BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

In re: 2003 depreciation study for Indiantown Gas Company.	DOCKET NO. 030048-GU ORDER NO. PSC-03-1111-PAA-GU ISSUED: October 6, 2003

The following Commissioners participated in the disposition of this matter:

LILA A. JABER, Chairman
J. TERRY DEASON
BRAULIO L. BAEZ
RUDOLPH "RUDY" BRADLEY
CHARLES M. DAVIDSON

NOTICE OF PROPOSED AGENCY ACTION ORDER REQUIRING CORRECTIVE RESERVE TRANSFERS AND REVISING 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 a formal proceeding, pursuant to Rule 25-22.029, Florida Administrative Code.

I. BACKGROUND

Rule 25-7.045, Florida Administrative Code (F.A.C.), requires gas companies to file comprehensive depreciation studies at least once every five years. On January 14, 2003, Indiantown Gas Company, Inc. (IGC or company) filed its regular depreciation study in accordance with this rule. IGC's last comprehensive depreciation study was filed on July 9, 1998.

We have jurisdiction in this matter pursuant to Sections 366.04, 366.05, and 366.06, Florida Statutes.

II. IMPLEMENTATION DATE FOR NEW RATES

We have reviewed the company's current capital recovery position. Because of changes since the last study brought about by activity and company planning, we find that there is a need to revise currently prescribed depreciation rates.

The company has proposed January 1, 2003, as the implementation date for revised depreciation rates and recovery schedules. This matches the beginning of its fiscal year. In keeping with Rule 25-7.045(6), F.A.C., all data and related calculations have been provided coinciding with the proposed date. Therefore, we find that this date is appropriate, and January 1, 2003, is approved as the implementation date.

III. CORRECTIVE RESERVE TRANSFERS

In considering IGC's depreciation study, we review the reserve position for each account. In regards to reserve transfers, if surpluses and deficits exist, then it is appropriate to make corrective reserve transfers between accounts. We have determined that there are surpluses and deficits for the following accounts, and the company shall make the following corrective measures (transfers) to the reserve:

Account	Book Reserve	Transfers	Restated Reserve
	($)	($)	($)
376 - Mains - Steel	151,849	85,637	237,486
376 - Mains - Plastic	156,530	(85,637)	70,893
380 - Services - Plastic	30,599	(9,586)	21,013
378 - M&R Equip. - General	(1,958)	9,586	7,628
391 - Office Furniture	10,378	(6,906)	3,472
Computer Equipment	13,211	6,906	20,117
392 - Transportation Equipment	85,084	(2,486)	82,598
397 - Communication Equipment	(1,416)	2,486	1,070
Total	444,277	0	444,277

In light of the possible impact of reserve transfers on cost allocations, the company shall make corresponding entries to the related depreciation expense accounts for the reserve transfers discussed above.

IV. DEPRECIATION RATES AND RECOVERY SCHEDULES

Our determinations of the remaining lives, net salvage values, reserve positions, and resultant depreciation rates and recovery schedules are shown on Attachment A. The company provided the necessary data for our staff to develop an average age for each account's surviving investment as of January 1, 2003. Our staff and the company then worked together in developing appropriate life and salvage values.

IGC operates in a stable community, which has been generally reflected by the lack of additions and retirements. During the 1993-2003 period, IGC experienced significant growth while retirements remained infrequent. The growth was attributed to the addition of a second industrial customer, the US Generating Cogeneration facility, and a system upgrade. Over the past several years, the company has been replacing its 3/4-inch steel mains with 1.25-inch plastic. This upgrade program also involves the replacement of the service line riser, and new meter and regulator sets. The time table for the mains replacement project has been modified, although the overall retirement goals remain the same. The project has been suspended for the duration of 2003 and is expected to resume mid-year 2004 with an expected completion date of December 31, 2005.

The expected average service life for each account is estimated from an analysis of historic activity, expected impact of factors such as growth and technological change, and industry averages. A review of each account's activity indicates that changes in the average service life for one account and in the net salvage values for several accounts are warranted. The company's continuing property record (CPR) system has been used to develop the current average age of surviving investment for each account. The approved remaining lives reflect CPR data and activity since the last study.

As a result of the review and analytical process, IGC has agreed with our staff on life and salvage values for each account. The depreciation rates and recovery schedules can be attributed mainly to three factors - updated ages to reflect activity since the last represcription, changes in the reserve position, and revised net salvage values.

A. Distribution Plant

Mains replacement program

In 1993 and 1994, IGC began renovations to a six-inch gas main to comply with the Department of Transportation requirements for a road construction project and to update the system pressure to accommodate the US Generating Cogeneration Facility. Additionally, the company began upgrading its system by replacing all 3/4-inch steel mains with 1.25-inch plastic mains. This project also involves replacement of IGC's steel service lines, risers, meters, and regulators. The project has been temporarily suspended for the duration of 2003 and is expected to resume mid-year 2004. Current planning is for the upgrade to be completed by year-end 2005.

