	39.1	17.0	**
3.0	10.0	51.3	12.9	**
4.9	10.0	45.6	9.1	**
14.7	5.0	39.1	3.8	**
4.9	5.0	61.7	6.8	**

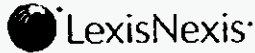
[*10]

* Denotes Whole Life Rate.

** Denotes restated reserve after corrective measures.

Legal Topics:

For related research and practice materials, see the following legal topics:
Energy & Utilities LawAdministrative ProceedingsPublic Utility CommissionsGen-
eral OverviewEnergy & Utilities LawUtility CompaniesRatesGeneral Overview



6 of 11 DOCUMENTS

In re: Request of Tampa Electric Company for a Change in Depreciation Rates Effective January 1, 1988

DOCKET NO. 860868-EI; ORDER NO. 19438

Florida Public Service Commission

1988 Fla. PUC LEXIS 760

88-6 FPSC 104

June 6, 1988

PANEL:

The following Commissioners participated in the disposition of this matter: KATIE NICHOLS, Chairman; THOMAS M. BEARD; GERALD L. GUNTER; JOHN T. HERNDON; MICHAEL MCK. WILSON

OPINION: NOTICE OF PROPOSED AGENCY ACTION ORDER PRESCRIBING DEPRECIATION RATES

BY THE COMMISSION:

NOTICE is hereby given by the Florida Public Service Commission that the action discussed herein is preliminary in nature and will become final unless a person whose interests are adversely affected files a petition for a formal proceeding, pursuant to Rule 25-22.029, Florida Administrative Code.

Rule 25-6.0436(7), Florida Administrative Code, requires that once every four (4) years, each jurisdictional electric utility submit a study of the accounting treatment given its depreciable property. In compliance with this rule, Tampa Electric Company (TECO or utility) filed a depreciation study in June of 1986 with an expected implementation date of late-1987. That study was updated on June 15, 1987. The proposed date for implementation of the updated study is January 1, 1988. The last overall depreciation review of this utility was in 1982.

The Commission Staff has reviewed TECO's study and has recommended certain modifications to depreciation rate components submitted by the utility. Having reviewed the utility's study and having considered the modifications proposed by our Staff, we find that TECO's rates should be represeted consistent with the Staff's recommendation. The specific rates and components being approved by this Order are set forth on Attachment 1. Major adjustments to individual accounts are discussed below.

CORRECTIVE RESERVE TRANSFERS

Our Staff recommended that the reserve adjustments related to interest synchronization of investment tax credits (Order No. 15798, in November, 1986) through 1989 be applied to the reserve for Supervisory Control and Data Acquisition (SCADA) Systems and related equipment and that the remaining residual reserve associated with the existing PCB capacitor recovery schedule be transferred to the reserve for PCB transformers. By Order No. 15798 the Commission

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determined that monies subject to refund plus interest related to the interest synchronization of investment tax credits would be booked as a one-time jurisdictional adjustment to the depreciation reserve. This entry was to be recorded as a bottom-line reserve adjustment to be make account specific at the utility's next depreciation prescription. That Order further determined that an on-going monthly jurisdictional adjustment to the depreciation reserve, to be booked in the same manner as the one-time adjustment, would be needed in lieu of a reduction of customer rates. The utility has identified in this study \$5,820,294 plus an annual true-up of \$360,000, attributable to this interest synchronization adjustment to the reserve and has proposed that these amounts be applied to the reserve for the SCADA Systems and related equipment planned for retirement in late-1989. This amount will serve to decrease the unrecovered amount associated with this equipment that is authorized to be amortized over a two-year period.

Beginning January 1, 1990, the utility will book the annual true-up amount of \$360,000 as a non-account specific reserve adjustment attributable to interest synchronization until base rates are changed. At the time depreciation rates are next revised, these accumulated amounts from January, 1990, forward will be allocated to specific accounts as needed.

In the utility's last depreciation study, a 3.5 year recovery schedule was approved to recover the net investment associated with the planned retirement of PCB capacitors. Recovery has been completed and there remains a residual reserve of \$115,347. We find that this surplus should be transferred to the reserve for PCB transformers that are now planned for near-term retirement as shown in Attachment 1.

DEPRECIATION RATES AND AMORTIZATION SCHEDULES

ATTACHMENT 1

A. RECOVERY SCHEDULES

1. Line Transformers - PCB Network Transformers

During the first quarter of 1986, TECO began to remove and replace PCB network transformers in accordance with certain federal regulations. All replacements are required to be completed by October 1, 1990. The utility determined that there are 136 PCB network transformers remaining to be removed. A 2.7-year recovery schedule will be prescribed to recover the net investment associated with the remaining transformers. The investment and reserve associated with these transformers are \$1,447,067 and \$921,708, respectively. Total removal and disposal costs are estimated to be \$2,544,000. These amounts result in an unrecovered net amount of \$3,069,359. There is a residual reserve balance of \$115,347 associated with a PCB capacitor recovery schedule established in the 1982 prescription proceeding. We find that this reserve balance should be transferred to the reserve associated with this new schedule, thereby reducing the net amount to \$2,954,012. Recovery of this amount over a 2.7-year period results in an annual expense of \$1,094,079.

2. Supervisory Control and Data Acquisition Systems (SCADA)

The investment in this account is comprised of computer and peripheral equipment used for generation control, generation and distribution data acquisition, interchange studies, and control and monitoring of the transmission network. This equipment is scheduled to be retired by year-end 1989 and replaced by new Energy Management System. The utility has proposed a two-year recovery schedule treating the net unrecovered investment of \$8,052,364. As discussed above, the utility has proposed that the accumulated JDITC reserve adjustment through year-

1988 Fla. PUC LEXIS 760

end 1987, as well as the additional annual amounts for 1988, and 1989, be applied to offset underrecovery amounts. We agree with this treatment, which will result in an annual expense of \$756,035.

B. PRODUCTION PLANT

1. Gannon and Big Bend

TECO proposed the use of depreciation rates by individual plant unit. This is logical in that the make-up, and prospective life and salvage parameters, can be expected to differ by unit. In this regard, the utility states, and we agree that:

Production plants are more likely to be retired on a unit basis rather than a station basis due to the unique character of each unit and the size or the capacity of these units which must be replaced on the generating system upon retirement. The system common . . . equipment will remain in service until the retirement of the last generating unit at each station.

Differences in TECO's proposal for the remaining life and salvage parameters for the various Gannon and Big Bend units are due to Staff's using the correct mechanics of compositing. Further, Staff used updated investment as of January 1, 1988, while the utility study, due to timing, used projected figures.

2. Gannon Trust Property

Gannon Trust Property assets are being recovered through the Oil Backout Cost Recovery Factor. TECO proposed life and salvage factors based on its composite of lives for common plant and units 1-4 at Gannon Station to which these assets relate. While our Staff is in basic agreement with the service lives and remaining lives assigned to the strata within each unit, we find that they applied the correct methodology of compositing, whereas the Company did not. Also the Staff used updated investments as of January 1, 1988, while the utility's study used projected figures.

3. Hookers Point Station

At the time of the last depreciation review of 1982, Hookers Point was planned for retirement in 1990. Since then, that station went off-line April 12, 1986, and has been on long-term reserve standby status. Current plans are to return Hookers Point Unit 5 to service in 1990, Units 3 and 4 in 1991, and Units 1 and 2 in 1992. The final retirement date for this station is projected for the year 2000. According to the utility, the return of these units will defer the need to add new capacity.

TECO proposed a twelve-year recovery schedule for the net recovery of this station. The embedded investment is currently 102% recovered, so the only amount remaining for recovery is net salvage (basically demolition expense) estimated at negative 20%. With the retirement date some years in the future, the Staff was hesitant to recommend approval of a recovery schedule approach. We agree with their recommendation, as shown on Attachment 1, for a rate to be applied to the embedded investment to recover the estimated demolition costs.

As shown on Attachment 1, Staff also recommends a separate rate for additions made to the station before the next scheduled depreciation review to bring the units back into service. The rate for any new additions is 10.5%, based on an average service life of 9.5 years with a zero percent salvage.

4. Common-Use Investment (Accounts 311.01 and 316.01)

Our Staff agreed with TECO that common-use structures and "tools" should be expected to have average service lives typical of such investments. However,

1988 Fla. PUC LEXIS 760

using ages updated to January 1, 1988, results in the remaining lives shown on Attachment 1.

5. Other Production Plant (Accounts 341, 342, 345, 346 and 349)

These accounts represent combustion turbines and their support equipment. Staff recommends updating the age to January 1, 1988, which results in a remaining life different from that proposed by the utility. In the past, the accounts have used the same average service lives and the remaining lives have only varied by 0.4 years for 99.91% of the total investment. We agree with our Staff and the Company that the logical course is to treat these accounts as one depreciable category. This treatment is shown on Attachment 1.

C. TRANSMISSION AND DISTRIBUTION

1. While there are some changes in service lives for these accounts, the changes in depreciation rates are largely due to the normal adjustments inherent in the remaining life formula (changes in age, impacts of current activity). Staff recommends that these lives remain in the bands indicated by activity and general averages. An example of a change in service life is the decrease from the current whole life of 30 years to the recommended 27 years for Transmission Poles. This change is primarily a recognition of the damaging effect of woodpeckers - a phenomenon Florida utilities are experiencing only in certain areas of the State.

2. Staff indicates only a minor disagreement with the utility on salvage of Station Equipment: The cost of removal trend suggests a slightly more negative salvage value of 7% instead of the 4% proposed by the utility.

D. GENERAL PLANT

The basic difference between TECO and our Staff on these accounts is over amortization. Rule 25-6.0142, Florida Administrative Code, provides for the amortization of most General Plant items (rather than maintaining inventory). The utility requested that it be allowed to not follow the Rule's amortization procedure. Our Staff recommends, and we agree, that the utility should be required to amortize embedded investment. We also agree with the Staff that TECO must be in conformity with Rule 25-6.0142(3), Florida Administrative Code, for 1988.

Next Depreciation Study

Due to the original filing date of the present study and the update occurring at separate times in this proceeding, we will expect TECO to file its next depreciation study in keeping with Rule 25-6.0436, Florida Administrative Code, by June 15, 1991.

Based on the foregoing, it is

ORDERED by the Florida Public Service Commission that depreciation rates and amortization schedules set forth in Attachment 1 to this Order are hereby approved for Tampa Electric Company. It is further

ORDERED that Tampa Electric Company shall record the corrective reserve transfers set forth in Attachment 1. It is further

ORDERED that the effective date of the new rates is January 1, 1988. It is further

ORDERED that this docket shall remain open for consideration of Tampa Electric Company's economic study on inactive service lines, which shall be submitted within 90 days from the date of this order. It is further

1988 Fla. PUC LEXIS 760

ORDERED that this Order shall become final unless a petition for formal proceeding is received by the close of business on June 25, 1988.

By ORDER of the Florida Public Service Commission, this 6th day of June, 1988.

TAMPA ELECTRIC COMPANY
1987 STUDY
Comparison of Depreciation Rates and Components

ACCOUNT	LIFE	COMMISSION APPROVED			REMAINING LIFE (%)
		AVERAGE REMAINING SALVAGE (yrs)	NET RESERVE (%)	BOOK RATE (%)	
PRODUCTION - STEAM					
	Big Bend Common	34.0	(12)	18.16	2.8
	Big Bend Unit 1	17.8	(12)	44.36	3.8
	Big Bend Unit 2	19.5	(13)	36.72	3.9
	Big Bend Unit 3	24.0	(12)	34.93	3.2
	Big Bend Unit 4	31.0	(12)	12.82	3.2
	Big Bend Unit 4 FGD	15.3	(11)	12.69	6.4
	Gannon Common	38.0	(9)	29.11	2.1
	Gannon Unit 1	15.1	(12)	63.69	3.2
	Gannon Unit 2	14.5	(13)	50.76	4.3
	Gannon Unit 3	14.4	(13)	62.87	3.5
	Gannon Unit 4	17.0	(14)	54.10	3.5
	Gannon Unit 5	18.8	(14)	44.24	3.7
	Gannon Unit 6	19.4	(14)	37.04	4.0
	Common Structures & Improvmt	34.0		0	22.13
2.3	Misc. Power Plant Eqpt.	11.4	5 28.71	5.8	
	Hooker's Point Embedded	11.5	(20)	101.92	* 1.6
	Hooker's Point New Additions	9.5	0 0.00	10.5	
PRODUCTION - OTHER					
	Structures & Improvements	--	--	--	--
	Fuel Holders, Prod, Access.	--	--	--	--
	Generators	--	--	--	--
	Accessory Electric Eqpt.	--	--	--	--
	Misc. Power Plant Eqpt.	--	--	--	--
	TOTAL	9.9	0	55.77	4.5
TRANSMISSION PLANT					
350.01	Land Rights	35.0	0	26.38	2.1
352.00	Structures & Improvements	39.0	0	15.78	2.2
353.00	Station Equipment	23.0	(7)	25.05	3.6
354.00	Towers & Fixtures	33.0	(15)	36.26	2.4
355.00	Poles & Fixtures	20.0	(30)	17.26	5.6
356.00	OH Conductors & Devices	21.0	(3)	32.76	3.3
356.01	Clearing Rights-of-Way	35.0	0	29.84	2.0
357.00	UG Conduit	26.0	0	47.65	2.0
358.00	UG Conductors & Devices	17.9	0	56.28	2.4
359.00	Roads & Trails	39.0	0	21.90	2.0
DISTRIBUTION					

1988 Fla. PUC LEXIS 760

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TAMPA ELECTRIC COMPANY
1987 STUDY
Comparison of Depreciation Rates and Components

ACCOUNT	LIFE	COMMISSION APPROVED			REMAINING LIFE
		AVERAGE REMAINING SALVAGE	NET RESERVE	BOOK RATE	
PLANT					
360.01	19.3		0	53.40	2.4
Land					
Rights					
361.00	32.0		0	27.64	2.3
Struc- tures & Improve ments					
362.00	23.0		(7)	24.67	3.6
Station Equip- ment					
364.00	23.0		(10)	27.43	3.6
Poles, Towers & Fix- tures					
365.00	20.0		(4)	29.28	3.7
OH Con- ductors & De- vices					
366.00	42.0		0	17.40	2.0
UG. Conduit					
367.00	26.0		5	21.90	2.8
UG. Conduc- tors & Devices					
368.00	8.2		44	27.20	3.5
Line Trans- formers					
369.01	26.0		(15)	23.13	3.5
Over- head Ser- vices					
369.02	29.0		(15)	16.98	3.4
Under- ground Ser- vices					
370.00	20.0		(19)	22.72	4.8
Meters					

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TAMPA ELECTRIC COMPANY
1987 STUDY
Comparison of Depreciation Rates and Components

ACCOUNT	LIFE	COMMISSION APPROVED			REMAINING LIFE
		AVERAGE REMAINING SALVAGE	NET RESERVE	BOOK RATE	
373.00 Street & Sig- nal Lights	14.5	9	24.08	4.6	
GENERAL PLANT					
390.00 Struc- tures & Improve- ments	30.0	0	18.34	2.7	
391.01 Office Furni- ture & Equip.		7 YEAR AMORTIZATION			
391.02 Com- puter Equip- ment		5 YEAR AMORTIZATION			
392.01 Passen- ger Cars	2.9	26	34.71	13.5	
392.02 Light Trucks	4.2	23	23.12	12.8	
392.03 Heavy Trucks	8.2	32	31.54	4.4	
393.00 Stores Equip- ment*	21.0	0	29.21	3.4	
393.00 Stores Equip- ment**		7 YEAR AMORTIZATION			
394.00 Tools, Shop, & Garage Equip.*	10.5	5	20.73	7.1	
394.00		7 YEAR AMORTIZATION			

1988 Fla. PUC LEXIS 760

TAMPA ELECTRIC COMPANY
1987 STUDY
Comparison of Depreciation Rates and Components

ACCOUNT	LIFE	AVERAGE REMAINING SALVAGE	COMMISSION APPROVED		REMAINING LIFE
			NET RESERVE	BOOK RATE	
Tools, Shop, & Garage Equip.*					
395.00	21.0		0	21.40	3.7
Labora- tory Equip- ment*					
395.00		7 YEAR AMORTIZATION			
Labora- tory Equip- ment**					
397.00	6.5		0	12.87	13.4
Commu- nica- tions Equip- ment					
398.00		7 YEAR AMORTIZATION			
Miscel- laneous Equip- ment					
					NET UNRECOVERED
RECOVERY SCHEDULES					
PCB Network Transformers		2.7 YEAR AMORTIZATION			at
					\$2,954,012
SCADA		2.0 YEAR AMORTIZATION			atat
					1,512,070
TOTAL					4,466,082
Gannon Trust		19.1	(16)	20.62	5.0

*Dismantlement rate for Hookers Point.

The embedded plant is fully depreciated therefore rate covers dismantlement expense only.

* Unamortized portion of account.

** Amortized portion of account.

at Includes \$2,544,000 in removal costs and a reserve transfer of \$115,347.
at Includes JDITC adjustment.

Legal Topics:

For related research and practice materials, see the following legal topics:
Energy & Utilities LawAdministrative ProceedingsPublic Utility CommissionsGen-
eral OverviewEnergy & Utilities LawUtility CompaniesRatesGeneral Overview



8 of 11 DOCUMENTS

In re: Application of General Telephone Company of Florida
for new depreciation rates

DOCKET NO. 840049-TL; ORDER NO. 14929

Florida Public Service Commission

1985 Fla. PUC LEXIS 299

85 FPSC 80

September 11, 1985

PANEL:

The following Commissioners participated in the disposition of this matter:
JOHN R. MARKS, III, Chairman; JOSEPH P. CRESSE, GERALD L. GUNTER, MICHAEL MCK.
WILSON

OPINION: NOTICE OF PROPOSED AGENCY ACTION

ORDER REPRESORIBING DEPRECIATION RATES

BY THE COMMISSION:

Notice is hereby given by the Florida Public Service Commission that the action discussed herein is preliminary in nature and will become final unless a person whose interests are substantially affected files a petition for formal proceeding pursuant to Rule 25-22.29, Florida Administrative Code.

This proceeding was initiated on February 9, 1984, when General Telephone Company of Florida (Gentel or Company) submitted its depreciation study for our review. Pursuant to Florida Administrative Code Rule 25-4.175, telephone companies are required to file a depreciation study with the Commission at least once every three years. Our last review of Gentel's depreciation study took place in 1981 and resulted in new depreciation rates being put into effect in December 1981. At that time we found it appropriate to implement a change from whole life to remaining life depreciation methodology and we also prescribed amortization schedules addressing negative reserve components of electromechanical switchers. In the Company's concurrent rate case we also prescribed vintage group rates for new additions to plant.

Since Gentel's last depreciation represcription there have been substantial developments in the areas of technology and competition which we believe should be reflected in new depreciation rates. We believe that it is imperative that we address the effects of these pressures now, notwithstanding the current controversy which has arisen over the Federal Communications Commission preemption of intrastate depreciation rates. This Commission is actively participating in proceedings before the United States Supreme Court where the issue of FCC preemption will finally be resolved. However, in view of the age of this docket and the uncertainties of the date of the Court's final decision, we believe it is our duty and in the best interest of the Company and the ratepayers to move forward with represcription of the Company's intrastate depreciation rates. The

1985 Fla. PUC LEXIS 299

specific rates and recovery schedules are discussed in the body of this order and in the attached Schedules 1 - 5.

The Company has asked for a May 1, 1985 implementation date for the new rates. However, we believe that it would be appropriate for the new rates to be effective January 1, 1985. The same effective date was approved by the FCC in the Company's depreciation proceedings before that agency.

Reserve Deficit

Based on the Staff's calculations we have determined that Gentel's net reserve deficit amounts to some \$32,138,000. This amount was derived by calculating a reserve imbalance by depreciable account or sub-account for all investments except those associated with electromechanical and electronic analog switchers planned for retirement during 1985-1987, those associated with potential investments in plant to be stranded by 1987 and those associated with Drop and Block Wire. The various reserve imbalances were then netted to a bottom line.

As a result of the netting of the reserve imbalances each associated account or sub-account should be restated at the theoretically correct position, as shown in Schedule 1 attached to this order. Rates for new additions will be the same as for embedded plant except for the electromechanical, electronic and digital switching accounts. These accounts are measured against the average date of final retirement, and new additions have been given a separate rate in accord with their resultant shortened lives. Those rates are set out on Schedule 2 attached to this order.

We believe that it is in the interest of both Gentel's customers and its stockholders that the Company's \$32,138,000 deficit be written off in as short a time as practicable. In this case we find that a five-year period is appropriate. This results in an amortization amount of \$6,427,600 per year or \$535,633 per month. The Company shall create a separate subaccount in the accumulated depreciation reserve to reflect the amortization of this deficit. No further surpluses or deficits should be included in this subaccount without Commission approval.

Depreciation Rates and Recovery Schedules

The Staff has made a comprehensive review of Gentel's depreciation study and has recommended rates for the Company's intrastate operations. Based on the Staff's recommendation we find the appropriate depreciation rates and components are set forth on Schedule 3 attached to this order with the exception of special rates developed for short-lived electromechanical and local electronic analog switching additions. The rates for these short-lived additions are shown on Schedule 4 attached to this order. The treatment reflected in that schedule is designed to recover each year's additions over their composite remaining life.

The approved recovery schedules covering switchers being retired during the next three years and potential stranded investments are set forth on Schedule 5 attached to this order. These schedules reflect the period beginning January 1, 1985 and continuing through December 31, 1987.

Status Reports

In consideration of the recovery schedules recommended for near-term retirement of switchers and for stranded investments, we find that it would be appropriate to require the Company to submit quarterly status reports beginning January 1, 1986. With the phasing-out of installations there may be variations be-

tween actual and projected activity. Therefore, we believe that the Company should submit quarterly reports covering: 1) 1985-1987 electromechanical switching retirements; 2) 1985-1987 electronic analog switching retirements; and 3) stranded investments in each of the circuit, radio, buried cable, underground cable, and conduit accounts. These reports should show plant balances and activity as well as reserve balances and activity and should also list by changes in plans (such as retirement dates or lease agreements) or changes anticipated net salvage.

In consideration of the foregoing, it is

ORDERED by the Florida Public Service Commission that the depreciation rates set forth in the body of this order and on Schedules 1 through 5 attached to this order be and the same are hereby approved for General Telephone Company of Florida. It is further

ORDERED that the effective date of the new rates is January 1, 1985. It is further

ORDERED that the Company shall file quarterly reports as set forth in the body of this order. It is further

ORDERED that in the event this order becomes final as set forth below this docket shall be closed. It is further

ORDERED that this order will become effective on October 2, 1985 unless a petition for formal proceedings is received by October 1, 1985.

By ORDER of the Florida Public Service Commission this 11th day of September 1985.

NOTICE OF FURTHER PROCEEDINGS OR JUDICIAL REVIEW

The Florida Public Service Commission is required by Section 120.59(4), Florida Statutes (Supp. 1984), to notify parties of any administrative hearing or judicial review of Commission orders that may be available, as well as the procedures and time limits that apply to such further proceedings. This notice should not be construed as an endorsement by the Florida Public Service Commission of any request nor should it be construed as an indication that such request will be granted.

The action proposed herein is preliminary in nature and will not become effective or final, except as provided by Rule 25-22.29, Florida Administrative Code. Any person adversely affected by the action proposed by this order may file a petition for a formal proceeding, as provided by Rule 25-22.29(4), Florida Administrative Code, in the form provided by Rule 25-22.36(7)(a) and (f), Florida Administrative Code. This petition must be received by the Commission Clerk at his office at 101 East Gaines Street, Tallahassee, Florida 32301, by the close of business on October 1, 1985. In the absence of such a petition, this order shall become effective October 2, 1985, as provided by Rule 25-22.29(6), Florida Administrative Code, and as reflected in a subsequent order.

If this order becomes final and effective on October 2, 1985, any party adversely affected may request judicial review by the Florida Supreme Court by the filing of a notice of appeal with the Commission Clerk and the filing of a copy of the notice and filing fee with the Supreme Court. This filing must be completed within 30 days of the effective date of this order, pursuant to Rule 9.110, Florida Rules of Appellate Procedure. The notice of appeal must be in the form specified in Rule 9.900(a), Florida Rules of Appellate Procedure.

