

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

In re: Application of CITY GAS)	DOCKET NO. 890203-GU
COMPANY for New Depreciation Rates.)	ORDER NO. 22115
)	ISSUED: 10-31-89

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

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 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.

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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 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.

I. Mains and Services (Accounts 376 and 380)

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 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):

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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 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 resolvment 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.

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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 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) 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.

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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 (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.



STEVE TRIBBLE, Director
Division of Records and Reporting

(S E A L)

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NOTICE OF FURTHER PROCEEDINGS OR JUDICIAL REVIEW

The Florida Public Service Commission is required by Section 120.59(4), Florida Statutes, to notify parties of any administrative hearing or judicial review of Commission orders that is available under Sections 120.57 or 120.68, Florida Statutes, as well as the procedures and time limits that apply. This notice should not be construed to mean all requests for an administrative hearing or judicial review will be granted or result in the relief sought.

The action proposed herein is preliminary in nature and will not become effective or final, except as provided by Rule 25-22.029, 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 25-22.029(4), Florida Administrative Code, in the form provided by Rule 25-22.036(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, Florida 32399-0870, by the close of business on November 21, 1989.

In the absence of such a petition, this order shall become effective on the day subsequent to the above date as provided by Rule 25-22.029(6), Florida Administrative Code, and as reflected in a subsequent order.

Any objection or protest filed in this docket before the issuance date of this order is considered abandoned unless it satisfies the foregoing conditions and is renewed within the specified protest period.

If this order becomes final and effective on the date described above, any party adversely affected may request judicial review by the Florida Supreme Court in the case of an electric, gas or telephone utility or by the First District Court of Appeal in the case of a water or sewer utility by filing a notice of appeal with the Director, Division of Records and Reporting and filing a copy of the notice of appeal and the filing fee with the appropriate court. This filing must be completed within thirty (30) days of the effective date of this order, pursuant to Rule 9.110, Florida Rules of

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

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ATTACHMENT 1

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

ACCOUNT	AVG. REM. LIFE yr.s	AVG. NET SALV. %	DEPR. RATE %
<u>Distribution Plant</u>			
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
<u>Leased Plant</u>			
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
<u>General Plant</u>			
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

* For use in 1989
For use in 1990 and subsequently, after separation of accounts.

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ATTACHMENT 2

CITY GAS COMPANY OF FLORIDA
DEPRECIATION RATES
(EFFECTIVE 1-1-89)
(Reserve allocation - Mains and Services)

<u>ACCOUNT</u>	<u>BOOK RESERVE</u> \$	<u>ALLOCATED RESERVE</u> \$
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
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Totals	\$21,152,212	\$21,152,212