At the time of the 1998 depreciation review, the mains replacement project was expected to be completed by year-end 2000. A recovery schedule designed to recover the associated net investments estimated to be replaced as part of the upgrade program was established. The unrecovered investments were estimated as $14,148 and were to be amortized over three years coinciding with completion of the program. The net investments included a 30-percent allowance for expected removal costs for the retiring mains. It was anticipated that any necessary true-up would be made at the time of the 2003 prescription.

With the revision in the program completion date from year-end 2000 to year-end 2005, the investments subject to retirement are recovered. No further recovery is needed. In the event that the expected cost of removal is not incurred, any reserve surplus remaining at the completion of the project can be addressed as part of the company's next depreciation review.

As a result of the renovations and upgrades, significant additions have been made in: Industrial Measuring and Regulating

Equipment, Account 384; Plastic Services, Account 380; Meters and Regulators, Accounts 381 and 383; and, Meter and Regulator Installations, Accounts 382 and 384. These additions translate into a younger average age for the related investments, thus a longer remaining life than last prescribed.

Mains and Services

Mains and services comprise about 72 percent of the investment in the distribution plant function. As a result of the mains replacement program, all steel services are being replaced with plastic services. Additionally, mains and services have experienced an eight-percent growth since the 1998 review.

Mains and service lines are generally abandoned in place upon retirement. This involves travel time for the crew, digging down to the main or service, cutting and capping, refilling the hole, and restoring the roadway. Restoring the roadway can become significant if the lines are under pavement. 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.

According to IGC, travel to any location within its service territory is only five minutes and the majority of its mains and services are located on easements, not under pavement. Generally, when a main or service line is replaced, the new pipe is placed in the same trench parallel to the existing pipe. This means that a single trench is dug, the existing main or service is cut and capped, and the new pipe is placed next to the abandoned pipe. According to IGC, the labor is not segregated between new installations and the cost of abandoning the retired installation. The associated labor cost of abandoning the retired main or service is included with the capitalized cost of the new installation. This approach understates the cost of removing the old pipe and overstates the capitalized new addition. In cases as this where the labor to abandon the existing main is not easily separated from the cost of the new installation, the cost of trenching and travel

shall be equitably allocated between the cost of abandoning the old and installing the new. A suggested approach would be to record the labor involved with digging the trench and cutting and capping as cost of removal associated with the retiring installation and the labor involved with installing the new line and filling in the trench as part of the capital addition of the new pipe. Whether the company uses this approach or some other, there needs to be equitable recognition that there are costs associated with the abandonment of the existing installation.

The remaining lives for these accounts simply reflect an update of each account's age to reflect activity since the last study. The net salvage values are based on expectations of other gas companies in the state and assume that labor costs are equitably allocated between abandoning an existing installation and placing a new main or service line.

Measuring and Regulating Station Equipment -- General (Account 378)

This account consists of regulators and other equipment used to maintain the correct operating pressure throughout the distribution system. Two regulator installations and an odorizer comprising about 64 percent of the account's investment were retired in 1999. The reserve transfers approved above will correct the resulting reserve deficiency. The average remaining life simply reflects an update of the account's age since the last study. No change in the currently prescribed zero net salvage is warranted.

Meters and Regulators (Accounts 381 and 383)

Meters are used to measure gas consumption at the customer's premise; regulators are used to regulate the gas pressure at the customer's premise. Pursuant to Rule 25-7.0461(6), F.A.C., the accounting treatment for this equipment is cradle-to-grave. At the time a meter or regulator is purchased, the cost is capitalized. A retirement does not occur until final disposition. All costs associated with change-outs and refurbishment are expensed. There is nothing in the current filing to indicate the need for a change in average service lives or net salvage values for these accounts.

The remaining lives reflect an update of each account's age since the last depreciation review.

Meter and Regulator Installations (Accounts 382 and 384)

According to the company, installation costs associated with house regulators are recorded along with the meter installation costs due to the minimal cost per installation. When a meter or regulator is placed in a location which has never before had service, or when an additional meter or regulator is added to an old location (increasing the number at the location), the installation costs are capitalized. Generally, meter and regulator installations are retired only 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.

Sixty-eight percent of the January 1, 2003, meter and regulator investment represents plant added in the last four years. This growth is primarily associated with the ongoing mains upgrade program. The average remaining life is the result of updating the account age to reflect activity since the last represcription. The negative five percent net salvage recognizes labor associated with the removal of these installations.