Schedule 1

General Telephone Company of Florida

ACCOUNT	1-1-85 RESTATED RESERVE BY ACCOUNT TO BE BROUGHT FORWARD BY ANNUAL ACTIVITY (\$000)	
212	Buildings	
	Single-Unit Switching	8,978
	Multi-Unit Switching	1,957
	Plant Buildings	4,777
	Office Buildings	16,812
	Other Buildings, Towers, and Leasehold Improvements	4,317
221	Central Office Equipment	
	Electromechanical/AMR	60,739
	Electronic Switching	
	Local	92,989
	Toll	91
	Other Electronic Boards	111
	Digital/AMR Switching	
	Local	5,794
	Toll	3,382
	Manual/Digital Toll	4,985
	Circuit and Circuit DDS	41,453
	Circuit Optical	122
	Radio and Radio DDS	12,074
231	Station Equipment	
	Network Terminating Equipment	3,594
	Subscriber Carrier Equipment	3,879
	TDD Equipment	8
234	Large PBX	
	Special PBX	3,156
235	Public Telephone Equipment	6,067
241	Pole Lines	5,036
241.1	Aerial Cable	
	Metallic	36,494
	Fiber	0
	Drop and Block	* 3,744
242.2	Underground Cable	
	Metallic	26,899
	Fiber	159
242.3	Buried Cable	
	Metallic	99,718
	Fiber	32
	Drop and Block	* 10,352
242.4	Submarine Cable	
	Metallic	1,771

General Telephone Company of Florida

ACCOUNT	1-1-85 RESTATED RESERVE BY ACCOUNT TO BE BROUGHT FORWARD BY ANNUAL ACTIVITY
Fiber	1
243 Aerial Wire	2,787
244 Conduit	15,494
261 Furniture and Office Equipment	
Office Furniture	966
Office Machines	1,024
Computer/Data Equipment	1,135
262 Official Telephones	9,909
Official PBX	4,896
264 Motor Vehicles and OWE	
Motor Vehicles	
Passenger Cars	1,533
Light Trucks	7,210
Heavy Trucks	955
Heavy Equipment	992
Shop Equipment	106
Other Work Equipment	3,122
Recovery Schedules:	
Electromechanical/AMR rets. (1985 - 1987)	* 118,334
Electronic Analog Switching rets. (1985 - 1987)	* 4,036
Stranded Investment:	
Radio	* 4,603
Circuit	* 11,541
Buried Cable	* 1,095
Underground Cable	* 400
Conduit	* 287

* Book Reserve

Schedule 2

DEPRECIATION RATES FOR
ADDITIONS TO SWITCHING
INSTALLATIONS
DEPRECIATION RATES FOR ADDITIONS TO
ELECTROMECHANICAL
INSTALLATIONS SCHEDULED FOR
RETIREMENT AFTER 1987

Remaining Life	Net Salvage	Depreciation Rate
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1985 Fla. PUC LEXIS 299

DEPRECIATION RATES FOR
ADDITIONS TO SWITCHING
INSTALLATIONS
DEPRECIATION RATES FOR ADDITIONS TO
ELECTROMECHANICAL
INSTALLATIONS SCHEDULED FOR
RETIREMENT AFTER 1987

	Remaining Life	Net Salvage	Depreciation Rate
1985	3.9 yrs.	3%	24.9%
1986	3.3 yrs.	3%	29.4%
1987	2.9 yrs.	2%	33.8%

DEPRECIATION RATES FOR ADDITIONS TO
LOCAL ANALOG SWITCHING
INSTALLATIONS SCHEDULED FOR
RETIREMENT AFTER 1987

	Remaining Life	Net Salvage	Depreciation Rate
1985	7.2 yrs.	0%	13.9%
1986	6.8 yrs.	0%	14.7%
1987	6.3 yrs.	0%	15.9%

DEPRECIATION RATES FOR
ADDITIONS TO EXISTING DIGITAL SWITCHERS
LOCAL SWITCHERS

	Remaining Life	Net Salvage	Depreciation Rate
1985	12.5 yrs.	4%	7.7%
1986	11.8 yrs.	6%	8.0%
1987	11.1 yrs.	6%	8.5%

DEPRECIATION RATES FOR
ADDITIONS TO EXISTING DIGITAL SWITCHERS
TOLL SWITCHERS

	Remaining Life	Net Salvage	Depreciation Rate
1985	13.0 yrs.	0%	7.7%
1986	12.2 yrs.	0%	8.2%
1987	11.5 yrs.	0%	8.7%

NEW DIGITAL INSTALLATIONS
GOING INTO SERVICE
DURING 1985 - 1987
LOCAL SWITCHERS

Average Service Life	Net Salvage	Depreciation Rate
15 yrs.	(5)%	7.0%

Schedule 3

General Telephone Company of Florida

Depreciation Rates and Components

1985 Fla. PUC LEXIS 299

COMMISSION APPROVED EFFECTIVE JANUARY 1, 1985				
ACCOUNT	AVERAGE REMAINING LIFE (Years)	FUTURE NET SALVAGE (%)	APPROPRIATE RESERVE ** (%)	REMAINING LIFE RATE (%)
212	Buildings			
	Single-Unit Switching	23	0	24.10
	Multi-Unit Switching	29	0	27.50
	Plant Buildings	21	0	30.70
	Office Buildings	42	0	24.40
	Other Buildings, Towers, and Leasehold Improvements	18.4	0	39.30
221	Central Office Equipment			
	Electromechanical/AMR	4.7	(3)	53.65
	Electronic Switching			
	Local	7.8	0	33.7
	Toll	15.1	0	19.97
	Other Electronic Boards	12.4	1	7.24
	Digital/AMR Switching			
	Local	13.2	5	11.84
	Toll	13.7	5	10.06
	Manual/Digital Toll	14	1	29.0
	Circuit and Circuit DDS	11.2	5	16.6
	Circuit Optical	9.2	0	8.0
	Radio and Radio DDS	6.5	(3)	51.0
231	Station Equipment			
	Network Terminating Equipment	4.1	4	48.03
	Subscriber Carrier Equipment	4.3	4	45.26
	TDD Equipment	4.7	4	40.54
234	Large PBX			
	Special PBX	4.5	2	45.8
235	Public Telephone Equipment	4.0	4	48.8
241	Pole Lines	20	(50)	30.0
241.1	Aerial Cable			
	Metallic	17.5	(20)	41.25
	Fiber	19.6	(15)	1.32
	Drop and Block	20	0	5.0
242.2	Underground Cable			
	Metallic	27	(5)	15.9
	Fiber	18.9	(5)	4.83
242.3	Buried Cable			
	Metallic	23	(5)	24.5
	Fiber	19.1	(5)	3.77
	Drop and Block	20	0	5.0
242.4	Submarine Cable			

General Telephone Company of Florida

Depreciation Rates and Components

COMMISSION APPROVED EFFECTIVE
JANUARY 1, 1985

ACCOUNT	AVERAGE	FUTURE	APPROPRIATE RESERVE **	REMAINING
	REMAINING LIFE	NET SALVAGE		LIFE
Metallic	17.7	(5)	37.74	3.8
Fiber	19	(5)	4.3	5.3
243 Aerial Wire	7.6	(30)	46.4	11.0
244 Conduit	51	(7)	15.2	1.8
261 Furniture and Office Equipment				
Office Furniture	17.6	3	10.76	4.9
Office Machines	7.3	0	42.33	7.9
Computer/Data Equipment	5.6	1	15.0	15.0
262 Official Telephones	3.4	4	52.48	12.8
Official PBX	5.3	2	34.4	12.0
264 Motor Vehicles and OWE				
Passenger Cars	4.4	25	32.32	9.7
Light Trucks	3.0	25	46.8	9.4
Heavy Trucks	5.8	10	47.66	7.3
Heavy Equipment	4.6	10	56.42	7.3
Shop Equipment	13.6	8	21.28	5.2
Other Work Equipment	7.1	5	33.94	8.6
Recovery Schedules:				
Electromechanical/AMR rets. (1985 - 1987)	3	year recovery schedule		
Electronic Analog Switching rets. (1985 - 1987)	3	year recovery schedule		
Stranded Investment:				
Radio	3	year recovery schedule		
Circuit	3	year recovery schedule		
Buried Cable	3	year recovery schedule		
Underground Cable	3	year recovery schedule		
Conduit	3	year recovery schedule		

** Denotes Staff Calculated theoretical reserve.

Schedule 4

Depreciation Rates For
Short-Lived Electromechanical
Switching Additions

	Remaining Life	Net Salvage	Depreciation
	(years)	(%)	Rate (%)
1985	2.1	4	45.7
1986	1.3	4	73.8

1985 Fla. PUC LEXIS 299

Depreciation Rates For
Short-Lived Electromechanical
Switching Additions

	Remaining Life	Net Salvage	Depreciation Rate
1987	0.5	3	194.0

Depreciation Rates For
Short-Lived Local Electronic Analog Switching Additions

	Remaining Life (years)	Net Salvage (%)	Depreciation Rate (%)
1985	1.6	23.0	48.1
1986	1.1	20.0	72.7

Schedule 5

Recovery Schedules

Effective January 1, 1985, Continuing through December 31, 1987

1. Electromechanical/AMR 1985-1987 retirements:

Investment =	\$180,406,996
Less reserve =	118,334,388
Less 2.5% salvage =	4,510,175
Unrecovered investment	\$ 57,562,433
Expenses per year	\$ 19,187,478
Expenses per month	\$ 1,598,956

2. Electronic Analog Switching 1985-1987 retirements:

Investment =	\$11,480,689
Less reserve =	4,036,027
Unrecovered Investment =	\$ 7,444,662
Expenses per year	\$ 2,481,554
Expenses per month	\$ 206,796

3. Stranded Investment:
Radio

Investment =	\$11,141,042
Less reserve =	4,602,882
Less 20% salvage =	2,228,208
Unrecovered Investment	\$ 4,309,952
Expenses per year	\$ 1,436,651
Expenses per month	\$ 119,721

Circuit

Investment =	\$70,432,750
Less reserve =	11,541,115
Less 20% salvage =	14,086,550
Unrecovered investment	\$44,805,085
Expenses per year	\$14,935,028
Expenses per month	\$ 1,244,586

Buried Cable

Investment =	\$1,507,612
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1985 Fla. PUC LEXIS 299

Less Reserve =	1,094,557
Unrecovered investment	\$ 413,065
Expenses per year	\$ 137,688
Expenses per month	\$ 11,474

Underground Cable

Investment =	\$640,330
Less Reserve =	400,231
Unrecovered Investment	\$240,099
Expenses per year	\$ 80,033
Expenses per month	\$ 6,669

Conduit

Investment =	\$821,584
Less Reserve =	287,235
Unrecovered Investment	\$534,349
Expenses per year	\$178,116
Expenses per month	\$ 14,843

Legal Topics:

For related research and practice materials, see the following legal topics:
Administrative LawJudicial ReviewReviewabilityStandingEnergy & Utilities LawAd-
ministrative ProceedingsPublic Utility CommissionsGeneral OverviewEnergy &
Utilities LawUtility CompaniesRatesGeneral Overview



7 of 12 DOCUMENTS

In re: Application of West Florida Natural Gas Corporation
for new depreciation rates

DOCKET NO. 850669-GU; ORDER NO. 16269

Florida Public Service Commission

1986 Fla. PUC LEXIS 637

86 FPSC 333

June 20, 1986

PANEL: [*1]

The following Commissioners participated in the disposition of this matter:
JOHN R. MARKS, III, Chairman; GERALD L. GUNTER, JOHN T. HERNDON, KATIE NICHOLS,
MICHAEL MCK. WILSON

OPINION: NOTICE OF PROPOSED AGENCY ACTION

ORDER REPRESORIBING DEPRECIATION RATES

BY THE COMMISSION:

Notice is hereby given by the Florida Public Service Commission that the action discussed herein is preliminary in nature and will become final unless a person whose interests are adversely affected files a petition for formal proceeding pursuant to Rule 25-22.29, Florida Administrative Code.

Florida Administrative Code Rule 25-7.45(7), adopted November, 1982, requires gas companies subject to this Commission's jurisdiction to file a comprehensive depreciation study at least once every five years. In compliance with that Rule, West Florida Natural Gas Corporation (West Florida) filed its depreciation study on October 3, 1985. The current study represents the Company's initial transition to reservesensitive remaining life depreciation methodology. The Company last applied for a comprehensive depreciation review of life and salvage factors in 1976, at which time depreciation rates based on whole-life methodology [*2] were prescribed.

The Commission Staff has reviewed West Florida's study and has recommended certain modifications to the depreciation rate components submitted by the Company. Having reviewed the Company's study and considered the modifications proposed by Staff, we find that West Florida's rates should be repescribed consistent with the Staff's recommendation. The specific rates and components being approved by this order are set forth on Attachment 1. Major adjustments to individual accounts are discussed below.

Corrective Reserve Transfers - Accounts 392.2 and 396

Since this is the first overall review of West Florida's depreciation rates utilizing the depreciation reserve and rate design, it gives us the first opportunity to review the distribution of the reserve by account. The cumulative ef-

1986 Fla. PUC LEXIS 637, *

fact of prior rates and allocations have resulted in surpluses in some accounts and deficits in others. Because these imbalances have not been brought about by technological changes, such as those seen in the telephone industry, we believe that the appropriate treatment is to apply the standard remaining life rate to write-off each account's imbalance over the remaining life [*3] of the account. However, Account 392.2, Transportation Equipment-Autos, shows a negative book reserve of July 1, 1985 of \$13,481. To correct this imbalance we have approved a corrective reserve transfer of \$13,474 from Account 396, Power Operated Equipment. This transfer will have the effect of alleviating the negative reserve in Account 392.2 while at the same time reducing the reserve for Account 396 to its calculated theoretical level.

Account 375 - Structures and Improvements

The investment in this account is comprised of a meter shop, a warehouse, and a service building. The meter shop investment and associated reserve is currently classified in Account 390 as part of General Plant. Since the shop is used in connection with the distribution facilities, we believe that the associated investment and reserve should be transferred to Distribution Structures, Account 375.

Account 380 - Services

This account has experienced minimal retirement activity during the last ten years and life and salvage factors have been calculated on the basis of industry averages. While we find the Company's proposals to be reasonable for this account we are concerned with the treatment [*4] of the costs of removing service lines. Gas companies in Florida are booking costs of removal for this account in a range from zero to 200%. For West Florida cost of removal was not recorded until 1981 and between 1981 and 1984 the Company averaged a cost of removal of only .004%.

Although we are concerned about the wide variation in cost of removal between companies, we have assumed, for the time being, that West Florida's booked costs of removal are correct and that this level will continue over the remaining life, 32 years, of the account. These assumptions result in a cost of removal factor of .1%. Because of this low percentage we have approved a zero net salvage value.

We are also concerned with the Company's treatment of inactive service lines that have been out of service for more than two years. Currently, these service lines are still reflected in Account 380 even though they are no longer serving the public. In connection with its current rate case pending in Docket No. 850503-GU the Company was able to determine that 2,782 service lines have been inactive for more than two years.

We believe that the proper accounting treatment of these lines is that set out in [*5] the Uniform System of Accounts of the Federal Energy Regulatory Commission (FERC) which provides that service lines which have been inactive for over two years with no prospect of reuse shall be retired by the end of the second year. Accordingly, our depreciation rates reflect an adjustment to account for West Florida's inactive lines. Moreover, we feel that the Company should proceed with the actual abandonment and retirements of these lines. Continuing property records that show the in-service date, investment and location of each service line and the accounting records will then match.

Accounts 382 and 384 - Meter Installation and Regulator Installations

1986 Fla. PUC LEXIS 637, *

Based on our review of the Company's engineering information we find that some 608 meter and regulator installations should have been retired during the past three years. The result is an investment and reserve for Accounts 382 and 384 which is overstated. Our depreciation rates reflect an adjustment for these installations that should have been retired. The Company should proceed with the retirement of these installations.

Account 390 - Structures and Improvements

This account is comprised of a vehicle maintenance [*6] shop, an office building and a new headquarters building in Panama City. West Florida did not include the new headquarters building in their study as it was not in-service at the time it was prepared. However, since the investment in this building represents the bulk of this account and is now in-service we have considered it in arriving at the recommended rate components for this account.

Account 391 - Furniture and Fixtures

The investment in this account is comprised of office furniture, office equipment and company-owned telephone systems. West Florida provided a percentage breakdown of the account's investment for each group; however, these groups are expected to have substantially different life characteristics and we find that they should be subaccounted accordingly. The investment and reserve associated with the telephone systems as of July 1, 1985, \$76,251 and \$5,100 respectively, are more appropriately classified in Account 397 - Communications Equipment. The rates set out in Attachment 1 to this order reflect these subcategorizations.

Account 396 - Power Operated Equipment

This account contains large gasoline engine-powered equipment. We find that [*7] the Company's life and salvage factors are in excess of industry-averages resulting in a reserve surplus of \$13,474. This amount has been transferred to Account 392.1, Passenger Cars. This transfer, while reducing Account 396, will help to alleviate the negative reserve in Account 392.1.

West Florida has requested a July 1, 1985 implementation date for its new depreciation rate. All supportive data and calculations have been made on the basis of this implementation date. We believe that July 1, 1985 is a reasonable date to implement the Company's new rates and it is therefore approved.

In consideration of the foregoing, it is

ORDERED by the Florida Public Service Commission that the depreciation rates set forth in the body of this order and on Attachment 1 attached to this order be and the same be hereby approved for West Florida Natural Gas Corporation. It is further

ORDERED that the effective date of the new rates is July 1, 1985. It is further

ORDERED that in the event this order becomes final as set forth below this docket shall be closed. It is further

ORDERED that this order will become effective on July 12, 1986 unless a petition for formal proceedings is received [*8] by July 11, 1986.

By ORDER of the Florida Public Service Commission this 20th day of JUNE 1986

NOTICE OF FURTHER PROCEEDINGS OR JUDICIAL REVIEW

1986 Fla. PUC LEXIS 637, *

The Florida Public Service Commission is required by Section 120.59(4), Florida Statutes (1985), to notify parties of any administrative hearing or judicial review of Commission orders that may be available, as well as the procedures and time limits that apply to such further proceedings. This notice should not be construed as an endorsement by the Florida Public Service Commission of any request nor should it be construed as an indication that such request will be granted.

The action proposed herein is preliminary in nature and will not become effective or final, except as provided by Rule 25-22.29, Florida Administrative Code. Any person whose substantial interests are affected by the action proposed by this order may file a petition for a formal proceeding, as provided by Rule 25-22.29(4), Florida Administrative Code, in the form provided by Rule 25-22.36(7)(a) and (f), Florida Administrative Code. This petition must be received by the Director, Division of Records and Reporting at his office at 101 East Gaines Street, Tallahassee, [*9] Florida 32301, by the close of business on July 11, 1986. In the absence of such a petition, this order shall become effective July 12, 1986 as provided by Rule 25-22.29(6), Florida Administrative Code, and as reflected in a subsequent order.

If this order becomes final and effective on July 12, 1986, any party adversely affected may request judicial review by the Florida Supreme Court by the filing of a notice of appeal with the Director, Division of Records and Reporting and the filing of a copy of the notice and filing fee with the Supreme Court. This filing must be completed within 30 days of the effective date of this order, pursuant to Rule 9.110, Florida Rules of Appellate Procedure. The notice of appeal must be in the form specified in Rule 9.900(a), Florida Rules of Appellate Procedure.

ATTACHMENT 1

GULF NATURAL GAS CORPORATION (WEST FLORIDA GAS COMPANY)
1985 DEPRECIATION STUDY

COMMISSION APPROVED

ACCOUNT	AVERAGE				
	REMAINING LIFE (yrs.)	NET SALVAGE (%)	APPLICABLE RESERVE+ (%)	DEPRECIATION RATE (%)	
Distribution Plant					
375	Structures & Improvements	25	(5)	++ 37.39	2.7
376	Mains	30	(10)	26.98	2.8
378	Meas. & Reg. (General)	33	(5)	52.29	1.6
379	Meas. & Reg. (City Gate)	20	(5)	40.90	3.2
380	Services	32	0	* 16.40	2.6
381	Meters	16.2	0	28.03	4.4
382	Meter Installations	27	0	** 30.65	2.6
383	House Regulators	17	0	27.71	4.2
384	House Reg. Installations	30	0	** 13.77	2.9
General Plant					
390	Structures & Improvements	40	(5)	++ 1.76	2.6
391.0	Furniture	12.2	5	57.86	3.1
391.1	Data Equipment	5.9	0	6.33	15.9
391.2	Office Equipment	4.0	5	57.67	9.3
392.2	Transportation-Autos	5.5	20	# (.01)	14.5

1986 Fla. PUC LEXIS 637, *

GULF NATURAL GAS CORPORATION (WEST FLORIDA GAS COMPANY)
1985 DEPRECIATION STUDY

COMMISSION APPROVED

ACCOUNT	AVERAGE			
	REMAINING LIFE	NET SALVAGE	APPLICABLE RESERVE+	DEPRECIATION RATE
392.4 Transportation-Trucks	6.1	10	22.31	11.1
394.2 Tools	8.6	0	56.90	5.0
396 Power Operated Equipment	6.8	10	## 49.20	6.0
397 Communications Equipment	10.6	0	6.69	8.8

[*10]

+ Denotes book reserve unless otherwise noted.

++ Structures - Account 375 - Applicable reserve includes transfer of meter shop reserve from Account 390.

Account 390 - Applicable reserve includes new warehouse and headquarters building.

* Denotes Commission adjusted reserve to reflect inactive service lines.

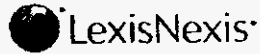
** Denotes Commission adjusted reserve to reflect installations that should have been retired.

Denotes Commission adjusted reserve after corrective reserve transfer from Power Operated Equipment, Account 379.

Denotes calculated theoretical reserve.

Legal Topics:

For related research and practice materials, see the following legal topics:
Administrative LawJudicial ReviewReviewabilityStandingEnergy & Utilities LawAd-
ministrative ProceedingsPublic Utility CommissionsGeneral OverviewEnergy &
Utilities LawUtility CompaniesRatesGeneral Overview



4 of 11 DOCUMENTS

In re: Application of CITY GAS COMPANY for New Depreciation
Rates

DOCKET NO. 890203-GU; ORDER NO. 22115

Florida Public Service Commission

1989 Fla. PUC LEXIS 1582

89-10 FPSC 431

October 31, 1989

PANEL: [*1]

The following Commissioners participated in the disposition of this matter:
MICHAEL McK. WILSON, Chairman; THOMAS M. BEARD; BETTY EASLEY; GERALD L. GUNTER;
JOHN T. HERNDON

OPINION: NOTICE OF PROPOSED AGENCY ACTION

ORDER PRESCRIBING DEPRECIATION RATES

BY THE COMMISSION:

NOTICE is hereby given by the Florida Public Service Commission that the action discussed herein is preliminary in nature and will become final unless a person whose interests are adversely affected files a petition for a formal proceeding, pursuant to Rule 25-22.029, Florida Administrative Code.

Rule 25-7.045(7), Florida Administrative Code, adopted November, 1982, requires natural gas companies subject to this Commission's jurisdiction to file a comprehensive depreciation study at least once every five (5) years. In compliance with that rule, City Gas Company (City Gas or utility) filed a depreciation study (study) on February 17, 1989. As part of its filing in this docket, City Gas requested implementation of its proposed depreciation rates, on a preliminary basis, effective as of January 1, 1989. By Order No. 21108, City [*2] Gas was authorized on an interim basis to record depreciation rates as requested. The rates approved for interim booking purposes were based on lives and salvages as proposed by the utility. Order No. 21108 also provided that the interim rates would be adjusted, if necessary, upon completion of the review of the study.

The Commission Staff has reviewed City Gas' study and has recommended certain modifications to depreciation rate components. Having reviewed the utility's study and having considered the modifications proposed by Staff, we find that City Gas' rates should be represetribed consistent with the Staff's recommendation. The specific rates and components being approved by this Order are set forth on Attachment 1. Major adjustments to individual accounts are discussed below.

I. Mains and Services (Accounts 376 and 380

1989 Fla. POC LEXIS 1582, *

The utility initially did not distinguish between plastic and other mains and services but subsequently supplied the data to make such a separation. City Gas currently has a long-range program of replacement of its galvanized mains and services, and provided detailed information on the project. However, according to Staff the age of the plant being [*3] replaced, and the pattern of replacement, does not warrant the use of special amortization schedules. We agree with Staff and find that the allocation of the reserves between Plastic & Other for Mains & Services Accounts shown on Attachment 2 should be approved.

II. Meters, Regulators, and Associated Installations (Accounts 381, 382, 383 and 384)

Installation costs of meters and house regulators have not been maintained in separate accounts as required by Rule 25-7.046, Florida Administrative Code. Because of the timing, as discussed in this Order, Staff recommended use of one set of depreciation rates to be used for 1989 booking purposes for Accounts 381 and 383 as currently constituted, and a second set to be used after the separation of the four accounts in 1990. This will give the utility the time to separate the investments.

III. Leased Equipment

These are appliances which City Gas leases to customers. As mentioned in Order No. 21108, the utility should be allowed to use their proposed depreciation rates for leased equipment, as constrained by Order No. 21108 (for preliminary implementation of depreciation rates): [*4]

The prescription in this Order of depreciation rates does not alter an earlier decision we made in Order No. 17257, in Docket No. 861595-GU, which stated we would not rule upon the appropriateness of costs associated with leased equipment in the Rate Base or Net Operating Income until the utility's next rate case.

IV. Transportation Equipment

Over 90% of the investment in this account is in "light trucks", and the ratio is not expected to change significantly, which is why our Staff and the utility are not proposing the usual breakdown of the rate into vehicle types. The light trucks are leased vehicles. We approve the life parameter developed from utility-supplied data.

V. Tools, Shop and Garage Equipment

Our Staff indicates that a major portion of this investment currently may not be in use, due to the leasing of vehicles which are not maintained by City Gas. Staff's recommended depreciation parameters and resultant rate are reasonable for the equipment in the account and are approved. Inclusion in Rate Base and NOI of the investments and associated expenses should be reviewed in the next rate case or surveillance.

VI. Reserve Deficit Amortization

As discussed [*5] in Staff's recommendation for preliminary action, the write-off of the "Historic" reserve deficit was concluded in 1988. We approved the retention of the associated expense of \$ 47,934 with final resolution to be made in this conclusion of the study. As anticipated at the time of the preliminary action, our Staff continues to recommend that this \$ 47,934 be applied to the "Prospective" reserve deficit, which will correct that overstatement of rate base in seven years, rather than the 19 years remaining under the present amortization pattern.

1989 Fla. PUC LEXIS 1582, *

VII. Meters, Meter Installations, House Regulators and House Regulator Installations (Accounts 381, 382, 383 and 384)

As stated in Rule 25-7.046, Florida Administrative Code, "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 . . . introducing subdivisions within those accounts for the purpose of uniformity among the companies in depreciation studies."

In the case of Accounts 381 (Meters), 382 (Meter Installations), 383 (Regulators), and [*6] 384 (Regulator Installations), these are Federal Energy Regulatory Commission (FERC) accounts; the only distinction in the Rule of this Commission is to list them specifically to be separately used for depreciation studies. Recognizing that existing records may be lacking detail, the Rule provides "The separation of embedded investments and reserves under prior accounts into balances relating to accounts under subsection (3) may require estimation."

In an earlier depreciation study from this utility, the Meters and Installations section include this statement from their consultant: "The combination of meters and installations into one account makes this account difficult to analyze." There are problems with both life and salvage parameters. Meters and regulators are accounted for as "cradle-to-grave" and may be moved between the customers' premises and the testing or warehouse facilities one or more times before retirement, and then experience approximately zero net salvage. The installations, on the other hand, live approximately the average life of the services (rather than the life of the associated meters or regulators) and experience some negative net salvage (cost of removal) [*7] when retired. The monitoring of the combined records is not practicable.

