

FLORIDA PUBLIC SERVICE COMMISSION
Capital Circle Office Center • 2540 Shumard Oak Boulevard
Tallahassee, Florida 32399-0850

MEMORANDUM

FEBRUARY 6, 1997

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

FROM: DIVISION OF AUDITING & FINANCIAL ANALYSIS (JOHNSON, *PSX*)
CAUSSEUX, LEE, REVELL *RJS dm*
DIVISION OF ELECTRIC & GAS (MILLS) *W*
DIVISION OF LEGAL SERVICES (WAGNER) *W RVE* *JOS*

RE: DOCKET NO. 960775-GU - SEBRING GAS SYSTEMS, INC. - 1996
DEPRECIATION FILING BY SEBRING GAS SYSTEMS, INC.

AGENDA: 02/18/97 - REGULAR AGENDA - PROPOSED AGENCY ACTION -
INTERESTED PERSONS MAY PARTICIPATE

CRITICAL DATES: NONE

SPECIAL INSTRUCTIONS: S:\PSC\AFA\WP\960775.RCM
R:\960775.WK3 *pull both over*

DISCUSSION OF ISSUES

ISSUE 1: Should the current depreciation rates for Sebring Gas Systems, Inc. be changed?

RECOMMENDATION: Yes. A review of the Company's activity since its prior depreciation filing indicates a need for a revision in the currently prescribed depreciation rates. (JOHNSON, LEE)

STAFF ANALYSIS: Rule 25-7.045, Florida Administrative Code, requires natural gas companies to file a comprehensive depreciation study once every five years. Sebring filed its 1996 study in compliance with this rule.

Initial rates for Sebring Gas Systems, Inc. (Sebring or the Company) were established in Order No. 25454, issued December 9, 1991, with an effective date of April 20, 1992. On June 6, 1996, Sebring filed a depreciation study in accordance with Rule 25-7.045, Florida Administrative Code.

Staff has completed its review of Sebring's depreciation study and our recommendations for Commission action are provided herein.

DOCUMENT NUMBER-DATE

01393 FEB-65

FPSC-RECORDS/REPORTING

DOCKET NO. 960775-GU
DATE: FEBRUARY 6, 1997

ISSUE 2: Should the Company proposed implementation date be approved?

RECOMMENDATION: Staff recommends approval of the Company's proposed January 1, 1997 date of implementation for the new rates and schedules. (JOHNSON)

STAFF ANALYSIS: Company data and related calculations about the January 1, 1997 date. This is the recommended date of implementation, being the earliest practicable date for utilizing the revised rates and schedules.

DOCKET NO. 960775-GU
DATE: FEBRUARY 6, 1997

ISSUE 3: What should the appropriate depreciation rates be?

RECOMMENDATION: The staff's recommended lives, net salvages, reserves and resultant depreciation rates are shown on Attachment A, page 7. The result is a decrease in depreciation expense of approximately \$1,800 for the year 1997 based on estimated January 1, 1997 investments shown on Attachment B, page 8. The effect on the depreciation expense is a result of bringing the average age of the account forward to January 1, 1997. (JOHNSON)

STAFF ANALYSIS: Staff's recommendations are the result of a comprehensive review of Sebring's depreciation study. Attachment A shows a comparison of the currently approved and Company and Staff recommended rate parameters. Attachment B shows a comparison of resultant expenses based on estimated January 1, 1997 investments.

This filing was essentially a staff-assisted study. The Company provided the raw data with regard to additions and retirements, both actual and forecasted. Staff determined the appropriate service life, remaining life, net salvage, average age, reserve position, and curve shape parameters based on the data provided and discussions with the Company. As a result of the review and analytical process, staff and the Company agree on lives, net salvages, and resultant depreciation rates for all accounts.

The accounts with a substantial change in depreciation expense are outlined below. In summary these changes can be attributed to two factors - staff recalculated ages, and/or changes in the reserve.

Account 376 - Mains (Steel and Plastic) - Because of the size of the investments for these accounts, any changes in the prescribed parameters affect the depreciation expense. The effect on the depreciation expense is a result of bringing the average age of the account forward to January 1, 1997. Staff and the Company are in agreement to maintain the current service life and net salvage parameters for these accounts.

