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Public Service Commission

July 5, 1996

Mr. Ansley Watson, Jr., Esquire
MacFarlane, Ferguson, Allison & Kelly
P. O. Box 1531
Tampa, Florida 33601-1531

RE: DOCKET NO. 960404-GU

Dear Mr. Watson:

Enclosed are two copies of the Staff Report on the Depreciation Study for Peoples Gas System, Inc. This docket is currently scheduled for the October 1, 1996 Agenda Conference.

Please submit a written response to the Staff Report, and include differences, concurrences and/or counter-proposals. In an effort to maintain the current schedule, staff would appreciate your response by August 2, 1996. If you have any questions, please feel free to contact me at (904) 413-6449. I will be glad to work with you regarding this matter.

Sincerely,

Rhonda L. Hicks
Regulatory Analyst
Auditing & Financial Analysis

ACK _____

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cc: **Division of Records & Reporting**
Division of Electric & Gas (Mills)
Division of Legal Services (V. Johnson)
Office of Public Counsel
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**STAFF REPORT
PEOPLES GAS SYSTEM, INC.
1996 DEPRECIATION STUDY**

Peoples Gas System, Inc. has submitted this depreciation study in conformance with Rule 25-7.045, Florida Administrative Code, as the last such study was made in 1991. This study represents an overall review of depreciation requirements and the Company's third depreciation rescription since the introduction of "reserve-sensitive" depreciation rates.

GENERAL

1. Question No. 2 of staff's initial review requested information on various accounts that had assets placed in service and subsequently retired in the same year. The company responded that there were many reasons why items placed in service might be retired within the same year. The reasons given included governmental action, customer request, lost customer business, theft, damage caused by external forces, and sale of the asset.

For those retirements made due to governmental action, please provide the amount, if applicable, of any reimbursement made to the company. For those retirements made due to theft or damage caused by external forces, please specify if the asset was insured and if compensation was made by the insurer to cover the theft or damage. In addition, if the asset was damaged, please explain what caused the damage.

2. Please refer to the Schedule of Plant and Reserve Activity for the years 1993-1994. Page 1 of this schedule reflects an adjustment to Account 376- Mains other than plastic, in the amount of \$65,277.74. However, the detail of adjustments to plant for the same period reflect a net total of \$64,752.74, creating a difference of \$525. Please reconcile the two schedules.

The net adjustment to Account 376 of \$64,752.74 includes sales tax audit adjustments totalling \$102,294.74. Please explain the nature of these adjustments.

3. The detail of adjustments to plant for the years 1993-1994 reflects adjustments to Account 392.01- Autos and Trucks up to 1 Ton in the amount of \$435,892.43. According to the schedule, the adjustment was related to a special recall. Please provide additional information on the circumstances surrounding these adjustments.

DISTRIBUTION PLANT

Structures and Improvements (Account 375)

Staff has no objection to your proposal of maintaining the service life underlying the currently prescribed remaining life and the currently prescribed net salvage component for this account. In addition, the company's proposed curve shape is reasonable. However, we do have some questions pertaining to the 1993 retirement of two structures totaling \$394,899.02 which were related to the company's Fulford Operation Center.

In response to the initial review, the company states that the structures had to be demolished because of environmental issues. Please provide an explanation of what these environmental issues were, and why the project was delayed for nearly 10 years. We would like to understand why these buildings were demolished in the same year construction was finally complete.

Mains (Accounts 376 and 376.02)

As with the above account, we have no objection to the Company's proposed service lives or curve shapes for each of the Mains categories. However, we do have concerns with the assets placed in service and retired within the same year during 1991-1995. In the General section of this report, we requested additional information/clarification regarding the company's response to Question No. 2 of the initial review. This should eliminate our concerns regarding the retirement activity in these accounts.

Staff is still reviewing the expected future net salvage for Account 376 - Mains other than plastic. The company refers to certain anomalies occurring which increased removal costs. Please explain what the anomalies were and why the company believes they are not indicative of future activity?