We agree with Staff's recommendation that City Gas will be given six months from the effective date of this Order to bring its accounts into compliance. To provide a transition of depreciation rates from the accounts as they are presently constituted to those after the investments are appropriately separated, Attachment 1 shows rates for use with 1989 activity, and for use after separation in 1990.

Based upon the foregoing, it is

ORDERED by the Florida Public Service Commission that the depreciation rates set forth in Attachment 1 to this Order are hereby approved for City Gas Company. It is further

ORDERED that the \$ 47,934 of expense which has been applied to the "Historic" reserve deficit through the year 1988 be added in 1989 and subsequently to the \$ 28,166 expense associated with the write-off of the "Prospective" reserve deficit, bringing that total "Prospective" write-off expense to \$ 76,100. It is further

ORDERED that the effective date of the depreciation rates approved by this Order is January 1, 1989. It is further

ORDERED that City Gas Company shall bring its Accounts 381 (Meters), 382 [*8] (Meter Installations), 383 (Regulators), and 294 (Regulator Installations) in compliance with Rule 25-7.043, Florida Administrative Code, within six months from the effective date of this Order.

By ORDER of the Florida Public Service Commission this 31st day of OCTOBER, 1989.

CITY GAS COMPANY OF FLORIDA
DEPRECIATION RATES
(EFFECTIVE 1-1-89)

1989 Fla. PUC LEXIS 1582, *

ACCOUNT	AVG. REM. LIFE yr.s	AVG. NET SALV. %	DEPR. RATE %
Distribution Plant			
375 Structures	34.0	10	2.2
376 Mains			
(plastic)	35.0	(10)	2.8
(other)	26.0	(10)	2.7
397 M&R City Gate	14.0	(5)	3.1
380 Services			
(plastic)	29.0	(35)	4.1
(other)	21.0	(35)	4.3
381 Meters/Installs.	14.9	(2)	* 4.6
381 Meters	14.9	0	# 4.4
382 Meter Installs.	14.9	(5)	# 4.8
383 Regulators/Installs.	16.9	(2)	* 4.1
383 Regulators	16.9	0	# 3.9
384 Regulator Installs.	16.9	(5)	# 4.2
385 Indust. M&R	18.5	(5)	4.0
387 Other	9.1	0	5.6
Leased Plant			
386.5 Wtr Htr.s	7.2	0	7.9
386.6 Dryers	9.6	0	8.3
386.7 Ranges	10.6	0	8.4
General Plant			
390 Structures	22.0	0	3.2
391.1 Office Furn.	13.2	2	6.9
391.2 Office Equip.	8.0	2	11.0
391.3 Computers			
Embedded	3.4	5	16.9
New	6.0	5	15.8
392 Transpt. Equip.			
Embedded	2.9	16	18.4
New	7.0	16	12.0
393 Stores Equip.	10.8	0	5.5
394 Tools & Shop	8.9	5	6.2
395 Lab. Equip.	14.9	0	4.8
397 Commun. Equip.	6.2	5	7.5
398 Misc. Equip.	5.6	0	8.5
[*9]			

* For use in 1989

For use in 1990 and subsequently, after separation of accounts.

Appellate Procedure. The notice of appeal must be in the form specified in Rule 9.900(a), Florida Rules of Appellate Procedure.

CITY GAS COMPANY OF FLORIDA

DEPRECIATION RATES

(EFFECTIVE 1-1-89)

(Reserve allocation - Mains and Services)

ACCOUNT	BOOK RESERVE	ALLOCATED RESERVE
---------	-----------------	----------------------

1989 Fla. PUC LEXIS 1582, *

	\$	\$
376 - Mains	14,796,210	0
" Plastic	0	664,461
" Other	0	14,131,749
380 - Services	6,356,002	0
" Plastic	0	585,451
" Other	0	5,770,551
Totals	\$ 21,152,212	\$ 21,152,212

Legal Topics:

For related research and practice materials, see the following legal topics:
Administrative LawJudicial ReviewReviewabilityStandingEnergy & Utilities LawAd-
ministrative ProceedingsPublic Utility CommissionsGeneral OverviewEnergy &
Utilities LawUtility CompaniesRatesGeneral Overview



10 of 12 DOCUMENTS

In re: Depreciation Study of CITY GAS COMPANY OF FLORIDA

DOCKET NO. 840045-GU; ORDER NO. 13538

Florida Public Service Commission

1984 Fla. PUC LEXIS 376

84 FPSC 220

July 24, 1984

PANEL: [*1]

The following Commissioners participated in the disposition of this matter: GERALD L. GUNTER, Chairman; JOSEPH P. CRESSE, JOHN R. MARKS, III, KATIE NICHOLS, SUSAN W. LEISNER

OPINION: NOTICE OF PROPOSED AGENCY ACTION

ORDER APPROVING NEW DEPRECIATION RATES

BY THE COMMISSION:

On February 6, 1984, City Gas Company of Florida (City Gas) filed a depreciation study seeking Florida Public Service Commission approval of new depreciation rates pursuant to Florida Administrative Code Rule 25-7.45. Since our approval of City Gas's present depreciation rates in 1976, net plant balances, composite ages and lives, as well as current life and salvage have changed as a result of normal and technological changes. Taking those changes into consideration, we have determined that a re-evaluation and implementation of new depreciation rates is warranted.

We have reviewed the requested changes and the supportive data submitted with reference to the enumerated accounts and find that the depreciation rates and capital recovery schedules, effective January 1, 1983, as shown on Appendices A and C to this Order and incorporated herein, are approved.

Appropriate Depreciation Reserve Level [*2] and Correction of the Reserve Deficit

Because we have determined that new depreciation rates are appropriate, we must also provide for the recovery of the difference between the current booked reserve levels and what the reserve levels would have been if the new depreciation rates had been in effect. We have calculated the net reserve possible to make that correction through the new depreciation rates allowed for embedded plant, we have chosen to amortize the composite reserve deficit of all depreciable plant over a specific period. By allowing the company to separately recover the reserve deficit, we are bringing the booked reserves for the accounts up to the theoretical reserve. Therefore, the rates for the embedded plant are the same as the rates for new plant.

1984 Fla. PUC LEXIS 376, *

n1 This deficit does not include investment associated with the meters, house regulators and computer accounts because of prudence questions being investigated as part of the rate case that could affect the depreciation reserve and theoretical reserve.

We are ordering two amortization schedules for use in recovering the reserve deficit. That portion of the deficit that is attributable to changes in prospective [*3] life and salvage values is to be amortized over the composite remaining life of the embedded plant, which is estimated to be 24 years. That portion of the deficit that is attributable to past incorrect estimates of life and salvage factors and historic technological change and growth should be recovered over a shorter period. Therefore, we are ordering a 5-year amortization period for this portion of the deficit. The amount to be amortized over a 24-year period is \$675,987 and the amount to be amortized over a 5-year period is \$239,669. This results in annual expenses of \$28,166 and \$47,934, respectively.

City Gas is to create two separate subaccounts in the Accumulated Depreciation Reserve account to reflect the amortization of the two deficit amounts. No further deficits should be included in these accounts without our approval. Likewise, each depreciable account's reserve should be restated to the level shown in Appendix B to this Order, which is incorporated herein, and brought forward from that point. The book reserve total is not changed by the setting of the reserve imbalance and restatement of the account reserves. These reserve levels should be shown on [*4] City Gas's books or side records as of January 1, 1984, and brought forward from that time by account activity. These reserves should be shown in City Gas's next depreciation study, updated to the implementation date of the new rates proposed in that study.

This docket will be closed unless an appropriate petition for hearing is filed by one whose substantial interest may or will be effected by this proposed agency action as provided by Florida Administrative Code Rule 25-22.29. It is, therefore,

ORDERED by the Florida Public Service Commission that the depreciation rates and amortization schedules as set forth in this Order be and the same are hereby approved for City Gas Company of Florida effective January 1, 1984. It is further

ORDERED that the action proposed herein is preliminary in nature and will not become effective or final, except as provided by Florida Administrative Code Rule 25-22.29. It is further

ORDERED that any person adversely affected by the action proposed herein may file a petition for a formal proceeding, as provided by Florida Administrative Code Rule 25-22.29. Said petition must be received by the Commission Clerk on or before August 14, 1984, in [*5] the form provided by Florida Administrative Code Rule 25-22.36(7)(a) and (f). It is further

ORDERED that in the absence of such a petition, this order shall become effective on August 15, 1984 as provided by Florida Administrative Code Rule 25-22.29(6).

By ORDER of the Florida Public Service Commission, this 24th day of JULY, 1984.

ATTACHMENT I

CITY GAS COMPANY
Comparison of Depreciation Rates and Components

CURRENT

1984 Fla. PUC LEXIS 376, *

Account Description	Average Service Life (years)	Average Net Salvage (%)	Whole Life Rate (%)
Distribution Plant			
375 Structures & Improvements	40	25	1.9
376 Mains	40	(20)	3.0
379 Meas. & Reg. Station Equipment	30	(5)	3.5
380 Services	35	(25)	3.6
381 Meters	30	0	3.3
383 House Regulators	30	0	3.3
385 Ind. Meas. & Reg. Station Equip.	15	0	6.7
387 Other Equipment	20	0	5.0

General Plant

390 Structures & Improvements	40	20	2.0
391 Ofc. Furniture & Equipment	15	5	6.3
391.1 Furniture			
391.2 Office Equipment			
391.3 Computer - Embedded	15	5	6.3
391.3 Computer - New Additions			
392 Transportation	8	10	11.3
392.1 Cars			
392.2 Light Trucks			
392.3 Heavy Trucks			
393 Stores Equipment	25	0	4.0
394 Tools, Shop & Garage Equipment	15	0	6.7
395 Laboratory Equipment	20	0	5.0
397 Communications Equipment	10	10	9.0
398 Miscellaneous Equipment	15	0	6.7

[*6]

CITY GAS COMPANY
Comparison of Depreciation Rates and Components

COMPANY PROPOSED

Account Description	Average Remaining Life (years)	Future Net Salvage (%)	Estimated Reserve (%)	Remaining Life Rate (%)
Distribution Plant				
375 Structures & Improvements	38.55	10	4.42	2.22
376 Mains	29.57	(10)	28.31	2.76
379 Meas. & Reg. Station Equipment	17.07	(5)	44.23	3.56
380 Services	21.15	(40)	27.08	5.34
381 Meters	19.96	(5)	20.25	4.25
383 House Regulators	18.63	(10)	20.57	4.80
385 Ind. Meas. & Reg. Station Equip.	8.62	0	46.07	6.26
387 Other Equipment	13.40	0	34.72	4.87

General Plant

1984 Fla. PUC LEXIS 376, *

CITY GAS COMPANY
Comparison of Depreciation Rates and Components

COMPANY PROPOSED				
Account Description	Average Remaining Life (years)	Future Net Salvage (%)	Estimated Reserve (%)	Remaining Life Rate (%)
390 Structures & Improvements	25.39	0	45.48	2.15
391 Ofc. Furniture & Equipment	10.35	5	98.40	(.33)
391.1 Furniture				
391.2 Office Equipment				
391.3 Computer - Embedded	2.00	5	10.30	42.35
391.3 Computer - New Additions	6.0	5.0	0.0	15.8
392 Transportation	5.88	15	50.39	5.89
392.1 Cars				
392.2 Light Trucks				
392.3 Heavy Trucks				
393 Stores Equipment	15.11	0	85.27	.97
394 Tools, Shop & Garage Equipment	13.91	6	13.20	5.81
395 Laboratory Equipment	16.43	0	25.66	4.52
397 Communications Equipment	4.27	0	87.29	2.98
398 Miscellaneous Equipment	10.78	0	44.75	5.13

(*7)

CITY GAS COMPANY
Comparison of Depreciation Rates and Components

STAFF RECOMMENDED				
Account Description	Average Remaining Life (years)	Future Net Salvage (%)	Appropriate Reserve * (%)	Remaining Life Rate (%)
Distribution Plant				
375 Structures & Improvements	38.0	10.0	4.5	2.3
376 Mains	27.0	(10.0)	29.7	3.0
379 Meas. & Reg. Station Equipment	16.9	(5.0)	45.9	3.5
380 Services	25.0	(30.0)	34.4	3.8
381 Meters	20.0	0	# 20.3	4.0
383 House Regulators	18.7	0	# 20.6	4.2
385 Ind. Meas. & Reg. Station Equip.	12.3	0	38.5	5.0
387 Other Equipment	13.2	0	34.0	5.0
General Plant				
390 Structures & Improvements	25.0	0	37.5	2.5
391 Ofc. Furniture & Equipment				
391.1 Furniture	9.3	5	50.8	4.8
391.2 Office Equipment	9.2	5	32.6	6.8
391.3 Computer - Embedded		Recovery Schedule		
391.3 Computer - New Additions	6.0	5.0	0.0	15.8
392 Transportation				
392.1 Cars	4.2	16	33.6	12.0
392.2 Light Trucks	5.1	15	30.8	10.6

1984 Fla. PUC LEXIS 376, *

CITY GAS COMPANY
Comparison of Depreciation Rates and Components

STAFF RECOMMENDED

Account Description	Average Remaining Life (years)	Future Net Salvage (%)	Appropriate Reserve * (%)	Remaining Life Rate (%)
392.3 Heavy Trucks	4.7	10	47.7	9.0
393 Stores Equipment	14.7	0	41.2	4.0
394 Tools, Shop & Garage Equipment	13.3	6	10.7	6.3
395 Laboratory Equipment	15.3	0	23.5	5.0
397 Communications Equipment	4.3	5	61.0	7.9
398 Miscellaneous Equipment	10.1	0	32.7	6.7

[*8]

* Denotes Staff calculated theoretical reserve.

Actual Book Reserve %

ATTACHMENT III

CITY GAS COMPANY
ANALYSIS OF RESERVE POSITION
1984 STUDY

Account Description	Investment \$	Depreciation Reserve 1-1-84 \$	Reserve %
Distribution Plant			
375 Structures & Improvements	768,824	33,988	4.42
376 Mains	32,776,568	9,278,313	28.31
379 Meas & Reg. Station Equip.	342,260	151,380	44.23
380 Services	12,326,385	3,337,719	27.08
381 Meters **			
383 House Regulators **			
385 Ind. Meas. & Reg. Station Equip.	276,013	127,147	46.07
387 Other Equipment	121,372	42,146	34.72
General Plant			
390 Structures & Improvements	505,233	229,795	45.49
391 Total Ofc. Furniture & Equipment	345,444	339,906	98.40
391.1 Furniture	* 158,010		
391.2 Office Equipment	* 187,434		
391.3 Computer **			
392 Total Transportation Equipment	635,975	319,496	50.24
392.1 Cars	* 118,023		
392.2 Light Trucks	* 506,236		
392.3 Heavy Trucks	* 11,716		
393 Stores Equipment	16,358	13,949	85.28
394 Tools, Shop & Garage Equipment	417,224	55,086	13.21
395 Laboratory Equipment	24,840	6,373	25.66
397 Communications Equipment	193,761	169,125	87.29

1984 Fla. PUC LEXIS 376, *

CITY GAS COMPANY
ANALYSIS OF RESERVE POSITION
1984 STUDY

		Investment	Depreciation Reserve	Reserve
Account Description		\$	1-1-84 \$	%
398	Miscellaneous Equipment	12,250	5,482	44.76
	Total	\$48,762,507	\$14,109,905	
	Annual Accrual			

[*9]

CITY GAS COMPANY
ANALYSIS OF RESERVE POSITION
1984 STUDY

Account Description		Historic Theoretical Reserve %	Historic Theoretical Reserve \$	Historic Deficit \$
Distribution Plant				
375	Structures & Improvements	4.7	36,135	2,147
376	Mains	29.7	9,734,641	456,328
379	Meas & Reg. Station Equip.	49.4	169,076	17,696
380	Services	28.6	3,525,346	187,627
381	Meters **			
383	House Regulators **			
385	Ind. Meas. & Reg. Station Equip.	47.3	130,554	3,407
387	Other Equipment	33.0	40,053	(2,093)
General Plant				
390	Structures & Improvements	30.0	151,570	(78,225)
391	Total Ofc. Furniture & Equipment	43.7	150,959	(188,947)
391.1	Furniture			
391.2	Office Equipment			
391.3	Computer **			
392	Total Transportation Equipment	34.9	221,955	(97,541)
392.1	Cars			
392.2	Light Trucks			
392.3	Heavy Trucks			
393	Stores Equipment	41.2	6,739	(7,210)
394	Tools, Shop & Garage Equipment	11.3	47,146	(7,940)
395	Laboratory Equipment	23.5	5,837	(536)
397	Communications Equipment	64.8	125,557	(43,568)
398	Miscellaneous Equipment	32.7	4,006	(1,476)
	Total		\$14,349,574	\$239,669
	Annual Accrual			\$47,934

CITY GAS COMPANY
ANALYSIS OF RESERVE POSITION
1984 STUDY

Staff Staff
Theoretical Appropriate Prospective

1984 Fla. PUC LEXIS 376. *

Account Description	Reserve %	Reserve \$	Deficit \$
Distribution Plant			
375 Structures & Improvements	4.5	34,597	[Illegible Word]
376 Mains	29.7	9,734,641	[Illegible Word]
379 Meas & Reg. Station Equip.	45.9	157,097	(11,979)
380 Services	34.4	4,240,276	714,930
381 Meters **			
383 House Regulators **			
385 Ind. Meas. & Reg. Station Equip.	38.5	106,265	(24,289)
387 Other Equipment	34.0	41,266	1,213
General Plant			
390 Structures & Improvements	37.5	189,462	37,892
391 Total Ofc. Furniture & Equipment		*	(9,587)
391.1 Furniture	50.8	80,269	
391.2 Office Equipment	32.6	61,103	
391.3 Computer **			
392 Total Transportation Equipment		*	(20,789)
392.1 Cars	33.6	39,656	
392.2 Light Trucks	30.8	155,921	
392.3 Heavy Trucks	47.7	5,589	
393 Stores Equipment	41.2	6,739	0
394 Tools, Shop & Garage Equipment	10.7	44,643	[Illegible Word]
395 Laboratory Equipment	23.5	5,837	0
397 Communications Equipment	61.0	118,194	(7,363)
398 Miscellaneous Equipment	32.7	4,006	0
Total		\$15,025,561	\$675,987
Annual Accrual			\$28,166

{*10}

* Staff proposes new subaccounts for what has been a composite account

** Excluded from calculations

ATTACHMENT II

CITY GAS COMPANY
Comparison of Depreciation Expenses

Account Description	CURRENT		Accruals \$
	Investment Rate \$	Whole Life (%)	
Distribution Plant			
375 Structures & Improvements	768,824	1.90	14,608
376 Mains	32,776,568	3.00	983,297
379 Meas. & Reg. Station Equipment	342,260	3.50	11,979
380 Services	12,326,385	3.60	443,750
381 Meters	# 4,340,319	3.30	143,231
383 House Regulators	# 1,491,967	3.30	49,235

1984 Fla. PUC LEXIS 376, *

CITY GAS COMPANY
Comparison of Depreciation Expenses

		CURRENT		
		Whole Life		
Account Description	Investment	Rate	Accruals	
385 Ind. Meas. & Reg. Station Equip.	276,013	6.70	18,493	
387 Other Equipment	121,372	5.00	6,069	
General Plant				
390 Structures & Improvements	505,233	2.00	10,105	
391 Total Ofc. Furniture & Equipment	345,444	6.30	21,763	
391.1 Furniture	* 158,010			
391.2 Office Equipment	* 187,434			
391.3 Computer	# 319,810	6.30	20,148	
392 Total Transportation Equipment	635,975	11.30	71,865	
392.1 Cars	* 118,023			
392.2 Light Trucks	* 508,236			
392.3 Heavy Trucks	* 11,716			
393 Stores Equipment	16,358	4.00	654	
394 Tools, Shop & Garage Equipment	417,224	6.70	27,954	
395 Laboratory Equipment	24,840	5.00	1,242	
397 Communications Equipment	193,761	9.00	17,438	
398 Miscellaneous Equipment	12,250	6.70	821	
Total	\$54,914,603		\$1,842,652	
Historic Reserve Deficit				
Prospective Reserve Deficit				

[*11]

CITY GAS COMPANY
Comparison of Depreciation Expenses

		COMPANY PROPOSED		
		Remaining Life		
Account Description	Rate	Accruals	Change In	Accruals
	%	\$	Accruals	\$
Distribution Plant				
375 Structures & Improvements	2.22	17,068	2,460	
376 Mains	2.76	904,633	(78,664)	
379 Mess. & Reg. Station Equipment	3.56	12,184	205	
380 Services	5.34	658,229	214,479	
381 Meters	4.25	184,464	41,233	
383 House Regulators	4.80	71,614	22,379	
385 Ind. Meas. & Reg. Station Equip.	6.26	17,278	(1,215)	
387 Other Equipment	4.87	5,911	(158)	
General Plant				
390 Structures & Improvements	2.15	10,863	758	
391 Total Ofc. Furniture & Equipment	(.33)	(1,140)	(22,903)	
391.1 Furniture				
391.2 Office Equipment				

1984 Fla. PUC LEXIS 376, *

CITY GAS COMPANY
Comparison of Depreciation Expenses

COMPANY PROPOSED
Remaining Life

Account Description	Rate	Accruals	Change In Accruals
391.3 Computer	42.35	135,440	115,292
392 Total Transportation Equipment	5.89	37,459	(34,406)
392.1 Cars			
392.2 Light Trucks			
392.3 Heavy Trucks			
393 Stores Equipment	.97	159	(495)
394 Tools, Shop & Garage Equipment	5.81	24,241	(3,713)
395 Laboratory Equipment	4.52	1,123	(119)
397 Communications Equipment	2.98	5,774	(11,664)
398 Miscellaneous Equipment	5.13	628	(193)
Total		\$2,085,928	\$243,276
Historic Reserve Deficit			
Prospective Reserve Deficit			

[*12]

CITY GAS COMPANY
Comparison of Depreciation Expenses

STAFF RECOMMENDED
Remaining Life

Account Description	Rate (%)	Accruals \$	Change In Accruals \$
Distribution Plant			
375 Structures & Improvements	2.3	17,683	3,075
376 Mains	3.0	983,297	0
379 Meas. & Reg. Station Equipment	3.5	11,979	0
380 Services	3.8	468,403	24,652
381 Meters	4.0	173,613	30,382
383 House Regulators	4.2	62,663	13,428
385 Ind. Meas. & Reg. Station Equip.	5.0	13,801	(4,692)
387 Other Equipment	5.0	6,069	0
General Plant			
390 Structures & Improvements	2.5	12,631	2,526
391 Total Ofc. Furniture & Equipment		*	
391.1 Furniture	4.8	7,584	(2,371)
391.2 Office Equipment	6.8	12,746	938
391.3 Computer	Recovery Schedule	90,288	70,140
392 Total Transportation		*	
392.1 Cars	12.0	14,163	826
392.2 Light Trucks	10.6	53,661	(3,543)
392.3 Heavy Trucks	9.0	1,054	(270)

1984 Fla. PUC LEXIS 376, *

CITY GAS COMPANY
Comparison of Depreciation Expenses

		STAFF RECOMMENDED		
		Remaining Life		
Account Description	Rate	Accruals	Change In	Accruals
393 Stores Equipment	4.0	654		0
394 Tools, Shop & Garage Equipment	6.3	26,285	(1,669)	
395 Laboratory Equipment	5.0	1,242		0
397 Communications Equipment	7.9	15,307	(2,131)	
398 Miscellaneous Equipment	6.7	821		0
Total		\$1,973,944	\$131,292	
Historic Reserve Deficit		47,934	47,934	
Prospective Reserve Deficit		28,166	28,166	
		\$2,050,044	\$207,392	

[*13]

* Staff proposal is for homogeneous subaccounts where company's proposal was for a Composite of different types of equipment.

Questions of prudence being investigated in the rate case could necessitate reconsideration of these accounts as part of the rate case.

Legal Topics:

For related research and practice materials, see the following legal topics:
Energy & Utilities LawAdministrative ProceedingsPublic Utility CommissionsGeneral OverviewEnergy & Utilities LawUtility CompaniesRatesGeneral Overview



9 of 11 DOCUMENTS

In re: Represcription of depreciation rates for ST. JOSEPH
TELEPHONE AND TELEGRAPH COMPANY

DOCKET NO. 840052-TL; ORDER NO. 13918

Florida Public Service Commission

1984 Fla. PUC LEXIS 35

84 FPSC 84

December 14, 1984

PANEL: [*1]

The following Commissioners participated in the disposition of this matter:
GERALD L. GUNTER, Chairman; JOSEPH P. CRESSE, SUSAN W. LEISNER, JOHN R. MARKS,
III, KATIE NICHOLS

OPINION: NOTICE OF PROPOSED AGENCY ACTION

ORDER APPROVING REPRESRIPTION OF DEPRECIATION RATES

BY THE COMMISSION:

Florida Administrative Code Rule 25-4.175 requires telephone companies to file a comprehensive depreciation study at least once every three years. Acting pursuant to that rule, St. Joseph Telephone and Telegraph Company (St. Joe or the Company) filed a depreciation study on February 9, 1984. The Company's last complete represcription was in 1980. However, a limited represcription of selected accounts was carried out in 1982.

St. Joe's current study was compiled in 1983, prior to the implementation of Florida Administrative Code Rule 25-4.17, requiring the subcategorization of accounts. The Company's study thus did not meet the Commission's current requirement that individual accounts be listed by subcategory. At the staff's request, however, the Company filed supplemental information which allowed the calculation of depreciation rates for additional subcategories.

Upon review of [*2] the Company's study, we find that certain changes in depreciation rates, recovery schedules and expenses are required. The approved depreciation rates and components are set out on Attachment 1, appended to this order. The implementation date of the new rates shall be January 1, 1984, as the Company has requested.

RESERVE DEFICIT

Staff has calculated the Company's bottom-line net reserve deficit to be \$1,156,215. This total deficit is comprised basically of two components: the historic deficit and the prospective deficit. The historic deficit represents the difference between the book reserve and that reserve that should have been accumulated under rates currently prescribed by the Commission. The historic deficit is brought about by such things as technological change, change in mix

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of plant, and incorrect estimates of plant life and salvage values. The amount of the historic deficit in this case is \$529,002. The second, prospective, component of the total deficit is due to changes in life and salvage factors found appropriate for the future. These changes are generally due to the replacement of older technologies and relate to the life of the plant now being used [*3] to provide service. The amount of the prospective deficit is \$627,213.