Account 380 - Services (Steel and Plastic) - As in the case of Mains, any changes to the currently prescribed factors will have an impact on the depreciation expense due to the size of the investments. Therefore, the effect on the depreciation expense is merely due to an average age recalculation and the resultant remaining life based on the updated age. Staff and the Company

DOCKET NO. 960775-GU
DATE: FEBRUARY 6, 1997

have agreed to maintain the existing service life and net salvage parameters for these accounts.

Account 392.2 - Transportation - Trucks - This account represents the largest general plant investment for Sebring accounting for 62% of the total investment for general plant assets. The impact on the depreciation expense is due to the average age recalculation.

DOCKET NO. 960775-GU
DATE: FEBRUARY 6, 1997

ISSUE 4: Should the current amortization of investment tax credits (ITCs) and the flowback of excess deferred income taxes be revised to reflect the approved depreciation rates and recovery schedules?

RECOMMENDATION: Yes. The current amortization of ITCs and the flowback of excess deferred income taxes should be revised to reflect the approved depreciation rates and recovery schedules. Also, the utility should be required to file detailed calculations of the revised ITC amortization and flowback of excess deferred taxes at the same time it files its December 1997 surveillance report. (CAUSSEAU)

STAFF ANALYSIS: In issues previously addressed, Staff recommends revisions to Sebring's depreciation rates and capital recovery schedules, to be effective January 1, 1997. Revising a utility's depreciation rates usually results in a change in its rate of ITC amortization and flowback of excess deferred income taxes.

Section 46(f)(6) of the Internal Revenue Code (IRC) states that the amortization of ITCs should be determined by the period of time used in computing depreciation expense for purposes of reflecting regulated operating results of the utility. Since Staff is recommending a change in depreciation rates, it is also appropriate to change the amortization of ITCs.

Section 203(e) of the Tax Reform Act of 1986 (TRA) prohibits rapid write-back of protected (depreciation related) deferred taxes. In addition, Rule 25-14.013, Accounting for Deferred Income Taxes under SFAS 109, Florida Administrative Code, prohibits, without good cause shown, excess deferred income taxes associated with temporary differences from being reversed any faster than allowed under Section 203(e). Therefore, both the TRA and Rule 25-14.013, Florida Administrative Code, prohibit faster write-off of protected excess deferred taxes. Consequently, Staff believes that the flowback of excess deferred taxes should be altered to comply with the TRA and Rule 25-14.013, Florida Administrative Code.

Staff recommends that the current amortization of ITCs and the flowback of excess deferred income taxes be revised to reflect the approved depreciation rates and recovery schedules. Also, the utility should be required to file detailed calculations of the revised ITC amortization and flowback of excess deferred taxes at the time it files its December 1997 surveillance report.

DOCKET NO. 960775-GU
DATE: FEBRUARY 6, 1997

ISSUE 5: 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 of the issuance of this Order, this docket should be closed. (JOHNSON, WAGNER)

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 of the issuance of this Order, no further action will be required and this docket should be closed.

SEBRING GAS SYSTEMS, INC
 1996 STUDY
 RATES AND COMPONENTS

Attachment A

DISTRIBUTION PLANT

376.1 - Mains - Steel	15.7	(30.0)	98.45	2.0
376.2 - Mains - Plastic	38.0	(30.0)	9.69	3.2
378 - Measuring and Regulating Equipment - General	28.0	(2.0)	31.00	2.5
379 - Measuring and Regulating Equipment - City Gas	28.0	(2.0)	15.99	3.1
380.1 - Services - Steel	12.1	(30.0)	99.81	2.5
380.2 - Services - Plastic	32.0	(30.0)	7.69	3.8
381 - Meters	18.6	0.0	31.62	3.7
382 - Meter Installations	25.0	(5.0)	47.14	2.3
383 - House Regulators	25.0	0.0	27.34	2.9
384 - House Regulator Installation	25.0	(3.0)	47.14	2.2
386 - Property on Customers' Premises	20.0	0.0	0.00	5.0 *
387 - Other Equipment	22.0	0.0	10.71	4.1

GENERAL PLANT

391.1 - Office Furniture	18.0	0.0	0.00	5.6 *
391.2 - Office Equipment	6.0	0.0	0.00	16.7 *
392.2 - Transportation - Trucks	2.3	15.0	54.83	13.1
394 - Tools, Shop & Garage Equipment	15.0	0.0	0.00	6.7 *
396 - Power Operated Equipment	8.5	0.0	48.34	6.1

