

FLORIDA PUBLIC SERVICE COMMISSION
Capital Circle Office Center • 2540 Shumard Oak Boulevard
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MEMORANDUM

February 22, 1996

TO: DIRECTOR, DIVISION OF RECORDS AND REPORTING (BAYO)

FROM: DIVISION OF AUDITING & FINANCIAL ANALYSIS (BASS, LEE)
DIVISION OF ELECTRIC & GAS (BANKS)
DIVISION OF LEGAL SERVICES (CULPEPPER) *RUE For BC*

RE: DOCKET NO. 960172-GU - PEOPLES GAS SYSTEM, INC. -
PETITION FOR TEMPORARY WAIVER OF OR EXEMPTION FROM RULE
25-7.045, F.A.C., RELATING TO DEPRECIATION STUDIES

AGENDA: MARCH 5, 1996 - REGULAR AGENDA - PROPOSED AGENCY ACTION -
INTERESTED PERSONS MAY PARTICIPATE

CRITICAL DATES: DEPRECIATION STUDY DUE MARCH 8, 1996 *JDJ*

SPECIAL INSTRUCTIONS: I:\PSC\AFA\WP\960172.RCM

DISCUSSION OF ISSUES

ISSUE 1: Should the request of Peoples Gas System, Inc. (Peoples or Company) for a waiver of Rule 25-7.045 (8)(a), Florida Administrative Code (F.A.C.) to file its next depreciation study no later than June 30, 1997 be granted?

RECOMMENDATION: No, however, Peoples should be given a waiver to file its required depreciation study no later than April 1, 1996. (BASS, LEE)

STAFF ANALYSIS: Under Rule 25-7.045, F.A.C., Peoples is required to file a depreciation study or or before March 8, 1996, which is five years after the submission of their most recent previous study. On February 14, 1996, the Company filed a petition requesting that the Commission grant a temporary waiver of, or exemption from, the "five-year" filing requirement, conditioned upon the filing of its anticipated rate case or no later than June 30, 1997.

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In its petition, the Company mentions changes which have occurred since the filing of its last depreciation study, such as technological developments in computer equipment and other depreciable property, as well as an increase in removal costs associated with mains and services. The Company states that these perceived changes will necessitate an increase in depreciation rates.

The Company also declares that it presently anticipates filing a petition for rate relief during calendar year 1997. The instant request for waiver of the required depreciation filing is made to allow the Company to seek an effective date for the revised depreciation rates which would coincide with the date of additional revenues from the anticipated rate case.

The principle of matching expense with capital consumption (matching) dictates that depreciation rates should be revised when a need for additional capital recovery arises. The Company has perceived a need now. Matching would therefore require that rates be revised in 1996 rather than deferring to June, 1997. Deferring simply ignores the perceived need for increased depreciation rates, and could exacerbate any resulting reserve imbalances.

Peoples has projected earnings of 10.27% for the twelve months ending September 30, 1996. Its currently authorized return on equity range is 10.25% to 12.25%. However, the most recent surveillance report for the twelve months ending January 31, 1996 shows achieved earnings of 12.37%. This earnings position appears to indicate that the Company's forecasted earnings level is understated. Further, there is no indication that increased depreciation expense will drive the Company into a condition where rate relief will be required.

It should also be mentioned that Peoples filed its last depreciation study on March 8, 1991, with new depreciation rates implemented on October 1, 1990. These new depreciation rates resulted in a decrease in expense of approximately \$469,000 which had not been recognized in the rate case filed in Docket No. 891353-GU. The final Order in the rate case docket had been issued on December 11, 1990, some three months before the depreciation study was submitted. While the decrease in expense may have had little impact on the rate-making process, Peoples did not recognize

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any need to file these two cases concurrently, so that new revenue rates would incorporate this decrease in expense. Now at this time, Peoples wishes to defer establishing new depreciation rates until the resultant expense is recognized in new revenue rates. Staff believes that it is important to point out the inequity in the treatment requested by the Company in these two situations.

In keeping with the matching principle, Staff therefore recommends that Peoples not be allowed to defer its next depreciation study until June 30, 1997. The Company will however need some additional time to complete its study since its required due date is March 8, 1996. Accordingly, Staff would recommend that Peoples be granted an extension until April 1, 1996 to file its study.

If the Commission grants Peoples its waiver, Staff would recommend that the Company be required to file its next depreciation study by June 30, 1997, or when its MFR's are filed, whichever is earlier. This study should include the proposal of an effective date, with plant and reserve balances brought to that proposed date.

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ISSUE 2: Should this docket be closed?

RECOMMENDATION: Yes. If no person whose substantial interests are affected by the Commission's proposed agency action, timely files a protest within twenty-one days, this docket should be closed.

STAFF ANALYSIS: If no person whose substantial interests are affected, files a timely request for a Section 120.57, Florida Statutes, hearing within twenty-one days, no further action will be required and this docket should be closed.