Given the nature of the historic component of the total reserve deficit, we believe that it should be written off as quickly as possible. Although we have in recent represcription cases allowed the amortization of the historic deficit over a five-year period, we agree with the staff that in this case a one-year write-off period for the \$529,002 is appropriate. Based on an analysis of the Company's projected 1984 earnings submitted in Docket No. 820531-TP, it appears that the Company will be able to absorb this additional expense and still earn at least its maximum 16% return on equity. We do not, therefore, believe that the shortened amortization period will produce a hardship on the Company or its ratepayers.

As for the prospective reserve deficit, since it relates to the remaining life of embedded investment, we find that an amortization period of eleven years would be appropriate. This will result in an increase in annual depreciation expense of \$57,019.

Because we have determined that new depreciation rates are appropriate, we must also provide for the recovery of the difference between the [*4] current reserve levels and what the reserve levels should be using the new depreciation rates (Attachment 2). The theoretical reserves we have calculated are the reserves to be brought forward on the Company books as of January 1, 1984. The book reserve total is not changed by the restatement of account reserves and netting of the reserve imbalance. By allowing the Company to separately amortize the reserve deficit, we are bringing the booked reserves, by individual account, up to the theoretical reserve - with the exception of the accounts excluded per the footnote to Attachment 2. Therefore, the rates for the embedded plant are the same as the rates for new plant.

The Company is to create a separate subaccount in the Accumulated Depreciation Reserve to reflect the amortization of the prospective deficit. No further surpluses or deficits should be included in these accounts without Commission approval.

UNRECOVERED CENTRAL OFFICE INVESTMENT IN PORT ST. JOE AND BLOUNTSTOWN OFFICES

The Company is currently using a five-year amortization schedule to write off equipment already retired at the Port St. Joe and Blountstown offices. As of January 1, 1984, there were three [*5] years remaining on the recovery schedule, with a net balance of \$812,540. Based on the staff's calculations, we believe that this amortization period should be shortened and the balance written off in one year, along with the historical deficit. It appears that the Company will be able to absorb the additional \$812,540 in 1984 and still earn its allowed return on equity.

RETIREMENT OF ELECTROMECHANICAL CENTRAL OFFICE EQUIPMENT

Eleven of the thirteen offices operated by St. Joe contain step-by-step electromechanical equipment. The Company has plans to replace four of these step offices with digital switches over the next two years. The offices where the replacement will occur are located at Carrabelle, Tyndall, Apalachicola and The Beaches. The conversion to digital switches is necessary because of the Company's growth, the exhaustion of floor space and the enhancement in the quality

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of service that the new switches will provide. We agree with the staff that the Company's replacement plans appear to be prudent. We further agree with staff that the unrecovered balance of this central office equipment, \$1,107,544, should be recovered on a 3-year recovery schedule [*6] as follows:

Total Unrecovered (1-1-84)	\$1,107,544.00
Total Annual Expense	\$ 369,181.00
Monthly Expense	\$ 30,765.00

In 1984, the Company plans to make some additions to the electromechanical equipment contained in the four step offices scheduled for replacement. According to the information supplied by the Company, these additions will total some \$187,170 for 1984. No additions are contemplated for 1985 or 1986. Since this equipment will be retained for use when the digital switches are in place, we conclude that no special recovery treatment for these additions is needed for the 1984-1986 period.

SUBMARINE CABLE

The Company's investment in submarine cable is expected to all be retired prior to the next represcription. The unrecovered investment of \$15,060 should be recovered as a 3-year recovery schedule as follows:

Unrecovered Balance	\$15,060.00
Annual Accrual	\$ 5,020.00
Monthly Accrual	\$ 418.33

ADJUSTMENT TO ACCOUNT 212.14, DEPRECIATION RESERVE FOR BUILDINGS

In 1983, the Company discovered that it had mistakenly included self-supporting towers in the Pole Lines account (241). According to the Uniform System of Accounts, these structures [*7] should have been included in Buildings (Account 212). To correct this mistake, the Company transferred tower investment of \$46,219 to the Buildings account. However, in calculating the corresponding reserve to be transferred, the Company made an additional error of \$13,216. The error occurred because the Company first calculated the reserve as though the investment had been in Buildings and transferred that amount, \$9,623, to the Buildings account. The total difference in depreciation expense that had accrued in Pole Lines, less the amount that was transferred, was then calculated and an adjustment by that amount, \$13,216, was made, reducing the 1983 expense for Pole Lines rather than transferring the additional amount to Buildings. This had the effect of increasing rate base by \$13,216. Since the investment had historically been in the Pole Lines account and had been depreciated at the rate of that account, it was not appropriate to adjust rate base in this manner. Accordingly, we find that the depreciation reserve for Buildings, Account 212.14, should be adjusted to increase the reserve by \$13,216.

Now, therefore, in consideration of the above, it is

ORDERED by the Florida [*8] Public Service Commission that the depreciation reserves, rates and expenses of St. Joseph Telephone and Telegraph Company, be and the same are hereby adjusted and represcribed as set forth in the body of this order, and in the appended Attachments 1, 2, and 3. It is further

ORDERED that the provisions of this order, issued as proposed agency action, shall become final unless a petition pursuant to Rule 25-22.29, Florida Administrative Code, and in the form provided by Rule 25-22.36, Florida Administrative Code, is received by the Commission Clerk at his office at 101 East Gaines Street, Tallahassee, Florida, 32301, by the close of business on January 3, 1985. It is further

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ORDERED that upon receipt of an appropriate petition regarding this proposed agency action, the Commission will institute further proceedings in accordance with Rule 25-22.36, Florida Administrative Code. It is further

ORDERED that after January 3, 1985, the Commission shall either issue notice of further proceedings, or an order acknowledging that the provisions of this notice have become final. It is further

ORDERED that if this order becomes final and effective on January 3, 1985, any party [*9] adversely affected may request judicial review by the Florida Supreme Court by the filing of a notice of appeal with the Commission Clerk and the filing of a copy of the notice and the filing fee with the Supreme Court. This filing must be completed within 30 days of the effective date of this order, pursuant to Rule 9.110, Florida Rules of Appellate Procedure. The notice of appeal must be in the form specified in Rule 9.900(a), Florida Rules of Appellate Procedure. It is further

ORDERED that if this order becomes final and effective on January 3, 1985, any party adversely affected may request judicial review by the Florida Supreme Court by the filing of a notice of appeal with the Commission Clerk and the filing of a copy of the notice and the filing fee with the Supreme Court. This filing must be completed within 30 days of the effective date of this order, pursuant to Rule 9.110, Florida Rules of Appellate Procedure. The notice of appeal must be in the form specified in Rule 9.900(a), Florida Rules of Appellate Procedure. [*10]

By Order of the Florida Public Service Commission, this 14th day of DECEMBER, 1984.

Attachment 1

ST. JOSEPH TELEPHONE AND TELEGRAPH COMPANY

COMMISSION APPROVED RATES

ACCOUNT NUMBER	ACCOUNT DESCRIPTION	AVERAGE REMAINING LIFE (Years)	FUTURE NET SALVAGE (%)	APPROPRIATE RESERVE (%)	REMAINING LIFE RATE (%)
BUILDINGS					
212.00	Buildings - total				
212.10	Single Unit Switching	32.0	2.0	19.6	2.5
212.20	Office	29.0	8.5	19.9	2.5
212.30	Plant or warehouse	24.0	3.0	24.3	3.0
212.40	Sheds, other	23.0	-2.0	11.8	3.9
CENTRAL OFFICE EQUIPMENT					
221.30	COE - Step (Remaining)	7.2	0.0	41.0	8.2
221.40	COE - Digital	11.9	5.0	10.0	7.1
221.50	COE - Carrier - Total				
221.51	COE - Carrier - Analog	8.1	0.0	36.8	7.8
221.52	COE - Carrier - Digital	9.0	15.0	24.7	6.7
221.53	COE - Carrier - other	3.3	30.0	34.3	10.8
221.59	COE - Carrier - Optics	10.0	0.0	0.0	10.0
221.60	COE - Microwave	8.3	0.0	27.0	8.8
STATION EQUIPMENT					
231.10	Station App. -Embedded	4.5	10.0	@ 25.89	14.2

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ST. JOSEPH TELEPHONE AND TELEGRAPH COMPANY

COMMISSION APPROVED RATES

ACCOUNT NUMBER	ACCOUNT DESCRIPTION	AVERAGE REMAINING LIFE	FUTURE NET SALVAGE	APPROPRIATE RESERVE	REMAINING LIFE RATE
231.20	Station App. -Official	5.0	0.0	44.5	11.1
231.30	Station App. -Paystations	6.0	0.0	40.0	10.0
232.10	Station Conn. -Inside		10 Year Amortization		
234.10	Large PBX -Embedded	3.5	5.0	@ 33.17	17.7
234.20	Large PBX -Official	7.5	10.0	5.3	11.3
OUTSIDE PLANT					
241.00	Pole Lines	13.0	-30.0	49.4	6.2
242.10	Aerial Cable	13.9	-25.0	48.6	5.5
242.15	Aerial Cable - Drop & Block				# 4.9
242.20	Underground Cable	29.0	-5.0	7.4	3.4
242.30	Buried Cable - Total				
242.31	Buried Cable - Filled	24.0	-6.0	12.4	3.9
242.32	Buried Cable - Non-Filled	9.2	-6.0	40.7	7.1
242.33	Buried Cable - Fiber Optic	20.0	-5.0	0.0	5.3
242.34	Buried Cable - Drop & Block				# 4.9
243.00	Aerial Wire - New Additions	10.0	-5.0	0.0	10.5
242.40	Submarine Cable		Recovery Schedule		
244.00	Underground Conduit	47.0	-2.0	8.0	2.0
GENERAL PLANT					
261.10	Furniture & Office Equipment				
261.11	Furniture	17.8	5.0	@ 22.70	4.1
261.12	Office Equipment	6.8	5.0	@ 50.69	6.5
261.20	Computer Equipment	5.3	5.0	23.1	13.6
264.10	Vehicles - Total				
264.11	Cars	2.6	33.0	37.9	11.2
264.12	Light Trucks	2.4	33.0	40.1	11.2
264.13	Heavy Trucks	6.1	18.0	32.0	8.2
264.20	Tools	8.2	5.0	@ 62.83	3.9
264.30	Trailers	3.8	10.0	55.8	9.0
264.40	Heavy Equipment	6.0	10.0	45.0	7.5

@ -Actual Reserve,

-Composite of Aerial Cable and Buried Cable Account Rates

Attachment 2

ST. JOSEPH TELEPHONE AND TELEGRAPH
COMPANY

COMMISSION RESTATED RESERVE TO BE
BROUGHT FORWARD BY ANNUAL ACTIVITY *

ACCOUNT DESCRIPTION

212.11	Single Unit Switching	\$ 159,139
212.12	Office	252,224

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212.13	Plant & Warehouse	57,532
212.14	Sheds, Other	92,483
221.30	COE - Step (Remaining)	1,295,713
221.40	COE - Digital	499,815
221.51	COE - Carrier-Analog	573,865
221.52	COE - Carrier-Digital	337,107
221.53	COE - Carrier-Other	339,142
221.60	COE - Microwave	450,387
231.20	Station App. - Official	72,229
231.30	Station App. - Paystations	96,762
234.20	Large PBX - Official	3,828
241.00	Pole Lines	246,080
242.10	Aerial Cable	473,214
242.20	Underground Cable	14,299
242.31	Buried Cable - F	891,934
242.32	Buried Cable - NF	1,254,668
243.00	Aerial Wire	0
244.00	Underground Conduit	36,867
261.20	Computer Equipment	165,210
264.11	Cars	73,776
264.12	Light Trucks	142,038
264.13	Heavy Trucks	23,098
264.30	Trailers	6,358
264.40	Heavy Equipment	56,525
TOTAL		\$7,614,293

* Excluded from the netting of the reserve deficits are embedded Station Apparatus, Station Connections and PBX, as well as Special Military ADCCS Equipment, Drop and Block, Furniture, Office Equipment, Tools, and equipment on the recovery schedules for Step Central Office Equipment and Submarine Cable. [*12]
Book Reserve = \$6,458,078

Less: Theoretical Reserve Based on Current Rates = \$6,987,080

Historic Deficit = \$ 529,002

Theoretical Reserve Based on Current Rates = \$6,987,080

Less: Theoretical Reserve Based on Commission Approved Rates = \$7,614,293

Prospective Deficit = \$ 627,213

Attachment 3

ST. JOSEPH TELEPHONE AND TELEGRAPH COMPANY
RECOVERY SCHEDULES

Unrecovered Investment	Amortization Period	Annual Expense
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Equipment Description	(\$)	(Years)	(\$)
Existing C.O.E. Equipment (Port St. Joe and Blountstown Offices)	\$ 812,540	1	\$812,540
Steps Equipment to be Retired in 1984-1986 (Carrabelle, Tyndall, Apalachicola and The Beaches)	\$1,107,544	3	\$369,181
Submarine Cable	\$ 15,060	3	\$ 5,020

Legal Topics:

For related research and practice materials, see the following legal topics:
Administrative LawJudicial ReviewReviewabilityStandingEnergy & Utilities LawAd-
ministrative ProceedingsPublic Utility CommissionsGeneral OverviewEnergy &
Utilities LawUtility CompaniesRatesGeneral Overview

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In Re: Proposal to extend plan for recording of certain expenses for years 1998 and 1999 for Florida Power & Light Company

DOCKET NO. 970410-EI; ORDER NO. PSC-97-0499-FOF-EI

Florida Public Service Commission

1997 Fla. PUC LEXIS 510

97 FPSC 4:640

April 29, 1997

PANEL: [*1] The following Commissioners participated in the disposition of this matter: JULIA L. JOHNSON, Chairman, SUSAN F. CLARK, J. TERRY DEASON, JOE GARCIA, DIANE K. KIESLING

OPINION: NOTICE OF PROPOSED AGENCY ACTION ORDER EXTENDING PLAN TO RECORD ADDITIONAL EXPENSES THROUGH 1998 AND 1999

BY THE COMMISSION:

NOTICE IS HEREBY GIVEN by the Florida Public Service Commission that the action discussed herein is preliminary in nature and will become final unless a person whose interests are substantially affected files a petition for a formal proceeding, pursuant to Rule 25-22.029, Florida Administrative Code.

CASE BACKGROUND

In Docket No. 950359-EI, the Commission approved a proposal by Florida Power & Light Company (FPL) that resolved all of the identified issues regarding FPL's petition to establish a nuclear amortization schedule. By Order No. PSC-96-0461-FOF-EI, issued April 2, 1996, FPL was required (1) to book additional 1995 depreciation expense to the reserve deficiency in nuclear production; (2) to record, commencing in 1996, an annual \$ 30 million in nuclear amortization, subject to final determination by the Commission as [*2] to the accounts to which it is to be booked; and (3) to record an additional expense in 1996 and 1997 based on differences between actual and forecasted revenues, to be applied to specific items in a specific order.

In the instant case, FPL, the Office of Public Counsel, and the Commission staff met to discuss a continuation of the plan approved in Docket No. 950359-EI. AmeriSteel, Inc., an FPL customer, also participated in the review of the plan as an interested person. The current proposal (Attachment A) would extend and modify the plan through 1998 and 1999.

In general, the proposal extends the currently approved plan for 1996 and 1997 for an additional two years through 1999. Essentially, FPL proposes to continue to record additional retail expense equal to 100% of the base rate revenues produced by actual retail sales between its "low band" and "most likely sales forecast" and at least 50% of the base rate revenues produced by actual retail sales above FPL's "most likely sales forecast" forecasted for 1996 as filed in Docket No. 950359-EI. This provision remains the same.

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However, there are some differences between the items to which the additional expense will be applied [*3] as well as a modification of their priority. The first priority will be to correct any depreciation reserve deficiency quantified in an approved depreciation study order. Previously, the correction of the nuclear depreciation reserve deficiency had been given the first priority. The priority of the other items in the previously approved plan remains the same.

Several additional items have been added to the list. Item 4 involves the correction of any reserve deficiency in FPL's fossil dismantlement reserves. Item 5 is the correction of any reserve deficiency in FPL's nuclear decommissioning reserves. In the event that any revenues remain to be disposed of, they are to be recorded as an expense in an unspecified depreciation reserve account for production plant to be allocated to specific accounts at a later date by the Commission.

Although it is not specifically addressed in the proposal, FPL is still obligated to record an additional \$ 30 million annually in nuclear amortization until such time as the Commission orders otherwise per the terms of the plan approved in Order No. PSC-96-0461-FOF-EI. In addition, all amounts remain subject to review and audit by the Commission. [*4] This plan neither precludes an earnings review nor a review of the plan during the context of a proceeding to reset base rates. In the event that any legislative, administrative, or judicial action authorizing retail wheeling or deregulating the retail electric market is approved for Florida, the terms of this proposal may be altered or terminated upon the Commission's own motion or by the approval of a petition filed with the Commission.

We believe that this plan is appropriate because it mitigates past deficiencies with Commission prescribed depreciation, dismantlement, and nuclear decommissioning accruals. The plan also brings FPL's accounting in line with non-regulated companies by eliminating regulatory assets such as deferred refinancing costs and the assets associated with previously flowed through taxes. These accounting adjustments will facilitate the establishment of a level "accounting" playing field between FPL and possible non-regulated competitors.

Based on the foregoing, it is

ORDERED by the Florida Public Service Commission that the proposal (Attachment A) that extends and modifies the previously approved FPL plan for 1996 and 1997 concerning the recording of [*5] certain additional expenses for the years 1998 and 1999 is approved. It is further

ORDERED that the provisions of this Order, issued as proposed agency action, shall become final and effective unless an appropriate petition, in the form provided by Rule 25-22.036, Florida Administrative Code, is received by the Director, Division of Records and Reporting, 2540 Shumard Oak Boulevard, Tallahassee, Florida 32399-0850, by the close of business on the date set forth in the "Notice of Further Proceedings or Judicial Review" attached hereto. It is further

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

By ORDER of the Florida Public Service Commission, this 29th day of April, 1997.

BLANCA S. BAYO, Director
Division of Records and Reporting
FPL 1998 and 1999 Plan

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FPL shall record an additional retail expense in 1998 and 1999 equal to 1005'o of the base rate revenues produced by retail sales between its "low band" (\$ 3.1409 billion) and "most likely sales forecast" (\$ 3.2241 billion) and at least 50% of the base rate revenues produced by retail sales above FPL's "most likely sales forecast" forecasted [*6] for 1996 as filed in Docket No. 950359-EI. Any additional retail expense recorded as a result of this provision will be applied to the retail portion of the following listed in priority order:

1. Correction of any depreciation reserve deficiency resulting from an approved depreciation study order;
2. Writing off the net amounts of book-tax timing differences that were flowed through in prior years and remain to be turned around in future periods;
3. Writing off the Unamortized Loss on Reacquired Debt;
4. Correction of the reserve deficiency, if any, existing in FPL's fossil dismantlement reserves;
5. Correction of the reserve deficiency, if any, existing in FPL's nuclear decommissioning reserves. Any additional expenses recorded under this plan for nuclear decommissioning shall be funded on an after tax basis. Effective January 1, 1998, all debit deferred taxes resulting from amounts contained in decommissioning funds shall be excluded for surveillance purposes;
6. In the event revenues from the forecast bands are greater than the expenses identified herein, the remaining expenses shall be recorded in an unspecified depreciation reserve to be allocated at a later [*7] date.

A comprehensive fossil dismantlement study and a comprehensive nuclear decommissioning study shall be filed by October 1, 1998.

Upon the Commission's own motion or a petition filed with the Commission, the recording of the additional expense under this plan may be altered or terminated by the Commission in the event that legislative, administrative or judicial action authorizing retail wheeling or deregulating the retail electric market is approved for Florida.

Legal Topics:

For related research and practice materials, see the following legal topics:
Energy & Utilities LawAdministrative ProceedingsPublic Utility CommissionsGeneral OverviewEnergy & Utilities LawElectric Power IndustryDeregulation & RestructuringEnergy & Utilities LawElectric Power IndustryElectricity Distribution & TransmissionRetail Wheeling



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In Re: Depreciation study as of December 31, 1992 for
Marianna Electric Division of Florida Public Utilities Com-
pany

DOCKET NO. 930453-EI; ORDER NO. PSC-93-1839-FOF-EI

Florida Public Service Commission

1993 Fla. PUC LEXIS 1667

93 FPSC 12:510

December 27, 1993

PANEL: [*1]

The following Commissioners participated in the disposition of this matter:
SUSAN F. CLARK, JULIA L. JOHNSON, LUIS J. LAUREDO

NOTICE OF PROPOSED AGENCY ACTION

OPINION: ORDER PRESCRIBING NEW DEPRECIATION RATE SCHEDULES, AND RESERVES FOR
FLORIDA PUBLIC UTILITIES COMPANY

BY THE COMMISSION:

NOTICE IS HEREBY GIVEN by the Florida Public Service Commission that the ac-
tion discussed herein is preliminary in nature and will become final unless a
person whose interests are adversely affected files a petition for a formal pro-
ceeding, pursuant to Rule 25-22.029, Florida Administrative Code.

On May 12, 1993, Florida Public Utilities Company (FPUC or the Company)
filed its quadrennial depreciation study in accordance with Rule 25-6.0436,
Florida Administrative Code. Since the last represcription, changes brought
about by Company activity and planning indicates the need to review and possibly
revise current prescribed depreciation rates. Data submitted by FPUC and re-
lated calculations suggest a January 1, 1994 implementation date for revised
rates and schedules.

Corrective Reserves

Attachment [*2] A

Our Staff's review indicates that there a number of reserve imbalances exist-
ing which result primarily from differences in current and past projections.
According to our Staff such deficiencies should be recovered as fast as possi-
ble, unless such recovery prevents the Company from earning a fair and reason-
able return on its investments. In this case, negative reserve balances exist
for the Power Operated account and the Tools, Shop & Garage account, Accounts
396 and 394.1 respectively. The cause for these deficiencies is that more re-
tirements have occurred than are currently provided for in the design of the
previously prescribed depreciation rates. An apparent reserve surplus exists in
the Poles, Towers, and Fixtures account, Account 364, that can be used to cor-

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rect the deficiencies in the accounts described above. This action will bring each affected account's reserve more in line with its calculated theoretical level.

Also, in light of the possible impact on cost allocations, the Company should make corresponding entries to the related depreciation expense accounts. (Attachment C)

Depreciation Rates and Amortization Schedules

(Attachment B)

Our staff and FPUC agree [*3] on lives, net salvages, and resulting depreciation rates, on all but 5 accounts. Those accounts are Poles, Towers, and Fixtures; Overhead Conductors and Devices; Line Transformers; Meters; Tools, Shop & Garage Equipment; and Power Operated Equipment. These accounts are discussed below.

Poles, Towers, and Fixtures (Account 364)

The difference between the remaining life positions of the Company and staff is due only to rounding. When the remaining life is twenty years or more, our staff's position is to round to the nearest year. We can find no persuasive argument that would require us to be so precise in an estimate some 20 years in the future.

FPUC has indicated that its salvage experience indicates a return to the negative pattern of the 1970s and early 1980s. A factor of negative 25% was therefore proposed for this account. Net salvage for the 1988-1992 period has ranged from 29% to negative a 40%, with a 5-year average of approximately 1%. Our staff agrees with the Company that the positive salvage should be considered abnormal and not indicative of future expectations, but can not agree with reliance on one year's experience as a reason to change current [*4] prescribed negative 20% net salvage especially when retirement activity has consistently been minimal.

There is also a difference in the reserve positions of the Company and staff which were previously discussed in our treatment of corrective reserve measures.

Overhead Conductors and Devices (Account 365)

As stated earlier, when the remaining life is twenty years or more, our staff's position is to round to the nearest year. The difference between the remaining life positions of the Company and staff are due only to rounding.

Line Transformers & Meters (Account 368, 370)

FPUC has proposed service lives of 34 and 38 years, remaining lives of 22.8 and 23.9 years and net salvage factors of negative 20% and negative 25% for transformers and meters respectively. The Company indicated that the proposed service lives resulted from simulation studies. However, rather than rely solely on statistics, our staff prefers to know why a change is necessary. Primarily, our staff prefers data based upon Company operations expected to impact the future life and salvage parameters. Without such information, our staff's position is to retain current prescribed factors. In this case, service [*5] lives underlying currently prescribed remaining lives for each of these accounts are 20 years and 30 years, respectively. Current service life projections seen from other companies in the State of Florida range from 16 years to 29 years for transformers and 25 years to 30 years for meters. FPUC's proposal exceeds these ranges and lack any support other than their reliance upon statistics. We agree

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with our staff that there is no reason to change existing service life parameters from the data submitted by FPUC. Our staff's remaining life reflects an update of currently prescribed factors with activity since the last depreciation study.

Our Staff expressed a concern over the high costs of removal incurred by FPUC for these accounts. According to FPUC, the reason for the high removal cost has been a result of booking the removal of transformers and meters that were for refurbishment as costs of removal. With FPUC's expressed position, they will no longer use the procedure and we can expect not to see this type of activity in the future and will retain the current prescribed net salvage factor of negative 10%.

Tools, Shop & Garage Equipment (Account 394.1)

Our staff indicates [*6] that the difference between the positions of the Company and staff in this account is due to the reserve position. We agree with our staff's recommendation which is reflected in the corrective reserve measures discussed previously in this order.

Power Operated Equipment (Account 396)

While our staff and the Company agree on a 14-year service life, there is a difference in positions regarding remaining life. Our Staff's recommendation for recalculation of the account's average age recognizes 1993 activity.

According to our Staff although relatively little activity has been experienced in this account, the net salvage incurred appears to indicate a net salvage more in the range of 10% rather than the Company's proposed 5%. This reserve position is also reflective of the corrective reserve measures discussed previously.