AVERAGE REMAINING LIFE (YRS.)	CURRENT		REMAINING LIFE RATE (%)
	NET SALVAGE (%)	RESERVE (%)	
15.7	(30.0)	98.45	2.0
38.0	(30.0)	9.69	3.2
28.0	(2.0)	31.00	2.5
28.0	(2.0)	15.99	3.1
12.1	(30.0)	99.81	2.5
32.0	(30.0)	7.69	3.8
18.6	0.0	31.62	3.7
25.0	(5.0)	47.14	2.3
25.0	0.0	27.34	2.9
25.0	(3.0)	47.14	2.2
20.0	0.0	0.00	5.0 *
22.0	0.0	10.71	4.1
18.0	0.0	0.00	5.6 *
6.0	0.0	0.00	16.7 *
2.3	15.0	54.83	13.1
15.0	0.0	0.00	6.7 *
8.5	0.0	48.34	6.1

AVERAGE REMAINING LIFE (YRS.)	COMPANY & STAFF RECOMMENDED			REMAINING LIFE RATE (%)
	NET SALVAGE (%)	ESTIMATED 01/01/97 RESERVE (%)		
17.5	(30.0)	79.40		2.9
35.0	(30.0)	26.53		3.0
25.0	(2.0)	74.99		1.1
26.0	(2.0)	33.88		2.6
10.9	(30.0)	97.08		3.0
29.0	(30.0)	47.10		2.9
15.6	0.0	49.25		3.3
22.0	(5.0)	57.80		2.1
22.0	0.0	39.77		2.7
21.0	(3.0)	63.52		1.9
17.5	0.0	18.00		4.7
18.4	0.0	39.02		3.3
13.9	0.0	20.89		5.7
4.7	0.0	25.56		15.8
3.0	15.0	55.88		9.7
10.3	0.0	29.67		6.8
5.6	0.0	88.02		2.1

* Denotes whole life rate

SEBRING GAS SYSTEMS, INC.
 1996 STUDY
 COMPARISON OF EXPENSES

Attachment B

ACCOUNT	01/01/97 ESTIMATED INVESTMENT	01/01/97 ESTIMATED RESERVE	CURRENT		COMPANY & STAFF RECOMMENDED		
			RATE	EXPENSES	RATE	ESTIMATED EXPENSES	CHANGE IN EXPENSES
DISTRIBUTION PLANT							
376.1 - Mains - Steel	172,822	136,592	2.0	3,440	2.9	4,989	1,549
376.2 - Mains - Plastic	647,610	171,812	3.2	20,724	3.0	19,428	(1,296)
378 - Measuring and Regulating Equipment - General	10,627	7,970	2.5	266	1.1	117	(149)
379 - Measuring and Regulating Equipment - City Gate	63,782	21,584	3.1	1,975	2.6	1,656	(319)
380.1 - Services - Steel	369,921	359,130	2.5	9,248	3.0	1,656	1,850
380.2 - Services - Plastic	112,143	52,816	3.8	4,261	2.9	11,898	(1,009)
381 - Meters	119,796	58,509	3.7	4,395	2.3	3,252	(475)
382 - Meter Installations	41,724	24,116	2.3	960	3.3	3,920	(84)
383 - House Regulators	27,204	10,818	2.2	789	2.1	876	(84)
384 - House Regulator Installation	37,425	23,771	2.9	823	2.7	735	(54)
386 - Property on Customers' Premises	68,154	12,268	5.0	153	4.7	711	(112)
387 - Other Equipment	3,736	1,458	4.1	50,442	3.3	3,283	(265)
Total Distribution Plant	1,673,063	880,844				58,108	(336)
GENERAL PLANT							
391.1 - Office Furniture	1,896	396	5.6	106	5.7	108	2
391.2 - Office Equipment	13,024	3,328	16.7	2,175	15.8	2,858	(117)
392.2 - Transportation - Trucks	39,219	21,917	13.1	5,138	9.7	3,804	(1,334)
394 - Tools, Shop & Garage Equipment	7,128	2,115	6.7	478	6.8	485	7
396 - Power Operated Equipment	1,444	1,271	6.1	88	2.1	30	(58)
Total General Plant	62,712	29,827		7,985		6,485	(1,500)
TOTAL PLANT	1,735,774	909,871		58,427		56,893	(1,834)