STATE OF FLORIDA

TIMOTHY DEVLIN, DIRECTOR
DIVISION OF ECONOMIC REGULATION
(850) 413-6900

Public Service Commission

November 25, 2008

Mr. Brian Powers
Indiantown Gas Company
Post Office Box 8
Indiantown, Florida 34956

Re: Docket No. 080170-GU

Dear Mr. Powers:

Enclosed is the Staff Report regarding your current depreciation study filed in the above referenced docket. The Company's response to this report is due on December 19, 2008, in order to meet the targeted recommendation date of January 29, 2009. In your response, please provide us with any concurrences, differences, and/or additional input.

Should you have any questions, or need further information, please do not hesitate to contact Betty Gardner at (850) 413-6742.

Sincerely,

John Slemkewicz

John Slemkewicz
Public Utilities Supervisor

JS/BG:sc
Attachment
cc: Office of the General Counsel (Brown)
Office of Commission Clerk
Office of Public Counsel
Division of Economic Regulation (Devlin, Willis, Bulecza-Banks)

Indiantown Gas Company
Docket No. 080170-GU
November 25, 2008

Staff Report

General Statement

Staff's review of the company's current depreciation study finds that Rule 25-7.045 - Depreciation was not followed. Accounts 398 – Other Equipment and 399 - Computer Software were established by the company without Commission approval. Section 2(a) of the above rule states " No utility may change any existing depreciation rate or initiate any new depreciation rate without prior Commission approval." The company must always submit the appropriate data for the establishment of a proposed depreciation rate. Upon receipt of the requested information for Numbers 22 through 28 from the company, staff will proceed to bring the accounts in-line with the rule.

Distribution Plant

Account 303 - Miscellaneous Intangible Property

1. In 2004, the company removed $101,492 from this account. Please explain the nature of the adjustment and provide a list of the plant equipment included in this account.

Account 376.1 - Mains-Plastic

The mains replacement program was established in 1993 and 1994 to comply with the Department of Transportation, and to replace steel with plastic mains. At the time of the 1998 study, the mains replacement project was expected to be completed by year-end 2000. At that time, the unrecovered investment was $14,148 and a three year recovery schedule was established. During the 2003 depreciation study, the project was temporarily suspended until the middle of 2004 with a targeted year-end 2005 completion date. As of the current study, the recovery schedule shows a balance of $10,575. The company's Annual Status Reports for the period of 2004 through 2007 do not reflect a three year recovery period.

2. Please explain why the three year recovery period and rate of 33.33 percent were not used. In your response, include how the company calculated the current depreciation rate for this project.
3. Identify the total investment by year that was included in the main replacement project.
4. When will the company complete the mains replacement program? If this is an ongoing project, please explain how the mains are determined for replacement. Provide any supporting documentation to clarify this issue.

Account 376.2 - Mains Steel

5. The company requested to continue the use of a 40-year service life and a negative net salvage of 30 percent. Also, the company proposed an average age of 30.64 years, but based upon the findings of the initial review, the recalculated average age of plant is 29.27 years. Staff agrees with the recalculated average age of plant.

6. The company requested reserve transfers in the amount of $10,000 to Account 378 - Measuring & Regulating Equipment, and $2,477 to Account 394 - Tools, Shop & Garage Equipment. This request is in review and is based upon the corrections of the other plant accounts.

<u>Account 378 - M & R Equipment</u>

For filing requirement 6(f), the company stated in its petition that an odorizer in the amount of $9,740 was retired in 2003. But, based upon the updated retirement information, the odorizer was retired in 1999. In addition, the company stated the retirement represented 20 percent of the account plant balance. The plant balance was used as the basis to propose a change in net salvage from zero to a negative twenty percent. Finally, the company's response to the 1999 Annual Status Report review to staff indicated the removal of the 1970 odorizer was of negligible cost as it entailed the removal of a few bolts.

7. In order to correct this account, please provide the following information on the odorizer: date of purchase, original cost, how many have been purchased since 1970, and date(s) of retirement.
8. What was the plant balance used to calculate the net salvage?
9. How was the odorizer removed and who performed the removal for the company?
10. When will the company purchase a new odorizer?

<u>Account 381 - Meters</u>

The company is requesting a decrease in service life from 25 to 20 years due to a new meter testing and change out policy. Also, the company stated that there were no meters in the system older than 11 years.

11. Please explain the 1975 plant addition in the amount of $494 as shown on Schedule A-5.
12. Please provide staff with the new meter testing and change out policy.

<u>Account 391.03 - Office Computers</u>

The 2007 depreciation expense in the amount of $3,930 was not included as a portion of the accumulated depreciation (reserve) balance of $30,796, which brings the new total to $34,796. Also, the recalculated age of the account is currently 7.2 years.

13. In 2006, an adjustment or transfer-out occurred in the amount of $4,042.79. What is the nature of the adjustment or transfer-out? Also, if this is a transfer-out, what account received the reserve transfer, and why was there no transfer-out for an equal amount of plant investment.
14. Provide a listing and description of all office computers in this account, to include the date purchased, original cost, service life, and retirement date.
15. Provide a detailed description of the current hardware system and the proposed new software system.

Account 392 - Transportation

In the 2003 depreciation study, a Chevy service van was purchased in the amount of \$23,405. The company received \$102 for overpayment on the van and it was retired in 2000. The company posted for Exhibit A-12 an addition of \$23,303 which excludes the \$102 overpayment, and a retirement of \$23,405 showing the retirement of the van and overpayment.

16. Please reconcile the entries to this account which occurred in 2000 and recalculate the average age.
17. Please provide a listing of all vehicles in this account and include in your response the date acquired, original cost, and proposed retirement date.
18. Why is there a 1996 addition in the amount of \$23,927 included in this account with an approximate age of 11 years? Should it be removed and established as a subaccount?

Account 394 - Tools, Shop & Garage Equipment

19. The company requested a decrease in service life from 20 to 10 years. Staff agrees with the company's approach if the equipment life is more in-line with 10 years.
20. Identify what equipment in this account has been retired in 2008.

Account 397 - Communication Equipment

The company is proposing to decrease the life of the current phone system from 15 to 11 years.

21. If the company is proposing to replace the current system in two years, will this be an updated model of the old phone system? If no, would the requested decrease in lives be appropriate for the new system?

Account 398 - Other Equipment

Account 398 has been established in the Uniform System of Accounts as Miscellaneous Equipment rather than Other Equipment. Staff will bring this account in-line with the Uniform System of Accounts. Also, the company has the Commission approved Account 387 - Other Equipment under Distribution Accounts for its use.

22. Please provide the cost and a detailed description of the generator and utility trailer. In your response, please include for each the date purchased, original cost, and the proposed life.
23. Since the company is using the backup generator for the utility building operations, please provide the cost, service life, account name, and location of the primary generator.
24. The company has a utility trailer for power operated equipment. Please explain why the utility added this equipment to "Other Equipment" instead of Account 396 - Power Operated Equipment or Account 392 - Transportation Equipment.

<u>Account 399 - Computer Software</u>

25. The company established this account in 2004 with an average service life of 5 years and a whole life rate of 5 years. This is not a Commission approved rate. Currently the company is requesting an 8 year service life.

    a. When was the computer software put into service?
    b. What is the beginning period of the eight year average service life for the computer software since the company's calculations in Exhibit A-17 is based upon a 5 year service life?

26. Please provide the Continuing Property Records for each plant account.
27. What is the company's proposed implementation date for this depreciation study?.
28. Please provide the 2008 additions, adjustments, retirements, transfers, and accruals the reserves for each account through December 31, 2008.