

State of Florida



Public Service Commission
CAPITAL CIRCLE OFFICE CENTER • 2540 SHUMARD OAK BOULEVARD
TALLAHASSEE, FLORIDA 32399-0850

-M-E-M-O-R-A-N-D-U-M-

RECEIVED
JAN 23 AM 11:09
COMMISSION CLERK

DATE: January 23, 2003
TO: DIRECTOR, DIVISION OF THE COMMISSION
ADMINISTRATIVE SERVICES (BAYÓ)
FROM: DIVISION OF ECONOMIC REGULATION (P. LEE) *PSG*
OFFICE OF THE GENERAL COUNSEL (STERN) *DM*
DIVISION OF AUDITING AND SAFETY (MILLS) *MS*
RE: DOCKET NO. 010906-GU - REQUEST FOR APPROVAL OF
DEPRECIATION STUDY FOR FIVE YEAR PERIOD 1996 THROUGH 2000
BY SEBRING GAS SYSTEM, INC.
AGENDA: 02/04/03 - REGULAR AGENDA - PROPOSED AGENCY ACTION -
INTERESTED PERSONS MAY PARTICIPATE
CRITICAL DATES: NONE
SPECIAL INSTRUCTIONS: NONE
FILE NAME AND LOCATION: S:\PSC\ECR\WP\010906.RCM

CASE BACKGROUND

Rule 25-7.045, Florida Administrative Code, requires natural gas companies to file a comprehensive depreciation study once every five years. On June 25, 2001, Sebring Gas System, Inc. (Sebring or company) filed its 2001 depreciation study in compliance with this rule. The company's last depreciation review was filed June 6, 1996, with an effective date of January 1, 1997. The Commission has jurisdiction under Sections 350.115 and 266.05, Florida Statutes.

Staff has completed its review of Sebring's depreciation study and presents its recommendation herein.

DOCUMENT NUMBER-DATE
00694 JAN 23 8
FPSC-COMMISSION CLERK

DOCKET NO. 010906-GU
DATE: January 23, 2003

DISCUSSION OF ISSUES

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

RECOMMENDATION: Yes. A review of the company's plans and activity indicates a need for a revision in the currently prescribed depreciation rates. (P. LEE)

STAFF ANALYSIS: Sebring's last comprehensive depreciation study was filed on June 6, 1996. By Order No. PSC-97-0276-FOF-GU, issued March 11, 1997, in Docket No. 960775-GU, the Commission approved revised depreciation rates and components, effective January 1, 1997. The company has filed this current study in accordance with Rule 25-7.045, Florida Administrative Code, which requires natural gas companies to file a comprehensive depreciation study at least once every five years from the submission date of the previous filed study. A review of the company's activity data indicates the need for revising depreciation rates.

DOCKET NO. 010906-GU
DATE: January 23, 2003

ISSUE 2: What should be the implementation date for revised depreciation rates?

RECOMMENDATION: Staff recommends approval of the company proposed January 1, 2002, date of implementation for revised depreciation rates. (P. LEE)

STAFF ANALYSIS: The company originally proposed an effective date for revised depreciation rates of January 1, 2001. However, due to the need for further information and time constraints, Sebring updated its study data through December 31, 2001, with an implementation date of January 1, 2002, for new depreciation rates. Company data and related calculations about the proposed January 1, 2002, date. The later date of January 1, 2002, is the recommended date of implementation, being the earliest practicable date for utilizing the revised rates.

ISSUE 3: What are the appropriate depreciation rates?

RECOMMENDATION: Staff's recommended lives, net salvages, reserves, resultant depreciation rates, and recovery schedules are shown on Attachment A. Attachment B shows a resultant decrease in annual expenses of approximately \$12,000 based on January 1, 2002, investments. (P. LEE)

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 depreciation rate parameters and those staff is recommending as appropriate, with which the company agrees. Attachment B shows a comparison of resultant expenses based on January 1, 2002, investments.

