

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

In Re: Application for approval ) DOCKET NO. 960404-GU  
of new depreciation rates by ) ORDER NO. PSC-96-1368-FOF-GU  
Peoples Gas System, Inc. ) ISSUED: November 18, 1996  
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The following Commissioners participated in the disposition of this matter:

SUSAN F. CLARK, Chairman  
J. TERRY DEASON  
JOE GARCIA  
JULIA L. JOHNSON  
DIANE K. KIESLING

NOTICE OF PROPOSED AGENCY ACTION  
ORDER APPROVING DEPRECIATION RATES  
FOR PEOPLES GAS SYSTEM, INC.

BY THE COMMISSION:

On April 1, 1996, Peoples Gas System, Inc. (Peoples or the Company), filed its updated depreciation study and proposed depreciation rates. The Company requested that the new depreciation rates be implemented, effective October 1, 1996. Pursuant to Rule 25-7.045(7), Florida Administrative Code, natural gas companies must file a comprehensive depreciation study at least once every five years from the date of the last submitted study. The last depreciation study for Peoples was submitted March 8, 1991, with an implementation date of October 1, 1991.

A comprehensive review of the Company's depreciation study was conducted. Attachment A presents a comparison of the rate parameters (lives, salvages and reserves) proposed by the Company and the rate parameters recommended by our staff. Upon consideration, we find that the new rates, shown in Attachment A, shall be implemented effective October 1, 1996. The approved rates will result in an increase in annual expenses of approximately \$140,000. A brief discussion of salient matters is set forth below.

DOCUMENT NUMBER-DATE  
12224 NOV 18 86  
FPSC-RECORDS/REPORTING

Distribution Plant

Structures and Improvements (Account 375)

We approve the remaining life and salvage parameters for this account proposed by the Company. The remaining life is the result of using the service life underlying the currently prescribed remaining life and the current average age.

Mains and Services (Accounts 376 and 380)

Peoples is still in the process of completing a program of system upgrades to relieve water infiltration and to increase system pressures. The Company is replacing old cast iron pipe with plastic pipe to avoid further corrosion problems and to increase system pressure.

Surface restoration costs can be very high when a main or service is retired. Surface restoration normally occurs at two locations for each service line retired; one at the point of the service riser, and the other at the property line or at the connection to the main. The galvanic action of dissimilar metals such as a galvanized steel service line running off a cast iron main requires that the line be cut at the main rather than the property line. Under these circumstances, paving restoration is required.

We believe that the service lives and curve shapes for these accounts proposed by the Company are reasonable and within industry estimates. They also reflect the experience of the activity in these accounts.

The Company's system upgrade program is reducing the instances of dissimilar metals and a smaller portion of the system will be under paving requiring costly surface restoration. As a result, the company believes that removal costs will be reduced because of an anticipated reduction in expensive surface restorations. The approved cost of removal factors for the Mains and Services Accounts are in line with the Company's estimates of labor time and material cost involved in abandonment under paving and not under paving for each category of Mains and Services.

Measuring and Regulating Station Equipment-General and City Gate  
(Accounts 378 and 379)

These accounts contain very similar types of equipment, therefore they should be expected to have similar life and salvage characteristics. Account 378 consists of regulators and other equipment used to maintain the correct operating pressure throughout the distribution system. Account 379 is comprised of regulators and other equipment used to tie the distribution system to the transmission pipeline.

We find no substantive reason to decrease the service life underlying the currently prescribed remaining life. The company proposes the use of an R1 curve shape to reflect the activity in these accounts. Therefore, the remaining lives we approve are based on a R1 curve shape, a 31-year service life, and the current average age for each account.

Peoples' proposed net salvage factor for each account of negative 4% is within the range of industry salvage estimates for this equipment. We find that the existing prescribed negative 4% net salvage should be maintained for each account.

Meters (Account 381)

We find that the life and salvage factors for this account proposed by the Company are reasonable and acceptable.