The company also states that a Florida Department of Transportation (D.O.T.) requirement that mains be physically removed pertains to certain locations. Are there any specific criteria as to what type of locations fall into this category? Please provide an example which shows the actual costs incurred by the company due to the D.O.T. requirement. Is there an estimate of the October 1, 1995 investment that is associated with mains that will be required to be physically removed upon retirement due to the D.O.T. requirement?

For each project involving D.O.T., please provide the year of the retirement, the original cost of the retirement, the cost of removal, the related reserve balance, and the amount of reimbursement from D.O.T.

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

Staff finds the Company proposed life and salvage factors to be reasonable and in line with industry averages.

Services (Accounts 380 and 380.02)

While staff finds the Company proposed service lives and curve shapes for these accounts to be reasonable, staff is still reviewing the expected future removal costs for these accounts. What are the total number of service lines that make up the October 1, 1996 investment in these accounts?

Meters (Account 381)

Staff finds the Company proposed life and salvage factors to be reasonable and in line with industry averages.

Meter and Regulator Installations (Accounts 382 and 384)

Staff is not prepared to make a proposal on curve shapes or life and salvage factors until further information is received on these accounts. Generally, it has been the industry view that meter and regulator installations are only retired when the meter and regulator is removed from the location and a new one is not installed, or when service through the meter or regulator is cut off. In other words, the life of these installations have been expected to be very similar to the life of Services. In the past, the company also took the position that meter and regulator installations were not retired until the associated service line was retired. This is no longer the company's position.

In response to staff's initial review, the company states that its detailed enhancements to its existing software allows the company to generate a monthly report that lists all meters that have been removed for various reasons. With this report, meter and regulator installations are retired on a monthly basis from the corresponding plant accounts for the same vintages the meters removed were originally installed.

Is it the company's position that when a meter is removed, the meter and/or regulator installation should also be retired? If so, is this a company policy? Is the monthly retirement of meter and regulator installations an accounting entry or are the retirements physically being made? How does the company track removal costs related to each of these retirements? Beginning with the removal

of a meter, please provide a detailed description of the sequence of events that occur up to the retirement of the meter and/or regulator installation.

If a meter is removed for inactivity, is it generally the result of service line inactivity?

Regulators (Account 383)

Staff finds the company proposed life and salvage factors to be reasonable and in line with industry averages.

Industrial Installations (Account 385)

Staff finds the company proposed 32 year service life, 25 year remaining life, and zero net salvage to be reasonable and acceptable.

Other Distribution Equipment (Account 387)

This account is comprised of miscellaneous distribution system equipment such as leak detectors, pipe locators, odometers and corrosion test equipment. The company proposed life and salvage factors appear to be reasonable. Using a S2 curve shape, an average age of 7.1 years, and a service life of 16 years, results in an average remaining life of 9.4 years. Zero net salvage as proposed by the company is also acceptable.

GENERAL PLANT

Structures and Improvements (Account 390)

Staff understands that the Company's headquarters building is being leased. Further, any improvements made to the building are paid for by the owner of the building and not the Company. In the event that circumstances change before the next scheduled depreciation rescription, leasehold improvements should be assigned a 10% depreciation rate (10 years service life with zero salvage). This rate is predicated on the idea that improvements to buildings are expected to be changed out periodically over the life of the building. If the Company purchases a headquarters building, the investment should be assigned a 2.5% depreciation rate (40 year service life with zero net salvage).

Office Furniture (Account 391)

The company's analysis of the activity in this account indicates an average service life of approximately 15 years. In response to staff's initial review, the company stated that approximately 44% of the investment in this account is related to modular furniture. Staff believes that modular furniture tends to have a shorter life expectancy than traditional wood furniture or its equivalent. Staff proposes an average service life of 15 years which is more in line with the expected activity in this account. The 15 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.