This filing was essentially a staff-assisted study. The company provided raw data with regard to additions and retirements for the 1997 - 2001 period. Staff determined the average age and worked with the company in developing life and salvage values. As a result of the review and analytical process, staff and Sebring agree on lives, net salvages, and resultant depreciation rates for all accounts.

Adjustments

As part of a staff audit, it was discovered that Sebring excluded certain investments from the calculation of its monthly depreciation expenses because they were "fully depreciated." The Commission utilizes group depreciation, not unit depreciation. Group depreciation recognizes that some assets within the group will experience service lives shorter than, and some longer than, the average. The prescribed depreciation rate is applied to the average period investment for the group on a monthly basis. The depreciation reserve is not maintained by individual asset but by account. Staff worked with the company and made the appropriate adjustments to correct the understatement of prior years depreciation expenses were booked in 2001.

Also, staff's review of Sebring's data found that several retirements recorded to the depreciation reserve in 1998 and 1999 were understated. Additionally, a truck was retired from service in 2000, but the accounting had not yet occurred. The company has stated that the following corrective adjustments were booked in 2002:

Account	Corrective Reserve Adjustment
391.1 Office Furniture	\$ (928)
391.2 Office Equipment	(827)
394 Tools, Shop, and Garage Equip.	(1,577)
392.1 Transportation - Trucks	(12,966)
	Corrective Investment Adjustment
392.1 Transportation - Trucks	(12,197)

The account reserve positions shown on Attachment A reflect the corrective adjustments detailed above.

Recovery Schedules

The reserve adjustment shown above for Account 391.1, Office Furniture, to correct an understatement of a 1999 retirement, results in a negative balance in the account's reserve of \$644. This unrecovered investment reflects the effect of prior depreciation rates not matching historic activity. Moreover, a negative reserve has the effect of increasing the rate base upon which the company is permitted to earn. The deficiency relates to assets no longer serving the public; it is not "life related." As such, staff believes that the deficiency should be corrected as fast as economically practicable. For Sebring, a five year recovery schedule appears to be the most practicable. The recovery schedule will begin January 1, 2002, and continue through December 31, 2006. The annual amortization expense will be \$129.

Depreciation Parameters

The recommended changes in the depreciation life and salvage parameters for the distribution and general plant accounts can be attributed mainly to two factors: updated account ages to reflect activity since the last represetation and changes in the associated reserve position. The accounts with a substantial change in depreciation expense are discussed below.

Mains and Services

The Mains and Services accounts have historically experienced minimal retirement activity making reliance on industry averages necessary. In fact, these accounts have experienced little, if

any, retirement activity since 1992. With this in mind, staff believes a change in the average service life for these accounts is warranted. Staff recommends a 45-year average service life for Mains and a 40-year average service life for Services as being at the high end of the range of the industry average service lives currently estimated for Florida.

When a main or service is retired, it is generally abandoned in place rather than physically removed. Cost of removal is associated with activities incurred with the abandonment process. This involves labor and material costs associated with a crew to travel to the site, digging down to the pipe, cutting and capping, refilling the hole, and restoring the roadway. Restoring the roadway becomes significant if the main or service is located under pavement. In view of this, staff believes that the current salvage factors for these accounts are appropriate.

Measuring and Regulating Equipment - General

Staff recommends that any new additions to this account be placed in a separate sub-account from the embedded investment. The embedded investment represents the original investment for the vintage year 1988 with one small addition in 1991. This account has experienced no activity since then. Any new additions to this account should not bear the burden of recovery associated with the embedded investment. Staff recommends a whole life rate based on a 33-year average service life and a negative two percent salvage factor. These are the same components underlying the currently prescribed depreciation rate for the embedded investment and are in line with industry expectations for this account.

Office Equipment

Recognizing that the average age of Sebring's office equipment is 4.8 years and there are no near term plans for retirement, an increase in the currently prescribed 6-year service life is indicated. A 12-year service life and an S3 mortality dispersion are more in line with the activity of the account.