Recovery Schedules

(Attachment C)

Our staff recommends recovery schedules designed to recover the net investments associated with the retiring hydraulic plant and PCB capacitors disposal. According to data submitted by the Company, the hydraulic plant has ceased operation and estimates for repairing the equipment show that refurbishment is not cost [*7] justified. In addition, there is a pending lawsuit with the State of Florida on who actually owns the property on which the plant is located. For these reasons, the plant is being retired by year-end 1993. FPUC has proposed a recovery schedule designed to recover the associated net investments over a 4-year period. There appears to be some question as to whether the plant will be fully dismantled, therefore, the Company is requesting the recovery of removal costs incurred only through year-end 1993 (\$ 36,704). If it is determined that the plant will indeed be dismantled, FPUC should accordingly petition the Commission for additional recovery.

Additional removal costs are being incurred to dispose of some PCB capacitors that were previously buried upon retirement. It is now necessary to dig those capacitors up and otherwise dispose of them to avoid future contamination of the soil and subsurface water. According to FPUC, these removal and disposal activities will be completed by year-end 1993. Current estimates for this removal are \$ 77,500 which FPUC has proposed to place in a 4-year recovery schedule.

Our staff supports the use of recovery schedules to address the recovery [*8] of the net investments discussed above. Although staff would ordinarily recommend a faster recovery period due to the plant no longer in service, our staff

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recommends that due to these costs not being life related and the fact that the Company is currently seeking revenue rate relief in another docket, the 4-year recovery periods should be approved.

Based upon the foregoing, it is

ORDERED by the Florida Public Service Commission that Florida Public Utilities Company, Marianna Electric Division, shall record the corrective reserve transfers set forth in Attachment A. It is further

ORDERED that the depreciation rates and amortization schedules set forth in Attachment B to this order are hereby approved for Florida Public Utilities Company, Marianna Electric Division. It is further

ORDERED that Florida Public Utilities Company, Marianna Electric Division, shall implement the recoveries schedules that are set forth in Attachment C. It is further

ORDERED that the effective date of the new rates, schedules and reserves is January 1, 1994. It is further

ORDERED that this Order shall become final and this docket shall be closed unless an appropriate petition for formal [*9] proceeding is received by the Division of Records and Reporting, 101 East Gaines Street, Tallahassee, Florida 32399-0870, by the close of business on the date indicated in the Notice of Further Proceedings or Judicial Review.

By ORDER of the Florida Public Service Commission, this 27th day of December, 1993.

ATTACHMENT "A"

FLORIDA PUBLIC UTILITIES - MARIANNA DIVISION

1993 STUDY

RECOMMENDED CORRECTIVE RESERVE MEASURES

		1/1/94				
		ESTIMATED RESERVE	THEORETICAL RESERVE	RESERVE IMBALANCE	CORRECTIVE TRANSFER	RESTATED RESERVE
364	Poles, Towers, and Fixtures	1,387,742	1,285,155	102,587	(30,852)	1,356,890
394.1	Tools, Shop & Garage Equipment	(519)	3,968	(4,487)	4,487	3,968
396	Power Operated	(23,783)	2,582	(26,365)	26,365	2,582
						0

ATTACHMENT "B"

1993 STUDY

ACCOUNT	COMMISSION APPROVED RATES			
	AVERAGE REMAINING LIFE (YRS.)	NET SALVAGE (%)	ESTIMATED 1/1/94 RESERVE (%)	REMAINING LIFE RATE (%)
	HYDRAULIC PRODUCTION PLANT			
	331-Structures & Improvements			
332-Reservoirs, dams, and waterways			[4 YEAR RECOVERY SCHEDULE]	
333-Wheels, turbines and generators				

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ACCOUNT	COMMISSION APPROVED RATES			
	AVERAGE REMAINING LIFE (YRS.)	NET SALVAGE (%)	ESTIMATED 1/1/94 RESERVE (%)	REMAINING LIFE RATE (%)
334-Accessory electric equipment				
335-Miscellaneous power plant				
DISTRIBUTION PLANT				
360.1-Land Rights	42.0	0.0	3.7	2.3
361-Structures and Improvements	34.0	0.0	26.2	2.2
362-Station Equipment	25.0	(10.0)	37.2	2.9
364-Poles, Towers, and Fixtures	23.0	(20.0)	** 39.3	3.5
365-Overhead Conductors & Devices	22.0	(10.0)	36.6	3.3
366-Underground Conduit	45.0	0.0	11.6	2.0
367-Underground Conductors & Devices	30.0	0.0	16.4	2.8
368-Line Transformers	17.9	(10.0)	38.2	4.0
369-Services	18.5	(15.0)	30.1	4.6
370-Meters	15.2	(10.0)	48.4	4.1
371-Installation on Customers' Premises	10.2	20.0	22.0	5.7
373-Street Lighting & Signal Systems	18.6	5.0	40.7	2.9
GENERAL PLANT				
390-Structures & Improvements	49.0	(5.0)	3.6	2.1
392.1-Transportation-Cars	1.7	15.0	34.1	29.9
392.2-Transportation- Light Trucks & Vans	3.7	10.0	41.7	13.0
392.3-Transportation- Heavy Trucks	6.8	10.0	43.0	6.9
392.4-Transportation-Vans	22.0	5.0	32.8	2.8
393.1-Stores Equipment-Fixed	15.8	0.0	16.7	5.3
394.1-Tools, Shop & Garage Equipment	19.5	0.0	** 25.9	3.8
395.1-Laboratory Equipment	19.6	0.0	34.2	3.4
396-Power Operated Equipment	12.5	10.0	** 10.0	6.4
397-Communication Equipment	4.7	0.0	59.4	8.6

[*10]

** Denotes restated reserve

ATTACHMENT "C"

1993 STUDY

COMPARISON OF EXPENSES

ACCOUNT	1/1/94 ESTIMATED INVESTMENT	1/1/94 ESTIMATED RESERVE
DISTRIBUTION PLANT		
360.1-Land Rights	25,829	948
361-Structures and Improvements	8,614	2,257

ACCOUNT	1/1/94 ESTIMATED INVESTMENT	1/1/94 ESTIMATED RESERVE
362-Station Equipment	756,344	261,291
364-Poles, Towers, and Fixtures	3,454,718	** 1,358,890
365-Overhead Conductors & Devices	4,002,291	1,465,068
366-Underground Conduit	109,140	12,617
367-Underground Conductors & Devices	317,833	51,942
368-Line Transformers	3,830,003	1,464,083
369-Services	1,571,589	473,066
370-Meters	855,383	414,238
371-Installation on Customers' Premises	358,855	78,328
373-Street Lighting & Signal Systems	184,867	75,279
TOTAL DISTRIBUTION PLANT	15,473,266	5,676,005
GENERAL PLANT		
390-Structures and Improvements	771,201	27,757
392.1-Transportation-Cars	46,886	15,997
392.2 -Transportation-Light Trucks & Vans	132,737	55,384
392.3-Transportation-Heavy Trucks	819,161	352,445
392.4-Transportation-Vans	11,872	3,827
393.1-Stores Equipment-Fixed	55,796	9,342
394.1-Tools, Shop & Garage Equipment	15,319	** 3,968
395.1-Laboratory Equipment	16,904	5,782
396-Power Operated Equipment	25,819	** 2,582
397-Communication Equipment	85,481	50,772
TOTAL GENERAL PROPERTY	1,980,958	527,858
TOTAL RATES	17,454,222	6,203,861
RECOVERY SCHEDULE		
HYDRAULIC PLANT	0	(69,916)
PCB CAPACITORS	0	(77,500)
	0	(147,416)
TOTAL PLANT [*11]	17,454,222	6,058,445

ACCOUNT	CURRENT	
	RATE	EXPENSES
DISTRIBUTION PLANT		
360.1-Land Rights	4.3	1,111
361-Structures and Improvements	2.3	198
362-Station Equipment	3.0	22,690
364-Poles, Towers, and Fixtures	3.8	131,279
365-Overhead Conductors & Devices	3.8	152,087
366-Underground Conduit	2.0	2,183
367-Underground Conductors & Devices	3.0	9,529
368-Line Transformers	4.4	168,520
369-Services	5.0	78,579
370-Meters	4.4	37,636
371-Installation on Customers' Premises	3.4	12,133
373-Street Lighting & Signal Systems	2.6	4,807
TOTAL DISTRIBUTION PLANT		620,752

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		CURRENT		
ACCOUNT		RATE	EXPENSES	
GENERAL PLANT				
390-Structures and Improvements		2.6	20,051	
392.1-Transportation-Cars		13.6	6,376	
392.2 -Transportation-Light Trucks & Vans		9.6	12,743	
392.3-Transportation-Heavy Trucks		7.7	63,075	
392.4-Transportation-Vans		3.8	444	
393.1-Stores Equipment-Fixed		3.2	1,785	
394.1-Tools, Shop & Garage Equipment		4.3	659	
395.1-Laboratory Equipment		2.5	423	
396-Power Operated Equipment		5.2	1,343	
397-Communication Equipment		2.8	2,393	
TOTAL GENERAL PROPERTY			109,292	
TOTAL RATES			730,044	
RECOVERY SCHEDULE				
HYDRAULIC PLANT		* 5.4	0	
PCB CAPACITORS		3.4	0	
			0	
TOTAL PLANT			730,044	
{*12}				
		STAFF RECOMMENDATION		
ACCOUNT		RATE	ESTIMATED EXPENSES	CHANGE IN EXPENSES
DISTRIBUTION PLANT				
360.1-Land Rights		2.3	594	(517)
361-Structures and Improvements		2.2	190	(8)
362-Station Equipment		2.9	21,934	(756)
364-Poles, Towers, and Fixtures		3.5	120,915	(10,364)
365-Overhead Conductors & Devices		3.3	132,076	(20,011)
366-Underground Conduit		2.0	2,183	0
367-Underground Conductors & Devices		2.8	8,894	(635)
368-Line Transformers		4.0	153,200	(15,320)
369-Services		4.6	72,293	(6,286)
370-Meters		4.1	35,070	(2,566)
371-Installation on Customers' Premises		5.7	20,341	8,208
373-Street Lighting & Signal Systems		2.9	5,362	555
TOTAL DISTRIBUTION PLANT		2.9	573,052	(47,700)
GENERAL PLANT				
390-Structures and Improvements		2.1	16,195	(3,856)
392.1-Transportation-Cars		29.9	14,019	7,643
392.2-Transportation-Light Trucks & Vans		13.0	17,258	4,513
392.3-Transportation-Heavy Trucks		6.9	56,522	(6,553)
392.4-Transportation-Vans		2.8	327	(117)
393.1-Stores Equipment-Fixed		5.3	2,957	1,172
394.1-Tools, Shop & Garage Equipment		3.8	582	(77)

ACCOUNT	STAFF RECOMMENDATION		
	RATE	ESTIMATED EXPENSES	CHANGE IN EXPENSES
395.1-Laboratory Equipment	3.4	575	152
396-Power Operated Equipment	6.4	1,652	309
397-Communication Equipment	8.6	7,350	4,957
TOTAL GENERAL PROPERTY		117,435	8,143
TOTAL RATES		890,487	(39,557)
RECOVERY SCHEDULE			
HYDRAULIC PLANT	4 Yr. Amort.	17,479	17,479
PCB CAPACITORS	4 Yr. Amort.	19,375	19,375
		36,854	36,854
TOTAL PLANT [*13]		727,341	(2,703)

Legal Topics:

For related research and practice materials, see the following legal topics:
Energy & Utilities LawAdministrative ProceedingsJudicial ReviewGeneral Over-
viewEnergy & Utilities LawAdministrative ProceedingsPublic Utility Commissions-
General OverviewEnergy & Utilities LawUtility CompaniesRatesGeneral Overview



10 of 11 DOCUMENTS

In Re: Investigation of the appropriate accounting and rate-making treatment of Nuclear Powered generators

DOCKET NO. 810100-EU; ORDER NO. 13427

Florida Public Service Commission

1984 Fla. PUC LEXIS 491

84 FPSC 218

June 15, 1984

PANEL: [*1]

The following Commissioners participated in the disposition of this matter: Gerald L. Gunter, Chairman; John R. Marks, III, Susan W. Leisner

OPINION: ORDER DENYING MOTION FOR RECONSIDERATION

BY THE COMMISSION:

By Order No. 12502, issued September 14, 1983 we approved decommissioning cost recovery factors for Florida Power and Light Company and Florida Power Corporation. Public Counsel filed a timely Motion for Reconsideration of Order No. 12502 and the two utilities filed timely replies. Oral argument was heard on January 10, 1984.

Public Counsel's Motion rests up on three grounds: (1) the Commission may not adjust rates absent evidence and findings regarding a utility's ability to earn its authorized rate of return, (2) in authorizing recovery of interim revenue deficiencies from January, 1983, the Commission engaged in retroactive rate-making, and (3) by both revising the accrual and initiating the recovery factor on October 1, 1983 the Commission allowed the utilities to bill too soon.

We cannot agree with Public Counsel's first assertion. To be begin with, Order No. 12502 authorized the recovery of certain expenses. This was a dollar for dollar recovery, such as [*2] the fuel adjustment. We did not consider rate of return because we were not seeking to determine if the utilities' rates of return were excessive or inadequate. We simply sought to adjust rates for a specified identifiable expense, just as it is done in the fuel adjustment.

Further, our principle purpose in the case was not to correct deficiencies in revenue recovery, but to correct an accounting and ratemaking problem. We determined that the current method of recovery of decommissioning costs was deficient from both an accounting standpoint and a ratemaking standpoint. Florida Power and Light Company and Florida Power Corporation were accounting for the cost of decommissioning their nuclear units by factoring a negative salvage value into their depreciation rates for those units. This negative salvage component, like the depreciation reserve, was accounted for on the basis of an unfunded reserve. We determined that use of an unfunded reserve failed to properly place the cost of decommissioning on the cost-causers. Current customers are receiving the benefit of nuclear powered generation and should be responsi-

1984 Fla. PUC LEXIS 491, *

ble for contributing to the decommissioning of the nuclear units from [*3] which they receive service. However, an unfunded reserve allows a utility to use the revenues received for decommissioning for current operations instead setting them aside. In such a case, the utility is able to offset some of its current capital costs and postpone borrowing or equity issues until decommissioning actually occurs. The utility thus returns to its current ratepayers some of the dollars intended for decommissioning while imposing on future ratepayers the risk of higher costs when decommissioning actually occurs. By requiring a funded reserve, we made sure that the funds collected from current ratepayers would not be used for current operations and that they would be available to cover future decommissioning cost, instead of unfairly throwing the costs on future customers. Further, we determined that the current decommissioning accrual was insufficient and required a revision to the accrual.

Establishing a funded reserve and revising the accrual created a proper recovery of decommissioning expense on the utilities' books, but it didn't by itself match cost-causers with the costs they cause. Fairness dictates that those receiving services and imposing [*4] costs be obliged to pay those costs, instead of placing the risk of recovery on other ratepayers who may not get service from the nuclear units. Changing rates paid for service is necessary to place the cost on the cost-causer.

We made references to revenue deficiencies in our order, not to identify the revenues to which the utilities were entitled, but to identify the costs for which current ratepayers are responsible. We determined that a further delay in changing rates to recognize the responsibility of current ratepayers to pay the full cost of operating the nuclear generators simply continued an already unfair situation. We determined that it was unfair that current ratepayers were not paying their full share and could therefore properly change FP&L's and FPC's rates to alleviate unfair, unjust and unreasonable rates.

Even if we were to consider the change in rates to be purely a matter of revenue recovery for the utility, we are not precluded from changing revenues without a full analysis of revenue requirements. The fuel adjustment, which has operated since 1974, involves no analysis of revenue requirements outside of fuel costs. Rate of return is not considered, [*5] nor even mentioned. This history of changing rate levels outside of a full revenue requirements analysis belies Public Counsel's argument. Just as the fuel adjustment is not the place to remedy overearnings by refusing fuel cost recovery, this proceeding should not ignore the identified actual change in decommissioning cost that will occur regardless of rate of return.

While we agree with the technical thrust of Public Counsel's second and third points, we cannot agree that Order No. 12502 should be reversed or modified. As to the second point, we conclude that the remedies available at this time do not place the ratepayers in a different position from the action challenged by Public Counsel. We chose to allow the utilities to recover their revenue shortfall over a six month period while Public Counsel proposed recovery over a three to five year period.

If we reverse Order No. 12502 we basically face two alternatives. The utilities have already recovered the disputed revenue. We can order the utilities to refund the dollars collected and then allow them to recover them back again over a different period. This would be an adoption of Public Counsel's approach stated in the [*6] prehearing order. Alternatively, we can order the utilities to refund the dollars collected, reverse the requirement that they revise their accruals as of January 1, 1983, and then revise the utilities' accruals and rates simultaneously at a future date. We required the utilities to begin

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booking the revised accruals as of January 1, 1983 with the intent that they recover the revenues associated with that revision at a later date. The revised booking was predicated on delayed revenue recovery. This decision was recorded in Order No. 12356. If we were to determine that delayed recovery of the revenue was inappropriate, fairness dictates that we would reverse the requirement to book the revised accruals. Reversal of the booking started January 1, 1983 would create a deficiency in the current decommissioning factors. This would necessitate revision of the decommissioning accruals and a prospective change in utility rates to reflect the revision. The utilities would then recover the deficiency incurred during the January - September, 1983 period over the future decommissioning accrual.

If we grant Public Counsel's Motion for Reconsideration, the ratepayers will be in [*7] essentially the same position as if we denied reconsideration. Order No. 12502 caused collection of certain dollars by the utilities. The two alternatives discussed above would cause the utilities to refund those dollars and then collect the same dollars back again over a different period. Since the remedies for the error in Order No. 12502 effectively produce the same result as the action challenged, we decline to modify Order No. 12502.

As to Public Counsel's third point, the whole purpose of the coincidence of changing the accrual and starting the billing on October 1, 1983 was to match costs and revenues. The error was not in authorizing premature application of new rates but in improperly delaying revision of the accruals. We decline to modify Order No. 12502 to cause the utilities to refund the revenues collected in October, 1983.

Based on the foregoing, it is

ORDERED by the Florida Public Service Commission that the Motion for Reconsideration of Order No. 12502 filed by the Office of Public Counsel be and the same is hereby denied.

By Order of the Florida Public Service Commission this 15th day of JUNE, 1984.

Legal Topics:

For related research and practice materials, see the following legal topics:
Energy & Utilities LawAdministrative ProceedingsPublic Utility CommissionsGeneral OverviewEnergy & Utilities LawAdministrative ProceedingsU.S. Federal Energy Regulatory CommissionGeneral OverviewEnergy & Utilities LawUtility CompaniesContracts for Service

LEXSEE



Caution
As of: Aug 20, 2009

Startrans IO, L.L.C.

Docket Nos. EC08-33-000, EC08-33-001

FEDERAL ENERGY REGULATORY COMMISSION - COMMISSION

122 F.E.R.C. P61,307; 2008 FERC LEXIS 637

March 31, 2008

CORE TERMS: transmission, protest, depreciation, accounting, customers, acquisition, refund, generation, recorded, issuance, overpayment, regulation, cross-subsidization, accumulated, protestors, ratepayers, public utility, encumbrance, captive, entity, pledge, revised, percent increase, purchase price, adverse effect, jurisdictional, minimis, approve, offset, consolidate

ACTION:

[**1] ORDER AUTHORIZING THE ACQUISITION OF JURISDICTIONAL FACILITIES

SUBSEQUENT HISTORY:

As Amended April 23, 2008.

JUDGES: Before Commissioners: Joseph T. Kelliher, Chairman; Suedeen G. Kelly, Marc Spitzer, Philip D. Moeller, and Jon Wellinghoff

OPINION:

[*62,793] 1. On January 4, 2008, as amended on February 27, 2008, Startrans IO, L.L.C. (Startrans) (Applicant) filed an application seeking authorization under section 203 of the Federal Power Act (FPA) n1 for the acquisition of transmission interests through assignment of certain agreements and related books and records (Transaction). The assets are now owned by the City of Vernon, California (Vernon). n2

n1 16 U.S.C. § 824b (2000), amended by Energy Policy Act of 2005, Pub. L. No. 109-58, § 1289, 119 Stat. 594, 982-83 (2005) (EPAAct 2005).

n2 Concurrently with this filing, Startrans filed applications under FPA sections 204 and 205 in Docket Nos. ES08-24 and ER08-413, respectively. The Commission has issued an order in Docket No. ES08-24, 122 FERC P61,253 and is issuing an order in Docket No. ER08-413 simultaneously with this order.

[**2]

2. The Commission has reviewed the Transaction under the Commission's Merger Policy Statement. n3 As discussed below, we authorize the Transaction as consistent with the public interest. Although the Transaction may lead to some increase in transmission rates, it is also likely to result in benefits related to the ownership of the transmission facilities by a stand-alone transmission company (Transco). We note that this Transaction will result in the creation of a Transco in the California Independent System Operator Corporation (CAISO).

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ⁿ³ See *Inquiry Concerning the Commission's Merger Policy Under the Federal Power Act: Policy Statement*, Order No. 592, FERC Stats. & Regs. P31,044 (1996), *reconsideration denied*, Order No. 592-A, 79 FERC P61,321 (1997) (Merger Policy Statement). See also *FPA Section 203 Supplemental Policy Statement*, 72 Fed. Reg. 42,277 (Aug. 2, 2007), FERC Stats. & Regs. P31,253 (2007) (Supplemental Policy Statement), *order on clarification and reconsideration*, 122 FERC P61,157 (2008). See also *Revised Filing Requirements Under Part 33 of the Commission's Regulations*, Order No. 642, FERC Stats. & Regs. P31,111 (2000), *order on reh'g*, Order No. 642-A, 94 FERC P61,289 (2001). See also *Transactions Subject to FPA Section 203*, Order No. 669, FERC Stats. & Regs. P31,200 (2005), *order on reh'g*, Order No. 669-A, FERC Stats. & Regs. P31,214, *order on reh'g*, Order No. 669-B, FERC Stats. & Regs. P31,225 (2006).

[**3]

I. Background

A. Description of the Parties

1. Startrans

3. Startrans is a transmission-only limited liability company that does not currently own any jurisdictional assets. Startrans is indirectly owned by Starwood Energy Infrastructure Fund (SEI Fund), which is owned by SEI Management L.P. (SEI Management) as a general partner, and by various passive investors as limited partners. SEI Management is owned by SEI Management Holdings (SEI Holdings) as a general partner, and by SEI Investors, L.P., as its sole limited partner. SEI Holdings is wholly owned by Starwood Energy Group Global, L.L.C. (SEG), which is owned by various private investors. SEG is primarily involved in developing, acquiring, and investing in energy infrastructure assets. SEG through its affiliates also owns passive minority interests in another transmission system and has made development loans related to transmission projects. ⁿ⁴

ⁿ⁴ Application at 3-6.

2. Vernon

4. Vernon is a California ^{**4} municipal utility that is not subject to the Commission's section 205 jurisdiction. Vernon owns interests in the Mead-Adelanto Project (MAP) and the Mead-Phoenix Project (MPP) (collectively, Mead Facilities or Mead Transmission Interests). The Mead Facilities consist of two jointly-owned transmission lines in which Vernon has ownership interests through certain agreements. ⁿ⁵ The MAP is a 1,296 megawatt (MW) transmission line extending 202 miles [^{*62,794}] from the Marketplace Switching Station in Southern Nevada to the Adelanto Switching Station in Southern California. MAP is operated by the Los Angeles Department of Water and Power (LADWP). Vernon owns a 6.25 percent interest in MAP. The MPP is a 1,300 MW transmission line extending 256 miles from the Perkins Switchyard near Sun City, Arizona to the Marketplace Switching Station. The MPP is operated by the Salt River Project and the Western Area Power Administration. It consists of three primary components, in which Vernon holds approximate interests of 2.15 percent, 3.79 percent, and 4.05 percent, respectively. Vernon is a Participating Transmission Owner (PTO) within the CAISO.

ⁿ⁵ Application at 6, n. 5.

[**5]

B. Description of the Transaction

5. Under the Purchase and Sale Agreement (Purchase Agreement), Startrans will acquire the Mead Transmission Interests from Vernon through the assignment by Vernon of certain agreements and other related books and records. ⁿ⁶ Upon completion of the Transaction, Startrans will own and manage the Mead Transmission Interests. ⁿ⁷

122 F.E.R.C. P61,307, *; 2008 FERC LEXIS 637, **

n6 Application at 8.

n7 Application at 1.

C. Related Agreements and Tariff

6. Startrans states that it has made a separate filing with the CAISO to become a PTO and execute the Transmission Control Agreement Among Independent System Operator and Transmission Owners (TCA). Startrans states that it will also execute an Agreement on Assumption of Liabilities Under the Transmission Control Agreement (Assumption Agreement) related to the Mead Facilities with Vernon and the CAISO. n8

n8 Application at 8-9. The Assumption Agreement relates to Vernon's potential refund liability associated with alleged past overcollections of its Transmission Revenue Requirement (TRR) through the CAISO's Transmission Access Charge (TAC).

[**6]

II. Notice of Filing and Responsive Pleadings

7. Notice of the application was published in the *Federal Register*, 73 Fed. Reg. 2,905 (2008), with interventions and protests due on or before January 25, 2008. Pacific Gas & Electric Company (PG&E) and Southern California Edison Company (SoCal Edison) (collectively, California PTOs) filed a timely motion to intervene and protest, motion for consolidation, and a request for hearing. The Public Utilities Commission of the State of California (California Commission) filed a notice of intervention and motion for additional time to file comments and protest. The California Department of Water Resources State Water Project, the CAISO, the M-S-R Public Power Agency, and the cities of Anaheim, Azusa, Banning, Colton, Pasadena, and Riverside, California (Six Cities) filed timely motions to intervene. San Diego Gas & Electric Company (SDG&E) filed a timely motion to intervene and consolidate.

8. SoCal Edison, PG&E, and SDG&E (collectively, California Parties) filed a motion to intervene and protest, n9 motion to consolidate, and a request for a hearing. The CAISO filed a motion to intervene and comments. Vernon filed a motion to intervene [**7] and a partial answer to the California PTOs' protest (Vernon Response). The Transmission Agency of Northern California (TANC) filed a motion to intervene.

n9 The protest applies to Docket No. ES08-24.