Meter and Regulator Installations (Accounts 382 and 384)

Generally, installations are only retired either when the meter or regulator is removed from the location and no new one is installed, or when service through the meter or regulator is cut. In other words, the life of these installations should be very similar to the life of services. Peoples' last study reflected this position. However, the company now believes that its recently installed tracking system warrants a change in the general position regarding meter and regulator installations. For this reason, the company originally requested a shorter life for these accounts.

Peoples has recently developed enhanced software which allows the company to track meter and regulator installations on a detailed basis. With this software, a monthly report is generated which lists all meters that have been removed for inactivity, customer loss, etc. Since the vintage when the meter was originally installed on a specific premise is included on the

report, meter and regulator installations of the same vintage are retired from the corresponding plant account. A new company policy requires these retirements on a monthly basis.

Rule 25-12.045, Florida Administrative Code, Inactive Service Lines, requires the utility to take action regarding inactive service lines in two to five years if there is a prospect for reuse. As a result, the Company has the option to wait two years before removing the meter if there is prospect for reuse. After five years of inactivity, the Company must physically retire the service line. Under the circumstances, it seems that at most, the life of services would not exceed that of the installations by more than five years. Installations are rarely retired prior to the date the service ends or the meter is removed due to inactivity.

If there is no prospect for reuse, the Rule 25-12.045 requires that a service line be retired and physically abandoned within three months. The Company states that its new policy is to retire the meter and regulator installations at the time the service ends, regardless of the prospect for reuse.

The Company originally proposed an average service life of 20 years for meter and regulator installations. This proposal was considerably less than the service life of 28 years proposed for meters and the service life of approximately 33 years for services. Based on the company's proposal, the installations would be expected to retire prior to the meters.

We approve a 28 year average service life for these accounts. The average service life of the installation could be five years less than the life of the service, but it should not be less than the service life of the meter. A 28 year service life is the same as the life of meters proposed by the Company, but less than the weighted 33 year service life of services. We considered some of the aspects of the Company's new policy by reducing the current average service life of meter and regulator installations. However, the lack of documentation does not permit us to reduce the average service life of these accounts beyond that of meters.

The approved remaining lives are based on a R3 curve shape, a 28-year service life and the current average age for each account. In addition, we approve a salvage factor of negative 18% for each account.

Regulators (Account 383)

Regulators are used to regulate the gas pressure at a customer's premise. As with meters, this investment is accounted for as cradle-to-grave. We find that the 28 year service life proposed by the company is consistent with industry estimates.

General Plant

Structures and Improvements (Account 390)

Currently, the Company leases its headquarters building. In the event the Company purchases a headquarters building before the next scheduled depreciation represcription, the investment should be assigned a 2.5% depreciation rate (40-year average service life with zero net salvage).

Office Furniture (Account 391)

An analysis of this account revealed that approximately 44% of the investment is related to modular furniture. Typically, modular furniture tends to have a shorter life expectancy than traditional wood furniture or its equivalent. As a result, we believe the current 20 year average service life is no longer applicable. We approve an average service life of 15 years. Fifteen years represents a composite of an 18-20 year life for the wood furniture and a 10-12 year life for modular. Using a R1 curve shape and an age of 6.6 years, results in an average remaining life of 10.4 years.

Airplanes (Account 392.03)

Peoples has not retired the single aircraft in this account. Although the Company anticipates replacing the airplane in the near future, any purchase of a new aircraft will most likely occur after its fiscal year 1997. In any case, we find no compelling reason to change the current service life for this account.

Based upon a theoretical reserve analysis, this account has an implied reserve of \$211,000 and a very short remaining life of 2.3 years. Rather than transferring the implied surplus now, the Company should book no further accruals as this account is fully accrued. Once the aircraft is retired and net salvage has been realized, the Company should then address any reserve imbalance.

For any new airplane placed in service during the next five years, the Company should employ a whole life rate of 6.3% and a net salvage of 25%.