Computer Equipment (Account 391.01)

Staff finds the Company proposed life and salvage factors to be reasonable. With the technological changes occurring in the computer industry, we are seeing lives for this type of equipment in the 3-5 year range. Recognizing however, that a major portion of this account's investment (56%) is associated with mainframe software systems having an age in excess of 7 years, the company proposed life and salvage factors are reasonable. Please provide a description of these software systems and explain the function they perform. Were these systems internally generated or purchased from a vendor?

Office Machines (Account 391.02)

Generally, this account is comprised of such things as typewriters, calculators, billing machines, etc.. Before we make a proposal on this account, please provide a description of the minor items referenced in Filing requirement 6(e), page 4 of your study.

Automobiles and Light Trucks (Account 392.01)

The Company proposed service life, remaining life, and net salvage factors of 8 years, 4.7 years and 10%, respectively, are in line with the activity of this account and are acceptable.

Airplanes (Account 392.01)

The Company has not retired the single aircraft in the account but it does anticipate replacing the airplane in the near future. Although staff has no objection to the company proposed average service life and age of this account, we would like to know approximately when the company expects to replace this aircraft.

Other Transportation Equipment (Account 392.04)

The Company proposed average service life of 20 years and net salvage of 14% is reasonable and acceptable to staff. However, the Company proposed S1 curve shape does not appear indicative of company activity. Staff proposes using a S3 curve shape which is more in line with company activity. Using the S3 curve shape, an average service life of 20 years and an average age of 9 years results in an average remaining life of 11.1 years.

Trucks Over 1 Ton (Account 392.05)

Staff finds the Company proposed 12 year service life, 4.6 year remaining life, and 5% net salvage to be reasonable and acceptable. The use of a S4 curve shape is also acceptable.

Stores Equipment (Account 393)

Staff finds the Company proposed life and salvage factors of a 19 year average service life, a 3.3 year average remaining life, and zero net salvage reasonable and acceptable for this account.

Tools, Shop and Garage Equipment (Account 394)

The Company proposed life and salvage factors are reasonable and acceptable. Using a S1 curve shape, an average service life of 15 years, and an average age of 6.6 years results in an average remaining life of 9.4 years.

Laboratory Equipment (Account 395)

The Company's study 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. This being the case, staff finds no compelling reason to maintain the current average service life of 25 years. Staff therefore proposes a 20 year average service life. Using a S1 curve, a 20 year average service life, and an average age of 4.6, results in an average remaining life of 15.7 years. The net salvage of zero, as indicated in the study, is acceptable.

Power Operated Equipment (Account 396)

The company proposes to maintain the current life and salvage factors for this account. This is acceptable to staff. Using a S4 curve shape, a 15 year average service life and an average age of 8.3 years results in an average remaining life of 6.1 years. Staff also has no objection to the company's proposal to maintain a net salvage of 5%.

Communications Equipment (Account 397)

The study indicated an average service life of 9.7 years. However, the Company proposes using a 12 year average service life which it states is the company's current prescribed average service life. Staff examined the company's last depreciation order (Order No. 25229, issued 10/18/91) and found that it currently has a 10 year average service life prescribed for this account. Nevertheless, staff proposes an average service life of 10 years which is in line with the expected activity of this equipment. Using a S3 curve shape and an average age of 6.4 years, results in an average remaining life of 4 years.

Miscellaneous Equipment (Account 398)

The company is proposing to maintain its current 20 year average service life for this account in spite of the fact that the study indicates an average service life of approximately 16.6 years. According to the company, the data for this account is limited and may not be indicative of a proper service life for this account. However, the retirement ratio for the 1990-1995 period has averaged 3.2%, and the industry average life for this investment is 17 years. Staff, therefore, proposes an average service life of 17 years with an R2 curve shape and an average age of 4.3 years yielding an average remaining life of 13.2 years.