9. Startrans filed a response supporting the California Commission's and the CAISO's request for an extension. Startrans filed an answer to the California PTOs' protest, the California Parties' and Six Cities' comments, and SDG&E's request for consolidation (Startrans February 8 Answer).

10. The California Commission filed a protest (California Commission Protest). Startrans filed a response (Startrans February 19 Answer).

11. On February 22, 2008, the Director, Division of Tariffs and Market Development -- West, acting under delegated authority, issued a letter seeking additional information relating to Startrans' application (Deficiency Letter). On February 27, 2008, Startrans filed a response to the Deficiency Letter (Supplemental Filing). Notice of Startrans' Supplemental Filing was published [**8] in the *Federal Register*, 73 Fed. Reg. 12,403 (2008), with interventions and comments due on or before March 10, 2008. PG&E, SDG&E, and SoCal Edison filed comments on March 10, 2008, and on March 14, 2008, Startrans filed an answer (Startrans March 14 Answer).

III. Discussion

A. Procedural Issues

122 F.E.R.C. P61,307, *; 2008 FERC LEXIS 637, **

12. Pursuant to Rule 214 of the Commission's Rules of Practice and Procedure, n10 the notice of intervention and timely, unopposed motions to intervene serve to make the entities that filed them parties to this proceeding.

n10 18 C.F.R. § 385.214 (2007).

13. Rule 213(a)(2) of the Commission's Rules of Practice and Procedure n11 prohibits an answer to a protest unless otherwise ordered by the decisional authority. We will accept Startrans' answers because they have provided information that assisted us in our decision-making process.

n11 18 C.F.R. § 385.213(a)(2) (2007).

[**9]

B. Standard of Review under Section 203

14. Section 203(a)(4) requires the Commission to approve a transaction if it determines that the transaction will be consistent with the public interest. The Commission's analysis of whether a transaction will be consistent with the public interest generally involves consideration of three factors: (1) the effect on competition; (2) the effect [*62,795] on rates; and (3) the effect on regulation. n12 Section 203 also requires the Commission to find that the Transaction "will not result in cross-subsidization of a non-utility associate company or the pledge or encumbrance of utility assets for the benefit of an associate company, unless the Commission determines that the cross-subsidization, pledge, or encumbrance will be consistent with the public interest." n13 The Commission's regulations establish verification and informational requirements for applicants that seek a determination that a transaction will not result in inappropriate cross-subsidization or pledge or encumbrance of utility assets. n14

n12 See Merger Policy Statement, FERC Stats. & Regs. P31,044 at 30,111.

[**10]

n13 16 U.S.C. § 824b(a)(4) (2000).

n14 18 C.F.R. § 33.2(j) (2007).

C. Analysis under Section 203

1. Effect on Competition

a. Applicant's Analysis

15. Startrans states that the proposed Transaction will not have an adverse effect on competition and does not require a horizontal or vertical market power analysis. It states that because the Transaction only involves the purchase and sale of the Mead Transmission Interests and not a combination of generation assets, a horizontal market power analysis is not required. The Transaction will not result in a single corporate entity having ownership or control over entities that provide inputs to electricity products and entities that provide generation products. Thus, there are no vertical market power concerns. n15

n15 Application at 13-14.

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16. Startrans states that the proposed Transaction will enhance [**11] competition because its acquisition of the Mead Transmission Interests will result in a greater percentage of the transmission system within the CAISO being independently owned and managed. Further, Startrans maintains that its planned expansion of the Mead Facilities and other related acquisitions will increase the robustness of the transmission grid, which in turn will promote the continued development of competitive wholesale power markets. n16

n16 Application at 14.

b. Commission Determination

17. We find that the proposed Transaction will not adversely affect competition. In analyzing whether a transaction will adversely affect competition, the Commission first examines its effects on concentration in generation markets or whether the transaction otherwise creates an incentive to engage in behavior harmful to competition, such as the withholding of generation (horizontal concerns). Second, the Commission considers the vertical combination of upstream inputs, such as transmission or natural [**12] gas, with downstream generating capacity.

18. Applicants have shown that the Transaction will not have an adverse effect on competition in either respect. First, the Transaction does not involve a combination of generating assets. Although it is affiliated with generation companies that sell power within the CAISO control area, Startrans states that all of the output from these facilities is committed under long-term contracts. Startrans also notes that the total amount of generation associated with these generating companies is approximately 365 MWs, which is *de minimis* compared to the approximately 58,000 MW of installed capacity and 5,576 MWs of net uncommitted capacity in the CAISO footprint. n17 Second, the proposed Transaction creates no new vertical combinations of assets, and the transmission facilities that will be transferred in the Transaction will continue to be under the operational control of the CAISO. Thus, there will be no increased incentive or ability to harm competition. Moreover, we note that no party has raised concerns about competition.

n17 Application at n. 4, Exhibit F.

[**13]

2. Effect on Rates

a. Applicant's Analysis

19. Startrans states that the proposed Transaction will not have an adverse effect on rates, and that any rate impact will be *de minimis*. n18 Startrans states that it will not charge any customers for service, noting that its TRR will be recovered through the system-wide High-Voltage Access Charge (HVAC) assessed under the CAISO Open Access Transmission Tariff (CAISO Tariff). Because the TRR associated with the Mead Transmission Interests is only a very small fraction of the CAISO's total PTO costs, Startrans argues that there will be virtually no effect on the CAISO's HVAC--an increase of approximately \$ 0.01 per megawatt hour (MWh). n19 Thus, Startrans contends that a hold harmless requirement is not needed due to the *de minimis* rate effect, which is offset by the benefits of independent transmission. n20

n18 *Id.*

n19 Application at 15.

n20 *Id.*

20. Startrans states that the proposed Transaction will result [**14] in the formation of the first independent transmission company within the CAISO. It has significant plans to pursue both new-build transmission and acquiring existing transmission. It notes that the Commission has recognized the benefits that stand-alone ownership of transmission can bring to the market: elimination of competition for capital between generation and transmission functions; a focus on

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transmission investment which allows more rapid and precise [*62,796] response to market signals indicating when and where transmission investment is needed; a lack of incentive to maintain congestion in order to protect generation market share; an enhanced ability to manage assets and access to capital markets; and increase competitive options for customers. In addition, Startrans states that because stand-alone transmission companies lack the incentive to favor a particular market participant's generation, they can attract a variety of new generators, such as renewables. n21

n21 Application at 10.

21. Startrans contends [**15] that it will bring focused transmission investment and increased access to competitive wholesale power options for customers. It intends to pursue expansion of the Mead Facilities through the CAISO's planning process and to help fund this expansion if the other joint owners decline to participate. It argues that such activities and increased investment can help increase reliability by relieving congestion, which in turn should lower the cost of delivered power. Startrans anticipates making additional investments to develop renewable resources. Startrans notes that the Commission has recognized that these are the types of benefits that result from Transcos. n22

n22 Application at 16.

22. Further, Startrans notes that as part of its section 205 application, it has proposed to cap its initial ROE at 13.5 percent, even though a higher ROE is justified, to help further mitigate the impact of any rate change. Startrans argues that any rate effect will be the result of a TRR that the Commission has found to be [**16] just and reasonable under section 205; therefore, any effect on rates under section 203 should not be considered "adverse." n23

n23 Application at 15.

b. Protests

23. California PTOs state that the proposed TRR represents what Startrans purports to be an increase of 79 percent over the Base TRR for Vernon's Mead Entitlements that is being assessed by the CAISO today. They argue, however, that that the Transaction actually would result in a 148 percent increase. Further, they argue that there is no basis to conclude that the Transaction will result in any new transmission capacity that would not have otherwise been constructed. They state that Startrans will be a small minority holder, like Vernon, and will have little or no say in how the facilities are operated or maintained. The Transaction will not contribute to an increase in the capacity or reliability of the CAISO grid. Further, they state that the Mead Transmission Interests are already under the control of the CAISO and that Startrans' [**17] status as a Transco will not result in a greater use of the facilities by market participants. Finally, California PTOs state that Startrans' potential plans for developing solar generation in California are, at best, uncertain. n24

n24 California PTOs Protest at 3.

c. Applicant's Answer

24. Startrans reiterates that the proposed Transaction will not adversely affect rates because the increase in rates is *de minimis* at approximately \$ 0.01 per MWh. Startrans repeats that parties will have the opportunity raise all rate issues in the section 205 proceeding, and that it will only be able to recover just and reasonable rates.

d. Commission Determination

25. Our analysis of rate effects under section 203 of the FPA differs from the analysis of whether rates are just and reasonable, which we are considering separately in our order on Startrans' section 205 filing. Our focus here is on the effect

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that the Transaction itself will have on rates, whether that effect is adverse, and [**18] whether any adverse effect will be offset or mitigated by benefits that are likely to result from the Transaction.

26. Startrans' acquisition of the Mead Transmission Interests will result in a stand-alone transmission company, or Transco, within the CAISO. n25 Further, Startrans has demonstrated its willingness to invest in new transmission, including investment in new transmission that the current owner of these facilities has said it would not invest in. We also note that in its Supplemental Filing, Startrans provides an affidavit from Vernon confirming that Vernon does not intend to invest in the East of River upgrade or any other future projects designed to improve the Mead Transmission Interests. n26 Startrans has acknowledged that there will be a rate effect, but that any increase in rates will be offset by an increase in benefits. We agree.

n25 We note that, for purposes of incentive-based rate treatments for transmission infrastructure investment, Order No. 679 defined a Transco as "a stand-alone transmission company that has been approved by the Commission and that sells transmission services at wholesale and/or on an unbundled retail basis, regardless of whether it is affiliated with another public utility." Order No. 679 also stated that eligibility for such rates would be "based on a showing of how the specific characteristics of a proposed Transco affect its ability and propensity to increase transmission investment and lead to increased transmission investment similar to the Transcos we have already approved." (*See Promoting Transmission Investment through Pricing Reform*, Order No. 679, FERC Stats. & Regs. P31,222 (2006) (Order No. 679), *order on reh'g*, Order No. 679-A, FERC Stats. & Regs. P31,236 (2006) (Order No. 679-A), *order on reh'g*, 119 FERC P61,062 (2007)). We address Startrans' application for such rate treatments in a companion order in Docket No. ER08-413.

[**19]

n26 Supplemental Filing Exhibit ST-11.

27. Even though this transaction may result in some rate increase (up to \$ 0.01 per MWh), this Transaction will produce offsetting benefits. n27 As noted earlier, this Transaction will result in the formation [*62,797] of a Transco in CAISO. The Commission has long recognized the benefits this business structure can provide. By eliminating competition for capital between generation and transmission functions and thereby focusing only on transmission investment, the Transco model responds more rapidly and precisely to market signals indicating when and where transmission investment is needed. n28 Moreover, Transcos' for-profit nature, combined with a transmission-only business model, enhances asset management and access to capital markets and provides greater incentives to develop innovative services.

n27 While the protestors claim that the Transaction would cause a 148 percent increase compared to Vernon's revenue requirement, Startrans represents that it is a 79 percent increase. This is because Startrans' number is based on the base TRR being charged today, while the protestors' number uses a different basis. However, we are modifying Startrans' proposal, including denying Startrans' request for an acquisition adjustment, and are setting aspects of it for hearing in Docket No. ER08-413. More importantly, the overall change in charges to customers (the CAISO access charge) is approximately up to \$ 0.01 per MWh. *See* Testimony of James H. Drzemiecki, Exhibit ST-6.

[**20]

n28 As we note in our order in Docket No. ER08-413, Startrans has met our definition of a Transco under Order No. 679. We made no finding as to whether Startrans is independent.

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28. We find that, although the Transaction may lead to some increase in transmission rates, it is also likely to result in additional investment in transmission infrastructure stemming from Startrans' business model as a Transco.

3. Effect on Regulation

29. Startrans states that the proposed Transaction will not have an adverse effect on regulation by the Commission or any state. Rather, Startrans contends that the Transaction will benefit regulation by creating a new transmission-owning utility that will be subject to the Commission's jurisdiction and refund authority. In addition, Startrans notes that the Transaction benefits regulation because it results in the transfer of assets from a non-jurisdictional entity to a public utility that is subject to Commission jurisdiction. Startrans states that the Transaction does not raise any state regulatory concerns because California does not have authority [**21] to act on the Transaction and does not have authority over Vernon's utility operations. n29

n29 Application at 16.

30. We find that the proposed Transaction will not adversely affect Commission regulation. We note that although the California Commission seeks resolution of various issues related to the Transaction, n30 it does not oppose the transfer of Vernon's assets to Startrans, nor does it allege any adverse effects on regulation. n31 We will address those issues below.

n30 *See, e.g.*, California Commission Protest at 3-4 (noting concerns about the TRR Adjustment and the refund liability, discussed below).

n31 California Commission Protest at 3-4.

4. Cross-subsidization

31. Startrans affirms that the proposed Transaction will not result in cross-subsidization of a non-utility associate company or the [**22] pledge or encumbrance of utility assets for the benefit of an associate company. Startrans states that no captive customers are involved in the Transaction because neither Startrans, its affiliates nor its parent companies are affiliated with a load-serving entity. Although SEG is an indirect owner of several generation projects, Startrans states that each of these projects sells or will sell power at market-based rates and does not serve retail load or captive customers. Thus, Startrans contends that the Transaction does not present the cross-subsidy concerns typically associated with transactions involving vertically integrated utilities or other utilities with generation assets. n32 Further, Startrans asserts that because the Transaction involves the transfer of assets between non-affiliates, it qualifies for a "safe harbor" as provided in the Supplemental Policy Statement. n33

n32 Application at 17.

n33 Application at 20.

32. Startrans verifies that based on known or reasonably foreseeable information, [**23] the Transaction will not result in, at the time of the Transaction or in the future: (1) transfers of facilities between a traditional public utility associate company that has captive customers or that owns or provides transmission service over jurisdictional transmission facilities, and an associate company; (2) any new issuances of securities by a traditional public utility associate company that has captive customers or that owns or provides transmission service over jurisdictional transmission facilities, for the benefit of an associate company; n34 (3) any new pledge or encumbrance of assets of a traditional public utility associate company that has captive customers or that owns or provides transmission service over jurisdictional transmission facilities, for the benefit of an associate company; or (4) any new affiliate contracts between a non-utility associate company and a traditional public utility associate company that has captive customers or that owns or provides trans-

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mission service over jurisdictional transmission facilities, other than non-power goods and services agreements subject to review under sections 205 and 206 of the FPA.

n34 Startrans states that it will file separately for authorization under FPA section 204 to issue securities and that these securities will be issued for Startrans' benefit. Application at 19.

[**24]

33. We find that the proposed Transaction will not result in cross-subsidization of a non-utility associate company or the pledge or encumbrance of utility assets for the benefit of an associate company. Startrans qualifies for a "safe harbor" [*62,798] because there is no franchised public utility with captive customers involved. n35 Startrans also addresses the four-part test for evaluating cross-subsidization concerns. Thus, as demonstrated by the verifications made, the Transaction does not raise any concern with respect to cross-subsidization. We further note that no protests regarding cross-subsidization were filed.

n35 Supplemental Policy Statement at P 17.

D. Other Issues

1. TRR Adjustment

a. Protests and Comments

34. California PTOs and the California Commission state that Vernon has not submitted a filing with the Commission to reduce its TRR by the amount of the revenue requirement attributable to the assets being sold to Startrans (*i.e.*, the Mead Transmission [*25] Interests). n36 Because Startrans will be seeking recovery of the same costs associated with the Mead Transmission Interests, they state that there is significant risk of double rate recovery by Vernon and Startrans unless the Commission has assurances that all of the costs of the Mead Transmission Assets have been removed from Vernon's TRR. The California Commission maintains that the Commission should not approve the Transaction until Vernon makes the appropriate filing with the Commission.

n36 California PTOs Protest at 7-8; California Commission Protest at 3.

35. Vernon made a later filing in which it states that it will file an amended TRR and TO Tariff with both the CAISO and the Commission, effective as of the closing date of the Transaction, that will remove the costs associated with the Mead Transmission Interests from its TRR. n37 Vernon states that at no point will both Vernon and Startrans be entitled to recovery related to the Mead Transmission Interests. n38

n37 Vernon Response at 5.

[**26]

n38 *Id.*

b. Applicant's Answers

36. Startrans states that Vernon's commitment described above should be sufficient to remove any concerns about customers being charged twice for the Mead Transmission Interests. n39

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n39 Startrans February 8 Answer at 10.

37. As further discussed below, Startrans argues that the California Commission's concerns have been addressed in the existing record. Specifically: (1) Vernon will reduce its TRR to remove the costs of the Mead Transmission Interest effective as of the closing date of the Transaction; (2) the CAISO, Vernon, and Startrans have agreed upon the terms of the Assumption Agreement, which will protect California ratepayers by ensuring payment of liabilities related to the TRR if Vernon is required to make a refund; and (3) Vernon has no intention of terminating an existing contract with LADWP (LA Contract), and the CAISO has alternative transmission [**27] paths available in the event of termination. Thus, Startrans argues that there is no reason to delay action on this application. n40

n40 Startrans February 19 Answer at 4-6.

d. Commission Determination

38. We deny protestors' requests to delay action on this application. Vernon commits to filing an amended TRR and TO Tariff with both the CAISO and the Commission, effective as of the closing date of the Transaction, which will remove the costs associated with the Mead Transmission Interests from its TRR. This will address any concerns about double rate recovery. Further, we note that to the extent protestors' argument bears on Startrans' proposed TRR that are being set for hearing in Docket No. ER08-413, the protestors will have an opportunity to raise this issue in that proceeding.

2. Vernon Refund Liability

a. Protests and Comments

39. California PTOs and the California Commission seek resolution of Vernon's overpayment issue with CAISO before the Transaction is [**28] approved. n41 California PTOs state that Vernon owes the CAISO approximately \$ 12 million in connection with the overpayments it received from California ratepayers for the use of its transmission entitlements, including the Mead Facilities. The California PTOs note that the CAISO has recently filed a motion with the Commission for authorization to invoice Vernon for the over-collection amount. The California PTOs argue that the proposed transfer of the Mead Facilities cannot be allowed to delay or impede that relief. The California PTOs also note that Section 9.3(a) of the Purchase Agreement appears to address this issue by stating that Startrans may need to assume Vernon's obligations with respect to the over-collections. n42 They add that the Purchase Agreement also provides that if Startrans is required to assume Vernon's obligations, Vernon would reimburse Startrans. n43 California PTOs maintain that while they are indifferent to specific arrangements between Startrans and Vernon, they believe that the Commission should condition approval of the Transaction on a resolution of the overpayment issue. n44 The California PTOs say that this condition is needed because Startrans could [**29] pay the refunds associated with the Vernon over-collection, but then seek to collect such refunds through a [*62,799] rate adjustment. n45 The California Parties add that Startrans has not promised that it has not and will not include any such refund or offset obligations that it might assume on Vernon's behalf in its revenue requirement. n46

n41 The California Commission also asks that the Commission not approve Startrans' proposed issuance of securities in Docket No. ES08-24-000 until the overpayment issue is resolved. The CAISO Protest at 4.

n42 California PTOs Protest at 4-5.

n43 California PTOs Protest at 6.

n44 California PTOs Protest at 7; *see also*, California Parties Comments on Startrans Supplemental Filing at 3.

n45 California PTOs Protest at 6, n.10.

n46 California Parties Comments on Startrans Supplemental Filing at 2.

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40. The CAISO states that it expects to resolve outstanding issues relating to the Assumption Agreement between Vernon and Startrans in the near future. [**30] n47

n47 CAISO Comments at 2.

41. Vernon states that it has reached an agreement with Startrans and the CAISO that provides assurances that any refund liability owed by Vernon will be paid by Startrans. Vernon states that it expects a revised Assumption Agreement addressing the refund obligation to be filed by Startrans either in its response to various protests or in a compliance filing. n48

n48 Vernon Response at 5.

[*62,800] **b. Applicant's Answers**

42. Startrans argues that the Commission should not condition approval of the Transaction pending resolution of the overpayment issue referred to above. Startrans asserts that the California PTOs have not demonstrated that a dispute between parties in an unrelated proceeding provides the Commission with grounds to delay, condition, or reject a section 203 application filed by [**31] an unrelated party, such as Startrans. Moreover, Startrans states that the Purchase Agreement specifically provides that California ratepayers will be protected if Vernon is required to provide a refund and that Vernon will reimburse Startrans for assumption of that obligation. Further, Startrans states that it has filed a revised version of the Assumption Agreement among Startrans, Vernon, and the CAISO that will ensure the CAISO's ability to collect any refunds or repayments owed by Vernon related to the overpayment issue. n49 Startrans states that it will submit a revised copy of the Assumption Agreement as soon as it is executed rather than waiting for a compliance filing. Startrans also commits that it has not attempted, and will not attempt, to include any such refund or offset obligation that it might assume on Vernon's behalf in its revenue requirement. n50 Startrans argues that if the California PTOs and the California Commission are successful in delaying the Transaction, the Mead Transmission Interests will continue to be held by a non-jurisdictional entity, and the CAISO and California ratepayers will lose the protection of the Assumption Agreement. n51

n49 Startrans February 8 Answer at 8; Startrans February 19 Answer at 6.

[**32]

n50 Startrans March 14 Answer at 4.

n51 Startrans February 8 Answer at 9.

c. Commission Determination

43. We deny protestors' requests to delay action on this application pending resolution of the refund issue with Vernon. Startrans has submitted an Assumption Agreement to resolve the disagreement concerning Vernon's overpayment, which is pending before this Commission in another proceeding. In this agreement, which was recently revised to address the California PTOs' concerns, Startrans agrees to assume any liability Vernon may have, which Startrans will then recover from Vernon. n52 Startrans has also committed that it has not attempted, and will not attempt, to include any such refund or offset obligation that it might assume on Vernon's behalf in its revenue requirement, and, in its rates to Commission-jurisdictional customers. We find that Startrans' commitment that it shall not pass through any costs it incurs under the Assumption Agreement, or costs otherwise associated with Vernon's overpayment liability, adequately

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addresses the California PTOs' and the California [**33] Commission's concerns. Accordingly, we conclude that Startrans and Vernon have adequately addressed the protests concerning Vernon's overpayment.

n52 Vernon also notes in its comment that the Assumption Agreement settles its overpayment liability pertaining to the Mead Facilities.

3. CAISO Consent

a. Protests and Comments

44. California PTOs state that Startrans has not provided evidence that the CAISO has consented to the Transaction. Moreover, they state that the CAISO has not ruled on Startrans' application to become a PTO or to begin collecting its TRR, requested for March 31, 2008. Thus, California PTOs urge the Commission to delay action on the application. n53

n53 California PTOs Protest at 7.

45. The CAISO states that any transfer of the Mead Transmission Interests requires prior written consent [**34] from the CAISO. The CAISO states that it has not yet agreed to provide the consent and urges the Commission to take that into consideration before authorizing the proposed Transaction. n54

n54 CAISO Comments at 3.

46. Vernon states that the CAISO has indicated that in light of the revised Assumption Agreement and resolution of other issues, it will approve the transfer of the Mead Transmission Interests. Vernon states that it expects the CAISO to notify the Commission of its approval in the near future. n55

n55 Vernon Response at 5.

b. Applicant's Answers

47. Startrans states that it is in the process of obtaining the necessary CAISO consents to become a PTO with the CAISO. Startrans also acknowledges that negotiating an Assumption Agreement with CAISO concerning the Vernon overpayment issue discussed above will be [**35] one issue involved in obtaining CAISO consent. Startrans states that it has reached an agreement with the CAISO and Vernon on a revised Assumption Agreement that will ensure payment of liabilities related to the overpayment issue. If the final CAISO consents have not been obtained by the time the Commission acts on the application, Startrans urges the Commission to issue an order approving the Transaction conditioned upon Startrans obtaining these consents. n56

n56 Startrans February 8 Answer at 13.

c. Commission Determination

48. The Commission hereby takes official notice of the fact that on March 27, 2008, the CAISO Board of Directors conditionally approved Startrans' request to become a PTO within CAISO. The California PTOs' request to delay action

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on the Transaction until Startrans receives the necessary CAISO approvals is now moot in light of this approval by the CAISO Board.

4. LA Contract

a. Protests and Comments

49. The California PTOs and the California [**36] Commission are concerned that one of Vernon's existing contracts may no longer be available to CAISO customers after the proposed transfer. They argue that the Mead Transmission Interests are part of a larger network of transmission entitlements and contracts owned by Vernon that serve CAISO customers. They state that an existing contract with the LADWP grants Vernon an entitlement to 81 MWs of transmission capacity (LA Contract), which provides for bidirectional service to Vernon between Adelanto and the Victorville-Lugo Midpoint. n57 They state that historically, Vernon has used this contract to serve its load. Without the LA Contract, they argue that the Mead Transmission Interests cannot be fully utilized by CAISO customers, since the connection between Vernon's share of MAP and the CAISO grid would be severed. They contend that the failure to retain the LA Contract effectively eliminates any value to CAISO ratepayers of the Mead Transmission Interests. Moreover, they are concerned that the proposed transfer of the Mead Transmission Interests to Startrans, which does not include the LA Contract, will eliminate the value of the LA Contract to Vernon, and that Vernon may terminate [**37] the contract. Thus, they urge the Commission to condition the proposed transfer on a showing that the LA Contract will remain in place. n58

n57 The Victorville-Lugo Midpoint is a point of interconnection between the respective transmission systems of LADWP and SoCal Edison.

n58 California PTOs Protest at 9. The California Commission Protest at 4-5 also urging the Commission to not approve the issuance of securities in Docket No. ES08-24-000 until Startrans can demonstrate that the LA Contract will remain in place.