Laboratory Equipment (Account 395)

An analysis of the account activity indicates an average service life of 18.5 years. Although the account activity is limited, there is no indication that the pattern of activity will change. Given this, we find no compelling reason to maintain the current average service life of 25 years. We approve a remaining life, at the current age, based on a 20 year average service and life and a S1 curve. We also approve the net salvage of zero, as indicated in the study.

Communications Equipment (Account 397)

This account is comprised of mobile radios, base stations, cellular telephones, pagers, telephone systems and telemetering equipment. The study indicates an average service life of 9.7 years. As a result, we find no compelling reason to change the current service life for this account. The approved remaining life is based on a S3 curve shape, 10 year service life, and the current age. In addition, we approve maintaining zero net salvage for this account.

Based on the foregoing, it is

ORDERED by the Florida Public Service Commission that depreciation rates for Peoples Gas System, Inc. are approved as discussed in the body of this Order. It is further

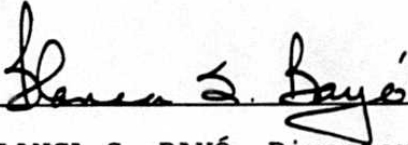
ORDERED that the depreciation rates shall be implemented effective October 1, 1996. It is further

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.

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DOCKET NO. 960404-GU  
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By ORDER of the Florida Public Service Commission, this 18th  
day of November, 1996.



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BLANCA S. BAYÓ, 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, 2540 Shumard Oak Boulevard, Tallahassee, Florida 32399-0850, by the close of business on December 9, 1996.

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.

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



**PEOPLES GAS SYSTEM, INC.  
 1996 STUDY  
 COMMISSION APPROVED RATES**

ACCOUNT	COMMISSION APPROVED			
	AVERAGE REMAINING LIFE (yrs.)	NET SALVAGE (%)	BOOK RESERVE (%)	ARL RATE (%)
<b>DISTRIBUTION PLANT</b>				
375 Structures & Improvements	32.0	(4.0)	17.83	2.7
376 Mains-Other	25.0	(45.0)	42.97	4.1
Mains-Plastic	33.0	(6.0)	21.31	2.6
378 Meas. & Reg. Sta. Eqpt-General	23.0	(4.0)	28.43	3.3
379 Meas. & Reg. Sta. Eqpt-City Gate	24.0	(4.0)	29.52	3.1
380 Services-Other	15.6	(80.0)	75.76	6.7
Services-Plastic	28.0	(35.0)	32.80	3.7
381 Meters	13.9	2.0	51.02	3.4
382 Meter Installations	11.6	(18.0)	25.66	8.0
383 Regulators	19.0	0.0	34.09	3.5
384 Regulator Installations	12.6	(18.0)	24.54	7.4
385 Industrial Meas. & Reg. Sta. Eqpt	25.0	0.0	26.01	3.0
387 Other Distribution Equipment	9.4	0.0	26.06	7.9
<b>GENERAL PLANT</b>				
390 Structures & Improvements	40.0	0.0	0.00	2.5 *
391 Office Furniture	10.4	1.0	29.83	6.7
39101 Computer Equipment	4.3	2.0	57.24	9.5
39102 Office Machines	9.1	4.0	55.28	4.5
39201 Autos & Trucks thru 1 Ton	4.7	10.0	45.51	9.5
39203 Airplanes	-	-	-	N/A
39203 Airplanes - new	12.0	25.0	N/A	6.3 *
39204 Other Transportation Eqpt	11.1	14.0	49.47	3.3
39205 Trucks over 1 Ton	4.6	5.0	70.72	5.3
393 Stores Equipment	3.3	0.0	62.87	11.3
394 Tools-Shop & Garage Equip.	9.4	1.0	24.58	7.9
395 Laboratory Equipment	15.7	0.0	15.05	5.4
396 Power Operated Equipment	6.1	5.0	52.81	6.9
397 Communications Equipment	4.0	0.0	81.70	4.6
398 Miscellaneous Equipment	13.2	0.0	26.76	5.5

\* denotes a whole life rate