Transportation

An increase in the currently prescribed average service life for the light trucks transportation account is indicated in view of the company's replacement policy. Sebring determines the

retirement of its vehicles based on the amount of reliability and maintenance costs rather than the mileage or age of the vehicle. There has only been one recorded retirement since the last depreciation study review. With this in mind, an 8-year average service life is recommended for the light trucks account.

Power Operated Equipment

The data submitted indicates that this account's investment is 100% recovered and therefore should receive no further depreciation accruals. Should the company add any new investment in this account, staff recommends a whole life rate based on a 15-year average service life, an S4 mortality dispersion and zero salvage factor be utilized, as indicated on Attachment A.

Communication Equipment

Since the last depreciation review, the company purchased some communication equipment in 1997. According to the documentation provided, the company has been utilizing the 2.1% depreciation rate approved for Account 396, Power Operated Equipment, with this communication equipment investment. Staff recommends a 12-year average service life with an S4 mortality dispersion as being more in line with industry expectations. Using these components together with the investment's average age of 4.5 years produces an average remaining life of 7.5 years.

This type of equipment is technologically sensitive. As such, the equipment is generally obsolete at retirement resulting in little or no salvage being realized. Therefore, a salvage factor of zero is recommended.

DOCKET NO. 010906-GU
DATE: January 23, 2003

ISSUE 4: Should this docket be closed?

RECOMMENDATION: Yes. If no person whose substantial interests are affected by the proposed agency action files a protest within twenty-one days of the issuance of the order, this docket should be closed upon the issuance of a consummating order. (STERN)

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 upon the issuance of a consummating order.

SEBRING GAS SYSTEM, INC.
 DOCKET NO. 010906-GU
 2000 DEPRECIATION STUDY

Attachment A

COMPARISON OF RATES AND COMPONENTS

ACCOUNT	CURRENT				COMPANY/STAFF RECOMMENDED			
	AVERAGE	NET	1/1/97	REMAINING	AVERAGE	NET	1/1/02	REMAINING
	REMAINING			LIFE	REMAINING			LIFE
LIFE	SALVAGE	RESERVE	RATE	LIFE	SALVAGE	RESERVE	RATE	
(YRS.)	(%)	(%)	(%)	(YRS.)	(%)	(%)	(%)	
DISTRIBUTION PLANT								
376.1 - Mains - Steel	17.5	(30.0)	79.40	2.9	17.1	(30.0)	93.49	2.1
376.2 - Mains - Plastic	35.0	(30.0)	26.53	3.0	36.0	(30.0)	38.85	2.5
378 - Measuring and Reg. Ept. - Gen.-Embedded	25.0	(2.0)	74.99	1.1	20.0	(2.0)	89.11	0.6
378 - Measuring and Reg. Ept. - Gen.-New	N/A	N/A	N/A	N/A	33.0	(2.0)	N/A	3.1*
379 - Measuring and Regulating Ept. - City Gate	26.0	(2.0)	33.88	2.6	21.0	(2.0)	50.27	2.5
380.1 - Services - Steel	10.9	(30.0)	97.08	3.0	12.8	(30.0)	110.91	1.5
380.2 - Services - Plastic	29.0	(30.0)	47.10	2.9	28.0	(30.0)	49.78	2.9
381 - Meters	15.6	0.0	49.25	3.3	11.5	0.0	61.78	3.3
382 - Meter Installations	22.0	(5.0)	57.80	2.1	19.7	(5.0)	58.95	2.3
383 - House Regulators	22.0	0.0	39.77	2.7	17.2	0.0	53.49	2.7
384 - House Regulator Installations	21.0	(3.0)	63.52	1.9	17.8	(3.0)	69.53	1.9
386 - Property on Customers' Premises	17.5	0.0	18.00	4.7	11.5	0.0	43.62	4.9
387 - Other Equipment	18.4	0.0	39.02	3.3	13.3	0.0	47.74	3.9
GENERAL PLANT								
391.1 - Office Furniture	13.9	0.0	20.89	5.7	8.4	0.0	0.00	11.9
391.2 - Office Equipment	4.7	0.0	25.56	15.8	7.2	0.0	73.76	3.6
392.1 - Transportation - Trucks	3.0	15.0	55.88	9.7	3.4	15.0	42.41	12.5
392.3 - Transportation - Other	3.0	15.0	55.88	9.7	10.5	0.0	56.60	4.1
394 - Tools, Shop & Garage Equipment	10.3	0.0	29.67	6.8	5.5	0.0	31.67	12.4
396 - Power Operated Equipment	5.6	0.0	88.02	2.1	15.0	0.0	N/A	6.7*
397 - Communication Equipment	5.6	0.0	88.02	2.1	7.5	0.0	29.84	9.4