50. Vernon states that it has no plans to terminate the LA Contract, which requires a four-year prior written notice by either party to terminate. Moreover, Vernon disagrees with the California PTOs that without the LA Contract, the Mead Transmission Interests are useless to the CAISO grid. The Mead Transmission Interests have been part of the CAISO grid since January 1, 2001. Vernon contends that the Mead Facilities are not merely tie lines but provide vital transmission capacity, and MAP [**38] will continue as an entry point to the CAISO and an interface between the LADWP system and CAISO. Further, Vernon states that the CAISO would have ample opportunity to assess the impact of the termination of the LA Contract. n59

n59 Vernon Response at 6-7.

b. Applicant's Answers

51. Startrans states that the status of the LA Contract provides no basis for conditioning Commission approval of the Transaction. Startrans notes that the LA Contract can only be terminated upon the permanent removal of MAP or upon four years written notice. Because no notice has been given and the parties have no plans to take the MAP Facilities permanently out of service, Startrans states that the LA Contract will remain in service for at least four more years. n60 Further, Vernon states it has no present intention of terminating the LA Contract, thus the California PTOs' claims are purely speculative. Moreover, the parties have the right to file a complaint under FPA section 206 if they believe that the TRR includes [**39] costs for facilities that are not used and useful to California ratepayers. n61

n60 Startrans February 8 Answer at 11; Startrans February 19 Response at 5-6.

n61 *Id.*

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52. *Startrans* states that the California PTOs and the California Commission are mistaken in their claim that the Mead Transmission Interests will have no value to California ratepayers if the LA Contract is terminated. *Startrans* asserts that the Mead Facilities provide vital transmission capacity, and MAP will continue as an entry point to the CAISO and an interface between the LADWP system and CAISO even if the LA Contract is terminated. n62

n62 *Id.* at 12.

c. Commission Determination

53. Whether the LA Contract is terminated does not affect our determination of whether the proposed Transaction is consistent with the public [*62,801] interest. *Startrans* [**40] has demonstrated that the Transaction will not have an adverse effect on competition, rates, or regulation. *Startrans* has also shown that the Transaction will not result in the cross-subsidization of a non-utility associate company or the pledge or encumbrance of utility assets for the benefit of an associate company. Therefore, we deny protestors' request to condition approval of the Transaction on a showing that the LA Contract will remain in place. Further, we note that to the extent this issue is related to *Startrans*' proposed TRR, which is being set for hearing in Docket No. ER08-413, the protestors will have an opportunity to raise this issue in that proceeding.

5. Accounting Deficiency

a. Protest

54. California PTOs argue that the application is deficient because it does not include the proposed accounting entries related to the Transaction, as required under Commission regulations. n63 They urge the Commission to either reject the application or issue a deficiency letter to obtain the accounting information. For example, they state that the purchase price of \$ 39.5 million is not explained in the application, so it is impossible for the Commission [**41] or others to determine whether the price, and its inclusion in rates, is just and reasonable. California PTOs argue that the Commission should not approve the Transaction without a full explanation of the purchase price, including why *Startrans* agreed to pay more than double the book value of the Mead Transmission Interests, any other value it obtained from Vernon that has not been disclosed, and whether and how *Startrans* plans to include the full purchase price in CAISO rates. n64

n63 18 C.F.R. § 33.5 (2007).

n64 Application at 12-13.

55. California PTOs state that the impact of the purchase price on CAISO rates is important because *Startrans*' filing under section 205 would result in a 148 percent increase in the TRR associated with the Mead Transmission Interests compared to the TRR authorized by the Commission. They challenge *Startrans*' argument that the TRR increase is *de minimis*, asserting that an increase of 148 percent is not just and reasonable. n65

n65 California PTOs Protest at 13.

[**42]

b. Applicant's Response

56. In its February 8 Answer, *Startrans* argues that the application is not deficient and should not be rejected. *Startrans* states that it specifically sought waiver of the requirement in section 33.5 to provide proposed accounting entries and stated that it would supply the information in a compliance filing. n66 *Startrans* argues that the California PTOs' concerns about the purchase price are misplaced because it was the result of arms-length negotiations between unaffiliated parties. *Startrans* asserts that any recovery of the purchase price through its revenue requirement will be subject to review in the section 205 proceeding, which will protect ratepayers against any improper cost recovery. n67

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n66 Startrans February 8 Answer at 14.

n67 *Id.* at 15.

57. On February 27, 2008, Startrans submitted its response to the Deficiency Letter, which included information on the proposed accounting entries for the Transaction. Startrans proposes to record its initial [**43] capitalization by crediting long-term debt to Account 224, Other Long-term Debt, and common stock issuances to Account 207, Premium on Capital Stock, and debiting debt financing and stock issuance expenses to Account 181, Unamortized Debt Expense.

58. Startrans proposes to account for the purchase by recording the original cost of the assets in Account 101, Electric Plant in Service, and a calculated amount of accumulated depreciation in Account 108, Accumulated Provision for Depreciation of Electric Utility Plant. n68 In addition, Startrans will pay a premium for the Mead Transmission Interests above their depreciated original cost, which it will record as an acquisition adjustment of \$ 3.2 million in Account 114, Electric Plant Acquisition Adjustments, and goodwill of \$ 18.3 million in Account 186, Miscellaneous Deferred Debits. n69 Startrans states that it will amortize amounts recorded in Account 114 to Account 406, Amortization of Electric Plant Acquisition Adjustments, consistent with recovery in rates. n70

n68 Startrans states that it calculated accumulated depreciation on the assets using a depreciation rate of 2.08 percent, and that Vernon previously recorded accumulated depreciation on the assets using a depreciation rate of approximately 3.1 percent.

[**44]

n69 Startrans states that amounts recorded in Account 186 qualify as goodwill under generally accepted accounting principles (GAAP) and will be classified as such in any financial statement prepared in accordance with GAAP for issuance to the public, investors or others.

n70 Startrans filed a request for approval to recover amounts recorded in Account 114 in its rates under section 205 of the FPA in Docket No. ER08-413. If Startrans does not receive approval to recover amounts recorded in Account 114 in rates, the disapproved amounts must be amortized to Account 425, Miscellaneous Amortization, over a period not longer than the estimated remaining life of the properties to which the amounts relate.

c. Commission Determination

59. Startrans' accounting entries recording its initial capitalization are not consistent with the requirements of the Uniform System of Accounts (USoFA). n71 Startrans states that some of its debt will be incurred by its parent rather than by Startrans itself. Proceeds Startrans receives from its [*62,802] parent's issuance of long-term debt that it must repay [**45] to its parent must be recorded as an advance from its parent in Account 223, Advances from Associated Companies, consistent with the instructions for the account. Next, Startrans proposes to record issuances of common stock in Account 207; however, the USoFA requires that capital originating from actual issuances of common stock be charged to Account 201, Common Stock Issued, rather than Account 207. Finally, Startrans' proposal to record stock issuance expenses related to its initial capitalization in Account 181 is not appropriate. Only expenses related to the issuance or assumption of debt are recordable in Account 181. Expenses related to the issuance of capital stock must be recorded in Account 214, Capital Stock Expense.

n71 18 C.F.R. Part 101 (2007).

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60. Startrans' proposed journal entries recording the purchase are not consistent with the requirements of the USofA. First, Startrans omitted certain journal entries that are required by Electric Plant Instruction (EPI) No. 5, Electric Plant Purchased [**46] or Sold, and Account 102, Electric Plant Purchased or Sold, of the USofA. Startrans must use Account 102 as an interim control account to record all aspects of the purchase Transaction. The USofA requires Account 102 to be debited with the cost of electric plant acquired from others pending distribution to the appropriate accounts. n72 Further, EPI No. 5 requires the original cost and related accumulated depreciation to be recorded on the purchaser's books through Account 102. The difference between the net amount of debits and credits and the consideration paid for the property are to be included in Account 114. In addition, Startrans did not include amounts recorded in Account 107, Construction Work in Progress - Electric, and Account 301, Organization, in its calculation of the acquisition adjustment recorded in Account 114.

n72 Text to Account 102; 18 C.F.R. Part 101 (2007).

61. Startrans' recording of portions of the purchase premium as goodwill in Account 186 is appropriate. The Commission has held [**47] that any portion of acquisition adjustment amounts that are considered goodwill in accordance with the provisions of the Financial Accounting Standards Board's (FASB) Statement of Financial Accounting Standard No. 144, *Goodwill and Other Intangible Assets*, may be recorded in Account 186, Miscellaneous Deferred Debits. n73

n73 See, e.g., *Great Plains Energy Incorporated*, 121 FERC P61,069 (2007), *reh'g denied*, 122 FERC P61,177 (2008); and *Michigan Electric Transmission Company, LLC*, Docket No. AC03-9-000 (February 5, 2004) (unpublished letter order).

62. Finally, Startrans did not adequately support the amounts it proposes to record as accumulated depreciation in Account 108. Startrans states that Vernon recorded accumulated depreciation expenses based upon a comprehensive settlement; and therefore, that the amounts are inappropriate because they do not reflect the product of a Commission-approved depreciation study. n74 Startrans indicates that it performed a depreciation [**48] study and applied the resulting decreased depreciation rate to the accruals in Account 108. n75 Startrans' accounting decreases accumulated depreciation below amounts previously accrued, and therefore, is not consistent with the Commission's policy regarding depreciation. Because of estimates inherent in depreciation accounting, Commission policy generally requires that over- or under-accrued provisions for depreciation be corrected prospectively by an upward or downward adjustment in the depreciation rate. n76 However, the Commission may adjust the balance of accumulated provisions for depreciation other than through a prospective change in depreciation rates if an entity establishes the following: (1) the balance was over- or under-accrued; (2) the over- or under-accrual resulted from an accounting error rather than the use of estimates in setting depreciation rates; and (3) any amounts of over-accrued depreciation resulting from an accounting error were not in fact recovered in utility rates. n77 Startrans has not provided any evidence to support revision of the depreciation previously accrued consistent with this policy and must record depreciation consistent with amounts previously [**49] recognized by Vernon.

n74 See Docket No. ER08-413, P 14 E. *Depreciation Rate*.

n75 *Id.*, Drzemiecki's Testimony at 18.

n76 See *Carnegie Natural Gas Company*, 60 FERC P61,166, at 61,608 (1992) (affirming ALJ's initial decision issued on May 13, 1991) (*Carnegie*); *Equitable Gas Company*, 56 FPC 1655 (1976) (affirming ALJ's initial decision issued on June 7, 1976), *reh'g denied*, 56 FPC 3109 (1976); see also *Bruder, Gentile & Marcoux*, Docket No. AC91-96-000 (November 22, 1991) (unpublished letter order); and *Miller, Balis & O'Neil*, Docket No. AC91-99-000 (November 22, 1991) (unpublished letter order).

n77 *Carnegie*, 60 FERC P61,166, at n. 17 (1992).

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63. We will, therefore, require Startrans to revise its accounting to record accumulated depreciation in Account 108 at the amount accrued by Vernon. In addition, Startrans must record the purchase Transaction consistent with the instructions of EPI No. 5 and [**50] the text of Account 102, and Startrans must include amounts recorded in Accounts 107 and 301 in its calculation of the acquisition adjustment. Finally, Startrans must record investors' capital in Account 201, long-term debt payable to its parent in Account 223, and expenses incurred on stock issuances in Account 214, consistent with the Commission's accounting regulations. Startrans must make its final accounting entries for the acquisition of the Mead Transmission Interests consistent with the Commission's accounting policies, as discussed above and outlined in the ordering paragraph below.

6. Requests for Consolidation and a Hearing

64. Protestors seek to consolidate the proceedings in sections 203, 204, and 205 and to convene a hearing on the consolidated dockets [*62,803] arguing that these dockets are linked by common issues of law and facts. n78

n78 California PTOs Protest at 21-22; California Parties' Protest at 5-6; SDG&E Protest at 3.

65. Startrans argues against consolidating the dockets, [**51] asserting that they do not involve common issues of law and fact. Startrans states that it does not seek approval of any rates as part of the section 203 filing or seek authorization to issue securities. Startrans states that the protestors' major concern is about the impact of the Transaction on rates, but argues that the evidence provided in the section 203 proceeding shows the rate impact will be minimal. Startrans states that protestors' other claims relating to the section 203 filing are either incorrect or speculative and provide no basis for setting the 203 filing for hearing. Further, Startrans states that different legal standards are applicable to each filing. Startrans asserts that consolidating these three proceedings will delay the Commission's approvals and could result in a termination of the Transaction. n79

n79 Startrans Feb 8 Answer at 16-18.

66. We deny the protestors' requests to consolidate the proceeding in this docket with the proceedings under sections 204 and 205 of the FPA. In [**52] general, the Commission consolidates matters only if a hearing is required to resolve common issues of law and fact and consolidation will ultimately result in greater administrative efficiency. In this case, however, we find nothing in the section 203 proceeding that needs to be set for hearing.

67. Intervenor also raise a number of other issues relating to the transfer of the Mead Transmission Interests. They state that Startrans' requested TRR is not just and reasonable, the requested ROE of 13.5 percent is excessive, and the draft TO Tariff should be revised. They also question whether the East of River upgrade project qualifies for Construction Work in Progress and seek additional information related to depreciation methodologies and capital structure. n80 We note that intervenors filed identical protests in this docket and Docket No. ER08-413. Since we are denying their request to consolidate, we are separately addressing the arguments related to Startrans' filing under FPA section 203 in this docket and the arguments related to Startrans' filing under FPA section 205 in Docket ER08-413. The arguments mentioned above are addressed in a contemporaneous order in Docket No. [**53] ER08-413.

n80 PG&E and SDG&E March 10 Comments.

The Commission orders:

122 F.E.R.C. P61,307, *; 2008 FERC LEXIS 637, **

(A) The proposed Transaction is hereby authorized under FPA section 203, as discussed in the body of this order.

(B) Startrans must inform the Commission of any change in circumstances that would reflect a departure from the facts the Commission relied upon in authorizing the Transaction.

(C) The foregoing authorization is without prejudice to the authority of the Commission or any other regulatory body with respect to rates, service, accounts, valuation, estimates or determinations of costs, or any other matter whatsoever now pending or which may come before the Commission.

(D) Nothing in this order shall be construed to imply acquiescence in any estimate or determination of cost or any valuation of property claimed or asserted.

(E) The Commission retains authority under sections 203(b) and 309 of the FPA to issue supplemental orders as appropriate.

(F) Startrans shall make any appropriate filings under section 205 of the FPA, **[**54]** as necessary, to implement the proposed Transaction.

(G) Startrans shall modify its final accounting as discussed in the body of this order. Startrans shall account for the Transaction in accordance with Electric Plant Instruction No. 5 and Account 102, Electric Plant Purchased or Sold, of the Uniform System of Accounts. Startrans shall submit its final accounting entries within six months of the date that the Transaction is consummated, and the accounting submissions shall provide all the accounting entries and amounts related to the Transaction along with narrative explanations describing the basis for the entries.

(H) Startrans shall notify the Commission within 10 days of the date that the acquisition of jurisdictional facilities has been consummated.

By the Commission. Commissioner Kelly concurring with a separate statement attached.

CONCUR BY:

KELLY

CONCUR:

KELLY, Commissioner, *concurring*:

[Issued March 31, 2008]

I wish to write separately regarding the proposed Transaction's effect on rates. The nature of our inquiry under Federal Power Act section 203 n1 is whether the effect of the Transaction on rates will be adverse. Startrans IO L.L.C. (Startrans) proposed **[**55]** a significant increase in its transmission revenue requirement (TRR) compared to what the City of Vernon's (Vernon) TRR has previously been. Startrans has characterized the rate impact of an increased TRR as "de minimis" because the TRR associated with the Mead Transmission Interests is only a very small fraction of the California Independent System Operator Corporation's (CAISO) total participating transmission owner (PTO) costs. California PTOs n2 dispute the de minimis characterization by pointing out that the proposed TRR is a 148 percent increase over the TRR associated with Vernon's Mead Transmission **[*62,804]** interests that the Commission has authorized for collection through CAISO rates. n3

n1 16 U.S.C. § 824b (2000 & Supp. V 2005).

n2 California PTOs include Pacific Gas & Electric Company and Southern California Edison Company.

n3 California PTOs Jan. 25, 2008 Motion to Intervene and Protest and Request for Hearing and Consolidation of Proceedings, Docket No. EC08-33, at 3 (California PTOs' Protest).

[56]**

Rather than decide this issue by choosing one or the other characterization (e.g., a de minimis increase is acceptable, or a 148 percent increase is unacceptable), I think it is important to point out that issues decided in this order and the com-

122 F.E.R.C. P61,307, *, 2008 FERC LEXIS 637, **

panion order issued today in Docket No. ER08-413-000 (Startrans FPA section 205 filing) have significantly reduced Startrans' proposed TRR. For example, in this order the Commission rejects Startrans' proposal for the amount it proposes to record as accumulated depreciation, which would have added as much as \$ 2.6 million to Vernon's rate base. n4 In the companion order, the Commission rejects Startrans' proposed acquisition adjustment of approximately \$ 3.17 million, which Startrans proposed to add to Vernon's rate base. Also, in this decision the Commission orders Startrans to redo numerous accounting and journal entries to be consistent with the Uniform System of Accounts, which should have the effect of further lowering the proposed TRR. Finally, the Commission sends the FPA section 205 n5 filing to hearing to examine the reasonableness of all other components of the TRR. In short, given the Commission's actions in these two orders, [**57] it appears that the resulting impact of this acquisition on rates will be primarily limited to those related to changes in the cost of capital and tax obligations applying to Startrans versus those that applied to Vernon. These changes would be legitimately based on the business structure of Startrans, thus, not an adverse impact on rates. I believe this analysis of the Transaction's impact on rates more clearly elucidates the facts and has the added benefit of eliminating the need to consider the decidedly less clear issue of whether this acquisition will bring significant benefits to transmission users.

n4 *See id.* at 16.

n5 16 U.S.C. § 824d (2000 & Supp. V 2005).

For these reasons, I concur with this order.

Suede G. Kelly

Legal Topics:

For related research and practice materials, see the following legal topics:

Energy & Utilities LawAdministrative ProceedingsU.S. Federal Energy Regulatory CommissionGeneral OverviewEnergy & Utilities LawCogeneration & Independent Power CompaniesIndependent System OperatorsEnergy & Utilities LawTransportation & PipelinesPipelinesRates

LEXSEE

△
Caution
As of: Aug 20, 2009

Michigan Wisconsin Pipe Line Company

Docket No. RP83-27-002

FEDERAL ENERGY REGULATORY COMMISSION - Commission

23 F.E.R.C. P61,045; 1983 FERC LEXIS 1967

April 8, 1983

CORE TERMS: depreciation, surcharge, proposing, Natural Gas Act, recovering, useful life, clarification, retroactive, conformance, accelerate, monthly, recoup, depreciation expense, service agreement, reasons stated, depreciable, tariff, sheets

ACTION:

[**1]

Order Denying Rehearing and Clarifying Prior Order

JUDGES:

Before Commissioners: Georgiana Sheldon, Acting Chairman; J. David Hughes, A. G. Sousa and Oliver G. Richard III.

OPINION:

[*61,113]

On January 28, 1983, Michigan Wisconsin Pipe Line Company (Michigan Wisconsin) filed in the captioned docket an application for rehearing and clarification of the Commission's Order Rejecting Filing, 21 FERC P61,395, issued on December 30, 1982. In our December 30 order, we rejected the proposed filing n1 on the grounds that it is an attempt by the company to collect additional amounts for a retroactive period through an additional monthly surcharge. On February 28, 1983, we granted rehearing for the purposes of further consideration. For the reasons set forth below, we deny rehearing of our December 30, 1982, order. Michigan Wisconsin contends that the Commission erred (1) by holding that the proposed filing, an amendment to Rate Schedule X-64, n2 constitutes retroactive ratemaking and (2) by rejecting the filing when it complied with the applicable statutes, rules and orders. Additionally, Michigan Wisconsin seeks clarification of that portion of the December 30 order which states, [**2] "rejection is without prejudice to Michigan Wisconsin's right to propose prospective changes in Rate Schedule X-64 in conformance with Section 4 of the Natural Gas Act and Part 154 of the Commission's Regulations. Michigan Wisconsin states that the procedure contemplated in the filing is "merely an increase in the depreciation rate to be charged by Michigan Wisconsin to HIOS, starting after the date of the filing and which is fully consistent with the Commission's policy respecting the correction of over or under amounts of depreciation." The company also contends that the proposed rate is not designed to recoup past costs.

n1 On December 2 and 13, 1982, Michigan Wisconsin Pipe Line Company (Mich Wisc) filed revised tariff sheets related to Article IV *Charge for Service* of Rate Schedule X-64, a service agreement with High Island Offshore System (HIOS). The proposed revisions include (1) a \$3,616,109 increase in depreciation expense to

23 F.E.R.C. P61,045, *; 1983 FERC LEXIS 1967, **

be recovered at \$52,407 per month over the next 69 months which is stated to be the depreciable life of the HIOS facility; (2) broader language regarding the basis for depreciation expenses; and (3) a clause whereby Mich Wisc would refund to HIOS, with interest, any amounts HIOS is prevented from recovering through its rates by the Commission. The proposed effective date is January 1, 1983. See the December 30 order for a list of the specific tariff sheets.

[**3]

n2 Rate Schedule X-64 is a service agreement between Michigan Wisconsin and High Island Offshore System (HIOS). Pursuant to the terms of this contract, HIOS agreed to pay Michigan Wisconsin an amount in monthly installments equal to two-thirds of the full cost of service attributable to the Grand Chenier Station, Louisiana. By order issued July 6, 1978, in Docket No. CP78-134, the Commission authorized Michigan Wisconsin to construct and operate the Grand Chenier Station to measure and dehydrate volumes attributable to the HIOS system and to Michigan Wisconsin's West Cameron Block 171 production. Findings And Order After Statutory Hearing Issuing Certificate Of Public Convenience And Necessity And Granting Petition To Intervene, 4 FERC P61,028.

We disagree for reasons stated in our December 30 order but also for the reasons stated below.

Michigan Wisconsin is not proposing to change its rate of depreciation. n3 Instead, it is proposing a special surcharge to accelerate the recoupment of investment rather than proposing a change to the depreciation rate itself. A special surcharge separate from the depreciation rate itself is not the appropriate means for [**4] a pipeline to increase its depreciation rate to accelerate recovery of its investment. We note, as does Michigan Wisconsin, that "it is the Commission's policy that over or under provisions for depreciation are corrected prospectively by an upward or downward adjustment in the depreciation rate." Equitable Gas Company, 56 FPC 1655 at 1657 (1976) (citing a prior decision in Equitable Gas Company, 52 FPC 291 at 292 (1974)). We also disagree with Michigan Wisconsin's argument that rejection of the filing precludes it from recovering its full investment on the Grand Chenier Facility over HIOS' useful life. As our December 30 order specifically stated the "rejection is without prejudice to Michigan Wisconsin's right to propose prospective changes in Rate Schedule X-64 in conformance with Section 4 of the Natural Gas Act and Part 154 of the Commission's Regulations." If Michigan Wisconsin seeks to increase its depreciation charge to HIOS in order to fully recover its investment in the Grand Chenier Facility over HIOS' depreciable life then the appropriate method for accomplishing this goal is to make a Section 4 filing pursuant to the Natural Gas Act.

n3 Michigan Wisconsin is, however, proposing new language for Rate Schedule X-64 which, Michigan Wisconsin alleges, will permit it to more closely track the depreciation rate used by HIOS. We express no opinion on the appropriateness of this proposal other than to note that, under Michigan Wisconsin's proposal, the special surcharge would be a totally separate means for Michigan Wisconsin to recoup its depreciation expense.

[**5]

We disagree with Michigan Wisconsin's argument that rejection of the filing precludes it from recovering its full investment on the Grand Chenier Facility over HIOS' useful life.

Finally, we decline to set the matters addressed herein for hearing. There are no material facts in dispute. Citizens for Allegan County Inc. v. F.P.C., 414 F.2d 1128 (D.C. Cir. 1969). [*61,114]

The Commission orders:

Michigan Wisconsin's Application For Rehearing is denied.

Legal Topics:

For related research and practice materials, see the following legal topics:
Energy & Utilities LawGas IndustryNatural Gas ActGeneral OverviewEnergy & Utilities LawTransportation & PipelinesPipelinesRates

LEXSEE



Caution
As of: Aug 20, 2009

Carnegie Natural Gas Company

Docket No. FA89-16-000

FEDERAL ENERGY REGULATORY COMMISSION - Commission

60 F.E.R.C. P61,166; 1992 FERC LEXIS 1890

August 7, 1992

CORE TERMS: depreciation, accumulated, accounting, staff, estimate, ratemaking, plant, audit, recorded, initial decision, starting point, overstated, retail, inappropriate, recommended, methodology, accrual, adjust, calculated, directive, reserve account, gas plant, jurisdictional, reimbursements, correctness, retirements, relocation, recovered, adjusted, covering

ACTION:

[**1] ORDER AFFIRMING INITIAL DECISION

[Note: Initial Decision requiring corrective accounting entries issued May 13, 1991, appears at 55 FERC P63,023.]

JUDGES:

Before Commissioners: Martin L. Allday, Chairman; Charles A. Trabandt, Elizabeth Anne Moler, Jerry J. Langdon and Branko Terzic.

OPINION:

[*61,603]

PIPELINE RATES: DEPRECIATION

Before the Commission, on exceptions, is an initial decision issued May 13, 1991, n1 concerning the propriety of certain accounting entries made by Carnegie Natural Gas Company (Carnegie) decreasing the accumulated depreciation reserve balance in its Account No. 108. This balance represents the amount by which a utility's original investment in its gas utility plant has been depreciated. As discussed below, the Commission is affirming the initial decision.

n1 55 FERC P63,023 (1991).