B. General Plant

Structures and Improvements (Account 390)

The investment in this account represents the company office building and remodeling improvements. The remodeling improvements largely took place in 2000 and represent the bulk of the investment. A 40-year average service life is in the range of expectations for this account as seen from other gas companies in the state. No change in the currently prescribed zero net salvage is indicated.

Office Furniture and Computer Equipment (Account 391)

Since the 1998 depreciation review, the company has performed a physical inventory of its office furniture and computer

equipment. As a result, the office furniture investment is reduced by $32,417 to reconcile IGC's general ledger with its CPRs; the computer investment is reduced by $4,373. The remaining lives simply reflect an update for the current average ages.

Transportation Equipment (Account 392)

A review of the account's activity indicates that IGC's vehicles retire at an average age of about six years, in line with the average service life underlying the currently prescribed average remaining life. The average remaining life reflects an update for the average age of the surviving investment. A ten-percent net salvage provides some recognition of resale or trade-in value upon retirement.

Power Operated Equipment (Account 396)

The investment in this account reflects the cost of a mini-trackhoe designed to excavate in small areas such as easements and back yards. It was leased throughout 1996 and then purchased in December 1996. The average remaining life reflects the current average age of the investment. The zero net salvage value reflects the expectation of little if any gross salvage, offset by attendant costs of retirement.

Communication Equipment (Account 397)

Since the last depreciation review, the company retired its four two-way radios and installed a phone system in 2000. The average remaining life and net salvage value reflect the current average age of the surviving investment and recognizes that this equipment is subject to technological impacts.

Based on the foregoing, it is

ORDERED by the Florida Public Service Commission that the corrective reserve transfers set forth in the body of this Order are approved and shall be made. It is further

ORDERED that remaining lives, net salvages, and resulting depreciation rates set forth in Attachment A to this Order are approved, effective January 1, 2003. It is further

ORDERED that the provisions of this Order, issued as proposed agency action, shall become final and effective 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 if no person whose substantial interests are affected by the proposed agency action files a protest within 21 days of the issuance of the order, this docket shall be closed upon the issuance of a consummating order.

By ORDER of the Florida Public Service Commission this 6th Day of October, 2003.

BLANCA S. BAYÓ, Director
Division of the Commission Clerk
and Administrative Services

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NOTICE OF FURTHER PROCEEDINGS OR JUDICIAL REVIEW

The Florida Public Service Commission is required by Section 120.569(1), Florida Statutes, to notify parties of any administrative hearing that is available under Section 120.57, 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 will be granted or result in the relief sought.

Mediation may be available on a case-by-case basis. If mediation is conducted, it does not affect a substantially interested person's right to a hearing.

The action proposed herein is preliminary in nature. Any person whose substantial interests are affected by the action proposed by this order may file a petition for a formal proceeding, in the form provided by Rule 28-106.201, Florida Administrative Code. This petition must be 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 October 27, 2003.

In the absence of such a petition, this order shall become final and effective upon the issuance of a Consummating Order.

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

ATTACHMENT A

INDIANTOWN GAS COMPANY
2003 STUDY

ACCOUNT	COMMISSION APPROVED				
	AVERAGE REMAINING LIFE (YRS.)	NET SALVAGE (%)	1/1/03 RESERVE (%)	REMAINING LIFE RATE (%)	
GAS DISTRIBUTION					
376 Mains - Steel	14.0	(30.0)	71.47	4.2	
376 Mains - Plastic	23.0	(30.0)	54.10	3.3	
378 M&R Equipment - General	29.0	0.0	2.51 **	3.4	
380 Services - Steel			NA		
380 Services - Plastic	25.0	(35.0)	52.22	3.3	
381 Meters	13.9	0.0	47.24	3.8	
382 Meter Installations	32.0	(5.0)	22.69	2.6	
383 House Regulators	20.0	0.0	39.31	3.0	
384 House Regulators - Installations			NA		
385 M&R Equipment - Industrial	16.8	0.0	40.73 **	3.5	
387 Other Equipment	25.0	0.0	0.00	4.0	*
GENERAL PLANT					
390 Structures & Improvements	36.0	0.0	10.45	2.5	
391 Office Furniture	17.5	0.0	12.50 **	5.0	
Computer Equipment	3.3	0.0	57.37 **	12.9	
392 Transportation Equipment	2.6	10.0	51.52 **	14.8	
394 Tools, Shop, and Garage Equip.	13.9	0.0	29.23	5.1	
396 Power Operated Equipment	8.5	0.0	43.61	6.6	
397 Communication Equipment	8.5	0.0	29.45 **	8.3	
RECOVERY SCHEDULES					
Main and Service Replacement Project	2 Year Remaining Amortization				

* Denotes whole life rate.
** Denotes restated reserve after corrective measures.