* Denotes Whole Life Rate.

SEBRING GAS SYSTEM, INC.
 DOCKET NO. 010906-GU
 2000 DEPRECIATION STUDY

Attachment B

COMPARISON OF EXPENSES

ACCOUNT	1/1/02 INVESTMENT	1/1/02 RESERVE	CURRENT		COMPANY/STAFF RECOMMENDED		
			RATE	EXPENSES	RATE	ESTIMATED EXPENSES	CHANGE IN EXPENSES
	(\$)	(\$)	(%)	(\$)	(%)	(\$)	(\$)
DISTRIBUTION PLANT							
376.1 - Mains - Steel	171,867	160,670	2.9	4,984	2.1	3,609	(1,375)
376.2 - Mains - Plastic	767,175	298,031	3.0	23,015	2.5	19,179	(3,836)
378 - Measuring and Reg. Ept. - Gen.-Embedded	10,627	9,470	1.1	117	0.6	64	(53)
378 - Measuring and Reg. Ept. - Gen.-New	0	0	N/A	N/A	3.1*	N/A	N/A
379 - Measuring and Regulating Ept. - City Gate	63,703	32,025	2.6	1,656	2.5	1,593	(63)
380.1 - Services - Steel	363,963	403,664	3.0	10,919	1.5	5,459	(5,460)
380.2 - Services - Plastic	147,375	73,360	2.9	4,274	2.9	4,274	0
381 - Meters	123,801	76,485	3.3	4,085	3.3	4,085	0
382 - Meter Installations	50,362	29,689	2.1	1,058	2.3	1,158	100
383 - House Regulators	27,267	14,584	2.7	736	2.7	736	0
384 - House Regulator Installations	40,294	28,017	1.9	766	1.9	766	0
386 - Property on Customers' Premises	69,168	30,168	4.7	3,251	4.9	3,389	138
387 - Other Equipment	3,314	1,582	3.3	109	3.9	129	20
TOTAL DISTRIBUTION PLANT	1,838,916	1,157,745		54,970		44,441	(10,529)
GENERAL PLANT							
391.1 - Office Furniture	482	0	5.7	27	11.9	57	30
391.2 - Office Equipment	16,716	12,330	15.8	2,641	3.6	602	(2,039)
392.1 - Transportation - Trucks	61,518	26,091	9.7	7,150	12.5	7,690	540
392.3 - Transportation - Other	1,030	583	9.7	100	4.1	42	(58)
394 - Tools, Shop & Garage Equipment	4,278	1,355	6.8	291	12.4	530	239
396 - Power Operated Equipment	1,444	1,444	2.1	30	6.7*	N/A	(30)
397 - Communication Equipment	972	290	2.1	20	9.4	91	71
TOTAL GENERAL PROPERTY	98,637	57,697		10,259		9,012	(1,247)
TOTAL RATES	1,937,553	1,215,442		65,229		53,453	(11,776)
RECOVERY SCHEDULE	0	(644)		0	5 YR. AMORT.	128	129
TOTAL PLANT	1,937,553	1,215,442		65,229		52,283	(11,647)

* Denotes Whole Life Rate.