Background

Carnegie, a wholly owned subsidiary of United States Steel Corporation (U.S. Steel), was incorporated in 1886 primarily to obtain natural gas supplies needed by various U.S. Steel plants in Pittsburgh, Pennsylvania. n2 U.S. Steel accounted for 89 percent of Carnegie's revenues from 1930 through 1986. n3 In 1913, both the Pennsylvania Public Service Commission [**2] Commission -- later named the Pennsylvania Public Utility Commission (PaPUC) -- and the Public Service Commission of West Virginia began regulating Carnegie. n4 On August 3, 1943, the Federal Power Commission [*61,604] (FPC) issued Carnegie a certificate of public convenience and necessity under Section 7 of the Natural Gas Act (NGA) for certain of Carnegie's facilities and services. n5 Carnegie also continued to perform an intrastate service regulated by the Pennsylvania Commission. The Uniform System of Accounts, which requires every licensee and every

60 F.E.R.C. P61,166, *; 1992 FERC LEXIS 1890, **

public utility subject to the Federal Power Act and the NGA to keep its accounts in the manner prescribed by the Commission, was in existence at the time Carnegie became subject to regulation by the FPC. n6

n2 Exh. 1 at p. 3.

n3 Tr. 162-163.

n4 Exh. 1 at p. 4.

n5 3 FPC 1052 (1943).

n6 The Uniform System of Accounts for natural gas companies subject to the provisions of the NGA is found at 18 C.F.R. § 201 (1991).

In 1973 the staff of the FPC completed a selective review of Carnegie's books and records to "establish the original cost of gas plant and the related accumulated provisions for depreciation, [*3] amortization and depletion through December 31, 1970". n7 The staff found that Carnegie's accumulated depreciation reserve balance was misstated in the amount of \$276,381 n8 and recommended that Carnegie correct the misstatement. Carnegie agreed and the Commission, by letter order issued June 12, 1973, approved the adjusted accumulated depreciation balance. n9

n7 The Commission will interchangeably use the terms "accumulated depreciation" and "depreciation reserve" to refer to the balance in Account 108, Accumulated Provision for Depreciation of Gas Utility Plant.

n8 Carnegie had failed to include \$276,381 of property relocation reimbursements in its accumulated depreciation account.

n9 See Staff's Initial Brief, Appendix A. Also see Tr. 291-293, 429-445.

Prior to 1984, the Pennsylvania Commission used a "fair value" ratemaking methodology for purposes of establishing rate base in its rate proceedings. n10 In 1984 the Pennsylvania Commission switched to an "original cost" methodology, the same methodology applied to interstate gas pipeline companies by the Federal Energy Regulatory Commission (FERC) under the NGA.

n10 Exh. 15 at pp. 7-8.

On April 27, 1984, Carnegie filed [*4] an application with the Pennsylvania Commission to increase its Pennsylvania intrastate jurisdictional rates. Carnegie and the Pennsylvania Commission staff entered into an agreement on October 1, 1984 which limited Carnegie's allowed increase. In changing from a "fair value" methodology to an "original cost" methodology for Carnegie, the Pennsylvania Commission required Carnegie to conduct an accumulated depreciation reserve study to determine an appropriate starting point depreciation reserve for future ratemaking purposes. n11 Carnegie and the Pennsylvania Commission staff ultimately agreed, based on the 1984 depreciation reserve study, that Carnegie's book reserve should be reduced by \$2,168,755 to reflect the starting point depreciation reserve contained in the study. n12 Carnegie would accomplish the reduction over a five year period beginning in 1985. n13 For the four year depreciation period ending December 31, 1988, Carnegie had reduced the accumulated depreciation balance by \$1,735,005.00. n14

n11 Exh. 1 at p. 12.

n12 Exh. 8 at pp. 3-4.

n13 Exh. 34 at p. 30; Exh. 36 Sch.3, Sheet 1 of 6.

n14 Exh. 5.

In April 1988, Carnegie filed its first section 4 rate case with [*5] the FERC, in Docket No. RP88-131-000. Carnegie reflected the reduced accumulated depreciation balance in its filing. The FERC staff took the position that Carnegie was not permitted to make this adjustment without the authorization of the Chief Accountant of the FERC. n15 On November 2, 1988, Carnegie filed a letter with the FERC stating its reasons for decreasing its accumulated depreciation balance and requesting "written confirmation concerning the proper depreciation book reserve." n16

60 F.E.R.C. P61,166, *; 1992 FERC LEXIS 1890, **

n15 Exh. 3 at pp. 4-5.

n16 Exh. 37 at p. 4.

On March 29, 1989, the Chief Accountant responded to Carnegie's request. He stated that the information Carnegie had set forth in its letter was not sufficient to enable him to approve Carnegie's adjustments, and he set forth certain criteria Carnegie would have to satisfy to justify reducing the balance of its accumulated depreciation account. n17 He also stated that the Division of Audits of the Office of Chief Accountant was conducting an audit of Carnegie's books and records and that Carnegie's adjustment would be addressed in the context of that audit. n18

n17 The criteria were: (1) that the balance of accumulated depreciation was over or under accrued; (2) the over or under accrual resulted from an accounting error rather than the use of estimates in setting the depreciation rate; and (3) that any amount of overaccrued depreciation was not recovered in utility rates.

n18 Exh. 37 at p. 4.

[**6]

In a letter directive issued by the Chief Accountant on February 28, 1990, staff recommended that Carnegie reverse the approximately \$2.2 million of reductions it made to its accumulated depreciation through [*61,605] 1989. The staff also recommended that Carnegie record an entry in Account 186 (Miscellaneous Deferred Debits) to establish a regulatorily created asset for the portion of the \$2,168,755.00 which Carnegie anticipated collecting in retail rates as a result of action by the Pennsylvania Commission. n19 Carnegie did not agree with the staff's recommendations. Upon Carnegie's decision not to consent to shortened hearing procedures, 18 C.F.R. 158.1, et seq., the Commission set the case for hearing in an order issued May 17, 1990. n20

n19 Exh. 5.

n20 51 FERC P61,176 (1990).

A hearing was held on December 18 and 19, 1990. The only participants were Carnegie and staff. On May 13, 1991, the Presiding Administrative Law Judge (ALJ) issued an initial decision upholding staff's position and requiring corrective accounting entries. In that decision, the ALJ held: (1) the PaPUC's determination that Carnegie's accumulated depreciation [*7] reserve was overstated should not be given any weight, since the Commission promulgated the Uniform System of Accounts and has the primary responsibility for its interpretation; (2) the Commission already passed on the correctness of Carnegie's accumulated depreciation reserve in the 1973 audit; (3) there is insufficient evidence in this case to show that Carnegie's accumulated depreciation reserve is overstated, because depreciation estimates are inherently speculative and the theoretical reserve is not substantially different from the book reserve; (4) a prior period adjustment in Carnegie's accumulated depreciation reserve should not be allowed, because the alleged overstatement was due to a change in an accounting estimate not an accounting error and resulted from a conscious management decision by Carnegie; and (5) Carnegie is not entitled to a one time adjustment to establish a starting point depreciation reserve, because this case does not involve an initial adjustment of Carnegie's accumulated depreciation reserve.

A brief on exceptions to the initial decision was filed by Carnegie on June 12, 1991. A brief opposing exceptions, and in support of the initial decision, was [*8] filed by Commission staff on July 2, 1991.

Discussion

The Commission is affirming the May 13 initial decision of the ALJ and denying Carnegie's exceptions.

Ruling on Carnegie's Accumulated Depreciation Balance

Carnegie argues that the ALJ committed error in failing to rule on the propriety of the balance in Carnegie's depreciation reserve account. Carnegie takes exception to the ALJ's finding that the Commission had already passed on the correctness of Carnegie's accumulated depreciation account, arguing that the scope of the Commission's 1973 audit did not include entries made by Carnegie before 1965, and that the balance in the reserve account was never reviewed to determine if it represented a reasonable level of accrued depreciation. We disagree.

60 F.E.R.C. P61,166, *; 1992 FERC LEXIS 1890, **

The Commission made a determination on the correctness of Carnegie's accumulated depreciation account in an audit covering Carnegie's plant and accumulated depreciation balances through 1970. The Commission, in a letter to Carnegie dated June 12, 1973, stated that its staff "...had completed a review of Carnegie's books and records to establish the original cost of gas plant and the related accumulated provisions for depreciation, [**9] amortization and deletion thorough December 31, 1970." (emphasis added.) As a result of that review, staff noted and brought to Carnegie's attention certain exceptions, including an exception to Carnegie's accumulated depreciation balance. n21 Carnegie agreed to the staff's adjustment. The Commission approved the adjusted accumulated depreciation balance as of December 31, 1970.

n21 Staff recommended that Carnegie make an adjustment to its accumulated depreciation account to correct its accounting for property relocation reimbursements.

The Commission's staff performed three more audits covering the period 1971 through 1984 that included a review of the changes in the recorded cost of Carnegie's gas utility plant and related accumulated depreciation balances. Staff noted no exceptions to the recorded balances during those audits and the Commission approved them. n22

n22 The Commission approved Carnegie's utility plant and related depreciation balances by letter orders dated May 20, 1977, January 21, 1983, and August 27, 1985.

In a fifth audit of Carnegie covering the period 1985 - 1988, the Commission's staff again reviewed the propriety of Carnegie's depreciation balance. [**10] The staff objected to approximately \$1.7 million of adjustments made by Carnegie during the audit period (1985 - 1988). In a letter directive issued by the Chief Accountant on February, 28, 1990 [50 FERC P62,145], the staff recommended the reversal of Carnegie's \$1.7 million of adjustments to its accumulated depreciation account through 1988 and an additional reversal of \$433,750 of [*61,606] adjustments made in 1979 (for a total of approximately \$2.2 million). Carnegie disagreed with the staff's recommendation and the issue was presented to an ALJ for determination in the subject docket. Thus, the Commission has reviewed and ascertained the proper balance in Carnegie's accumulated depreciation account on four occasions prior to the instant proceeding, and is doing so for a fifth time in this proceeding.

Record Support for an Adjustment of Accumulated Depreciation

Carnegie objects to the ALJ's finding that there was insufficient evidence to establish that Carnegie's depreciation reserve account was overstated. Carnegie asserts that the 1984 reserve study performed by Gannett Fleming is the best evidence of the appropriate balance in Carnegie's accumulated depreciation [**11] account.

Carnegie's 1984 depreciation study, no matter how valid, is not a basis to adjust the recorded balance in Carnegie's accumulated depreciation account. n23 Depreciation is an allocation of an asset's cost over its estimated service life. The amount of depreciation accumulated in each period is dependent on a number of assumptions of service life, property retirements, salvage value, etc. As new events occur, and as more experience is acquired, or as additional information is obtained, depreciation estimates will change. The Commission does not use depreciation studies to adjust past depreciation charges that were properly recorded in prior periods based on the depreciation practices and information available at the time they were recorded. Changes in depreciation estimates resulting from new information or subsequent developments or from better insight or improved judgement should be accounted for in the period of change and future periods, but not through retroactive restatement of prior period's depreciation amounts. n24

n23 Indeed, if Carnegie believed that the results of a depreciation study required adjustment of its depreciation reserve balances, Carnegie should have attempted correction of its reserve in 1965, not in 1984. According to Carnegie, it knew as a result of its 1965 depreciation study that its accumulated depreciation balance was overstated by "some \$4.8 million" as of May 1965. B.O.E. at 31. Carnegie gives no valid reason for not adjusting its account at that time to conform to that study's results.

n24 See Accounting Principles Board Opinion No. 20, Accounting Changes, Financial Accounting Standards Board Original Pronouncements (1991).
[**12]

The Commission does allow for corrections of errors in the determination of depreciation account balances. An example is the adjustment Carnegie made as a result of staff's 1973 audit. Carnegie had failed to include property reloca-

60 F.E.R.C. P61,166, *; 1992 FERC LEXIS 1890, **

tion reimbursements in its depreciation reserve. However, the 1984 depreciation study reveals no errors in depreciation accruals. n25

According to the 1984 study:

n25 Carnegie's 1984 study analyzed the entries to the accumulated depreciation account for 1966-1983. As a starting point, the study used a "calculated" reserve balance that was derived in a 1965 depreciation study.

The current difference between book and calculated reserves can be attributed to several reasons which have occurred throughout the history of the book depreciation reserve. An attempt to quantify most of these reasons would be unduly burdensome. The reasons include revisions of service life estimates from time to time, the use of book accrual rates based on methods other than the straight line whole life method, the use of book accrual rates based on service life estimates different from the service life estimates used for ratemaking purposes, and timing differences between [**13] actual in and out-of-service dates of plant additions and retirements and the mid-year convention used for the same plant additions and retirements in the calculated depreciation reserve. n26

n26 Exh. 13 at pp. 3-4.

The study noted that an additional difference of approximately \$1 million was attributable to FERC's directive to credit "Reimbursed Construction" for municipal projects to the book reserve. Exh. 13 at 4-5. According to the Gannett Fleming study, the differences between the recorded book balances and the "calculated" depreciation reserve were due to differences in depreciation estimates and methods, not errors or inappropriate accounting practices.

Subsequent to the 1984 Gannett Fleming study, Carnegie analyzed its books and records to determine how depreciation was accrued throughout the company's history and on what basis amounts were recorded to the depreciation reserve accounts. n27 This study found "some very unusual accounting entries and practices that would be inconsistent with current accounting standards", but none that would have constituted accounting errors at the time they were recorded under then-accepted accounting practices. n28 Carnegie's witness [**14] Lesney provided a few examples of accounting entries made affecting the depreciation reserve prior to 1935, and concluded that the current overstatement of Carnegie's depreciation reserve relates back to the time of these [*61,607] extraordinary adjustments. n29 However, Lesney admitted that Carnegie's accounting was correct under prevailing accounting standards at the time they were made. n30

n27 Exh. 1 at p. 17.

n28 Exh 16 at p. 7.

n29 The examples given by witness Lesney are incomplete and therefore inconclusive. Mr. Lesney does not provide the subsequent history of the items that may have affected the depreciation reserve in the 1930's. It is entirely possible that the asserted misstatements were corrected or reversed in subsequent years and might not have any effect on the depreciation reserve balance as of 1984.

n30 Ex. 49 at p. 4.

Therefore, there is no evidence to support Carnegie's assertion that its depreciation reserve should be adjusted to correct for errors or for inappropriate accounting methods. The Commission concludes that it would be inappropriate to "correct" Carnegie's accumulated depreciation balance for "errors" that have not been shown to have [**15] occurred.

Carnegie then claims that if its prior practice was not an error, then its change in depreciation practices in the late 1930's constituted a change in accounting method, and such change in method required adjustment of the accumulated depreciation balance. However, Carnegie offers no valid reason for not recognizing the asserted changes in accounting methods until 1985. The Commission sees no justification for delaying recognition of an asserted accounting change for 50 years. We agree with the staff that if a change in method occurred, it was necessary for Carnegie to reflect the cumulative effect of the change in the period of the change, not almost half a century later. To retroactively adjust the depreciation reserve for changes in estimates or acceptable depreciation methods as Carnegie proposes would violate the Commission's policy against reaccounting and subject ratepayers to over or under charges for depreciation included in rates of prior periods. As the Commission said in *Northwestern Electric Company*. n31

60 F.E.R.C. P61,166, *; 1992 FERC LEXIS 1890, **

n31 Northwestern Electric Co., 2 FPC 327, 335 (1940).

Accounting carried out within the range of allowable discretion under controlling systems [**16] of accounts and not in conflict with fundamental accounting principles should have an element of finality so that the regulatory process can function and the public, investors as well as consumers, be adequately protected. If we were to permit the re-accounting proposed by the company in this respect, we would be encouraging instability and frequent shifting in utility accounting. Impeachment of past proper accounting will not be sanctioned and the integrity of accounts must be maintained.

Thus there is no basis to adjust Carnegie's accumulated depreciation account. The Commission finds that Carnegie's recorded balance of accumulated depreciation, although not the same as the theoretical balance derived in the 1984 depreciation study or the balance used for retail ratemaking purposes, is appropriate. Therefore, we reject Carnegie's exception.

PaPUC's Determination

Carnegie argues that the ALJ erred in refusing to accord any weight to the PaPUC's determination that Carnegie's book reserve was overstated, since the PaPUC is the only regulatory body that has been exercising jurisdiction over the company's rates, including its depreciation accruals, and no other entity has any factual [**17] basis to ascertain whether Carnegie's book reserve was overstated. We disagree. Carnegie confuses the ratemaking actions of the PaPUC with the accounting authority of this Commission. Under Sections 8 and 9 of the Natural Gas Act, this Commission has exclusive authority over the books of account and the rates of depreciation of jurisdictional gas companies. The Commission's accounting jurisdiction extends to the entire business of the Company. However, the Commission's authority does not limit the power of a state commission to determine the amount of depreciation allowable for retail ratemaking purposes.

The Commission does not take issue with the PaPUC's use of the 1984 depreciation study's reserve for retail ratemaking purposes. However, such a balance is not necessarily appropriate for accounting purposes. Depreciation is an allocation of the cost of an asset over its service life; it need not correspond to the rate recovery of the cost of the asset. n32 When the Commission's accounting practice is in conflict with a state commission's rulings, the two approaches must be reconciled so as not to disrupt uniform enforcement of the Commission's Uniform System of Accounts. n33 This [**18] does not mean that our accounting determination would preclude Carnegie from recognizing the economic effects of the rate actions of the PaPUC. We agree with the staff that Carnegie may establish a regulatorily created asset for the difference between recoverable amounts of depreciation [**61,608] for retail ratemaking purposes and the amounts properly recorded for accounting purposes.

n32 See Mojave Pipeline Company, 58 FERC P61,074 at 61,250-51 and Kern River Gas Transmission Company, 59 FERC P61,073 at pp. 61,243-4.

n33 See Long Island Lighting Company, 37 FERC P61,033 (1986). See also Metropolitan Edison Company, 11 FERC P61,027 (1980), reh'g granted, 13 FERC P61,142 (1980) and Equitable Gas Company, 56 FPC 1655, 1656 (1976).

Commission Precedent

Carnegie claims that it is entitled to and seeks no more than what was allowed to other jurisdictional companies during the 1940's and 1950's -- a one-time adjustment to establish a starting point depreciation reserve for ratemaking and accounting purposes. Carnegie cites to a number of cases in which the Commission, after finding that a company's [**19] book reserve was clearly inappropriate due to the use of incorrect or improper depreciation accounting practices, established a starting point book reserve. The instant case is distinguishable from the cases cited by Carnegie because in the instant case the Commission has determined that the balance in Carnegie's book reserve was not the result of inappropriate depreciation accounting practices. The consistent practice of the Commission is to allow pipelines to prospectively adjust their depreciation rates to reflect revised or updated depreciation estimates. Carnegie has not given us any reason to depart from our general practice. To the extent that Carnegie believes that its depreciation reserve balance is at significant variance with the results of its depreciation studies, it is incumbent upon Carnegie to pursue a change in its depreciation rates to bring its reserve in line with updated depreciation estimates.

Undepreciated Plant Investment

60 F.E.R.C. P61,166, *; 1992 FERC LEXIS 1890, **

Carnegie asserts that the ALJ's finding that Carnegie should reinstate the approximately \$2.2 million adjustment to its book reserve ignores the fact that this amount represents undepreciated original cost of existing gas plant. Carnegie [**20] also asserts that the accounting treatment cannot be dissected from the ratemaking principles applicable under these circumstances. Carnegie contends that if the Commission adopts the ALJ's decision, it would permanently deny Carnegie an opportunity to earn a return of and on the FERC-jurisdictional portion of Carnegie's \$2.2 million plant investment.

Carnegie has failed to show that the \$2.2 million adjustment represents undepreciated plant cost. The record evidence shows only that the \$2.2 million disparity is due to changes in depreciation estimates and practices since Carnegie's inception. Due to the use of "fair-value" ratemaking in Pennsylvania from 1913 to 1984, Carnegie has not and perhaps cannot show how much of its plant investment has been recovered in rates. Therefore, the Commission has no basis on which to conclude that Carnegie has not recovered its asserted \$2.2 million plant investment. Carnegie's exception to the initial decision is therefore denied.

The Commission orders:

The initial decision issued in this proceeding on May 13, 1991 is affirmed; all exceptions to the initial decision are denied.

Legal Topics:

For related research and practice materials, see the following legal topics:
Energy & Utilities LawAdministrative ProceedingsU.S. Federal Energy Regulatory CommissionGeneral OverviewEnergy & Utilities LawUtility CompaniesContracts for ServiceEnergy & Utilities LawUtility CompaniesRatesGeneral Overview

56. Net Salvage. Please state whether the historical net salvage data (i.e., gross salvage, cost of removal, and retirements) are time synchronized. If not, please state the longest time frame between the reporting of one component versus another component of a retirement as well as the average time period for such situations by account.

Response:

Historical Net Salvage data is transferred from PowerPlant (fixed asset sub ledger system) to the General Ledger on a monthly basis.

Cost of Removal is an allocation of various labor resource types in PowerPlant based upon the project estimate which is entered by the Operational Business Units. The Labor charges are interfaced to PowerPlant monthly from Oracle PA during the monthly close. Each project applies the project estimate ratio which is calculated by the pro-rata split between the additions and cost of removal labor estimate. The Cost of removal percentage is applied against the total labor charges in order that these dollars can be allocated to Account 108.2 - Accumulated Provision for Depreciation as the current month Cost of Removal charges.

The Operational Business Units enter retirements on their projects at two points during the life cycle of their projects; at project set-up and at project in-service. Retirements will post to the appropriate 101 account immediately upon the project being placed in-service.

When a project is closed and unitized, the Cost of Removal and Salvage, which posts to Account 108.2 over the life cycle of the project (however not to a specific unit of property) is allocated to specific retirements which required Cost of Removal during the project. This relationship is maintained in the estimate of each project. Because of the above system processes, net salvage and retirements may not close out to PowerPlant at the same time. It is not uncommon for a project to be placed in-service and not be closed and unitized for up to a period of six months in order to process invoices and work through engineering and construction punch list items that remain to be completed in order to bring the plant or plant system into compliance with the design criteria. The average time for project status from in-service to closed is about eleven months and the longest duration is four years.

PROGRESS ENERGY FLORIDIA, INC.
EFFECT OF THEORETICAL RESERVE SURPLUS ON 2010 REVENUE REQUIREMENTS
(IN MILLIONS)

Line No.		
1	Theoretical Reserve Surplus as reported in the Depreciation Study	\$ 646
2		
3	Less one half year of amortization	16
4		
5	Net Rate Base Effect (Line 1 - Line 3)	<u>630</u>
6		
7	Overall Cost of Capital (1)	9.21%
8		
9	Return Requirements (Line 5 x Line 7)	<u>58</u>
10		
11	Revenue Expansion Factor (2)	1.6338
12		
13	Revenue Equivalent Amount (Line 9 x Line 11)	<u>95</u>
14		
15	Embedded Amortizaion of the Theoretical Reserve Surplus Over the	32
16	Remaining Lives of the Assets	
17		
18	Total Reduction included in 2010 Revenue Requirements (Line 13 + Line 15)	<u><u>\$ 127</u></u>

NOTES:

- (1) Represents 2010 proposed rate of return on rate base as requested in PEF's Rate Case Docket No. 090079-EI.
 (2) Represents 2010 proposed expansion factor calculation as requested in PEF's Rate Case Docket No. 090079-EI.

PROGRESS ENERGY FLORIDIA, INC.
REVENUE REQUIREMENT IMPACT OF PROPOSED AMORTIZATION
ILLUSTRATION BASED ON FULL AMORTIZATION OVER FOUR YEARS
(\$000'S)

Line No.	2010	2011	2012	2013	2014
1	Impact if Amortization of Theoretical Reserve Surplus is \$646 Million				
2					
3	\$ 161,451	\$ 161,451	\$ 161,451	\$ 161,451	
4					
5	\$ 161,451	\$ 322,902	\$ 484,353	\$ 645,804	\$ 645,804
6					
7	\$ 80,726	\$ 242,177	\$ 403,628	\$ 565,079	\$ 645,804
8					
9					9.21%
10					59,479
11					
12					1.6338
13					97,176
14					
15					161,451
16					\$ 258,627
17					
18					0.6315
19					\$ 6.31
20					10.9%
21					4.6%

NOTES:

- (1) Represents 2010 proposed rate of return on rate base as requested in PEF's Rate Case Docket No. 090079-EI.
- (2) Represents 2010 proposed expansion factor calculation as requested in PEF's Rate Case Docket No. 090079-EI.
- (3) This increase would continue over the remaining life of the affected assets in gradually declining amounts.
- (4) kWh used in the calculation is based on the average yearly retail sales forecasted for 2010 to 2014 as requested in PEF's Rate Case Docket No. 090079-EI.
- (5) Assumes cents per kWh impact is spread evenly over each rate class.
- (6) Represents % of 2010 typical 1,000 kWh base rate portion of residential bill as requested in PEF's Rate Case Docket No. 090079-EI.
- (7) Represents % of 2010 typical 1,000 kWh total residential bill as requested in PEF's Rate Case Docket No. 090079-EI.

PROGRESS ENERGY FLORIDIA, INC.
REVENUE REQUIREMENT IMPACT OF PROPOSED AMORTIZATION
ILLUSTRATION BASED ON MR. POLLOCK'S THREE YEAR FLOW BACK
(\$000'S)

Line No.	2010	2011	2012	2013
1	Impact if Amortization of Theoretical Reserve Surplus is \$300 Million			
2				
3	\$ 100,000	\$ 100,000	\$ 100,000	\$ -
4				
5	\$ 100,000	\$ 200,000	\$ 300,000	\$ 300,000
6				
7	\$ 50,000	\$ 150,000	\$ 250,000	\$ 300,000
8				
9				9.21%
10				27,630
11				
12				1.6338
13				45,142
14				
15				100,000
16				\$ 145,142
17				
18				0.3544
19				\$ 3.54
20				6.1%
21				2.6%

NOTES:

- (1) Represents 2010 proposed rate of return on rate base as requested in PEF's Rate Case Docket No. 090079-EI.
- (2) Represents 2010 proposed expansion factor calculation as requested in PEF's Rate Case Docket No. 090079-EI.
- (3) This increase would continue over the remaining life of the affected assets in gradually declining amounts.
- (4) kWh used in the calculation is based on the average yearly retail sales forecasted for 2010 to 2014 as requested in PEF's Rate Case Docket No. 090079-EI.
- (5) Assumes cents per kWh impact is spread evenly over each rate class.
- (6) Represents % of 2010 typical 1,000 kWh base rate portion of residential bill as requested in PEF's Rate Case Docket No. 090079-EI
- (7) Represents % of 2010 typical 1,000 kWh total residential bill as requested in PEF's Rate Case Docket No. 090079-EI.