

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-

DATE: March 28, 2013

TO: Office of Commission Clerk (Cole)

FROM: Division of Economics (Ollila, Higgins) *A.O. J.W.D.*
Office of the General Counsel (Klancke) *AKC JSC*

RECEIVED-FPSC
13 MAR 28 AM 9:53
COMMISSION
CLERK

RE: Docket No. 120325-GU – Application for approval of new depreciation rates, effective January 1, 2013, by St. Joe Natural Gas Company, Inc.

AGENDA: 04/09/13 – Regular Agenda – Proposed Agency Action - Interested Persons May Participate

COMMISSIONERS ASSIGNED: All Commissioners

PREHEARING OFFICER: Graham

CRITICAL DATES: None

SPECIAL INSTRUCTIONS: None

FILE NAME AND LOCATION: S:\PSC\ECO\WP\120325.RCM.DOC

Case Background

Rule 25-7.045, Florida Administrative Code (F.A.C.), requires natural gas companies to file a comprehensive depreciation study once every five years. St. Joe Natural Gas Company, Inc. (St. Joe or Company) filed its 2012 depreciation study in compliance with this rule. The Company's last depreciation study was filed in 2007, with the Commission's approved revised depreciation rates and components effective January 1, 2008. The Commission has jurisdiction pursuant to Sections 350.115 and 366.05, Florida Statutes (F.S.).

DOCUMENT NUMBER-DATE

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FPSC-COMMISSION CLERK

Discussion of Issues

Issue 1: Should St. Joe's currently prescribed depreciation rates be revised?

Recommendation: Yes. A review of the Company's plans and activities indicates a need for a revision to the currently prescribed depreciation rates. (Ollila)

Staff Analysis: St. Joe's last comprehensive depreciation study was filed in 2007. By Order No. PSC-08-0259-PAA-GU,¹ the Commission approved revised depreciation rates and components, effective January 1, 2008. The Company has filed this current study in accordance with Rule 25-7.045, F.A.C., which requires natural gas companies to file a comprehensive depreciation study at least once every five years. A review of St. Joe's activity data indicates the need to revise the depreciation rates.

¹ Order No. PSC-08-0259-PAA-GU, issued April 25, 2008, in Docket No. 070737-GU, In re: Application for approval of new depreciation rates, effective January 1, 2008, by St. Joe Natural Gas Company, Inc.

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Issue 2: What should be the implementation date for the new depreciation rates?

Recommendation: Staff recommends approval of St. Joe's proposed January 1, 2013, date of implementation for revised depreciation rates. (Ollila)

Staff Analysis: Rule 25-7.045(6)(b), F.A.C., requires that the data submitted in a depreciation study, including plant and reserve balances or company estimates, "should be brought to the effective date of the proposed rates." The supporting data and calculations provided by St. Joe match an implementation date of January 1, 2013.

Issue 3: What are the appropriate depreciation rates?

Recommendation: Staff's recommended depreciation rates are contained in Attachment A. Attachment B shows an increase in annual expenses of \$2,486 based on December 31, 2012 investment. (Ollila, Higgins)

Staff Analysis: Staff's recommendations are the result of a comprehensive review of St. Joe's study, including a staff-issued data request and report. As a result of staff's review and the Company's responses to staff's questions, staff believes the proposed lives, net salvage percentages, and the resulting depreciation rates for all accounts, contained in Attachment A, are appropriate. The Company agrees with staff's recommendations, including the resulting depreciation rates. Attachment B contains a comparison of current and proposed depreciation expense. Staff's recommended rates result in an increase to depreciation expense of \$2,486, an increase of about one percent.

Account 380.2 - Steel Services

St. Joe proposed to retain its average service life of 47 years, which results in a remaining life of 5.1 years. St. Joe stated in its narrative that there is "every indication of many years of service remaining." Staff believes an increase in life to 50 years is appropriate; the remaining life will increase to 8.1 years under staff's proposal. Since the last study, the cost of removal has averaged 48 percent (there is no gross salvage). The current net salvage is (25) percent. Staff believes a decrease in net salvage to (30) percent is appropriate. St. Joe has agreed to staff's recommendations.

Account 382 – Meter Installations

For Account 382, St. Joe proposed depreciation parameters resulting in a remaining life depreciation rate of 5.3 percent. For the net salvage component of the depreciation rate, the Company proposed (30) percent. Staff proposed increasing this rate from (30) to (25) percent. In this instance, changing the rate of net salvage has the effect of reducing the remaining life depreciation rate from 5.3 to 4.8 percent, and correspondingly reducing the annual expense from \$3,455 to \$3,129. St. Joe has agreed to staff's recommendation.

Account 384 – Regulators Installations

For Account 384, St. Joe proposed depreciation parameters resulting in a remaining life rate equal to 5.2 percent, with a (50) percent net salvage rate. The statewide industry average for Local Distribution Companies (LDCs) is well above (50) percent, ranging from (20) to (3) percent. Due to the difference between St. Joe's net salvage rate and the statewide industry average, staff proposed increasing this account's net salvage rate from (50) to (40) percent. This change reduces the remaining life depreciation rate from 5.2 to 4.7 percent, and correspondingly reducing the account's annual expense from \$1,534 to \$1,361. Staff also proposed a positive reserve transfer for this account in the amount of \$1,500, which further reduces the remaining life depreciation rate to 4.4 percent and annual expense to \$1,274. St. Joe has agreed to staff's recommendations.

Account 387 – Other Equipment

For Account 387, St. Joe proposed to increase the average service life from 8 to 10 years. Staff agrees to the appropriateness of extending this account's average service life to better reflect the property's actual mortality experience. This change has the effect of reducing the remaining life depreciation rate from 19 to 11.4 percent, and correspondingly reducing the account's annual expense from \$2,660 to \$1,596.

Account 391.03 – Office Computers

St. Joe proposed an increase in the average service life from 10 to 12 years, resulting in a remaining life of 1.8 years. The majority of assets in this account are long-lived and St. Joe expects to have "many remaining service years." Staff believes an increase to 16 years, resulting in a remaining life of 5.8 years, is appropriate. St. Joe has agreed to staff's recommendation.

Account 392 – Transportation Equipment

For Account 392, St. Joe proposed a remaining life depreciation rate of 14.2 percent. However, the company concurrently proposed depreciation parameters (calculation factors) that result in a remaining life depreciation rate equal to 12.2 percent. Staff recommended that the account's appropriate remaining life rate be set at 12.2 percent, as this is the direct result of the calculation. St. Joe agrees with staff that the applicable rate is 12.2 percent, and a fall-out annual expense of \$22,206. However, staff has also recommended a negative reserve transfer to this account in the amount of (\$1,889). This transfer increases the remaining life depreciation rate to 12.9 percent and annual expense to \$23,480. St. Joe has agreed to staff's recommendations.

Account 398 – Miscellaneous Equipment

This account has not had investment since prior to 2007. Staff agrees with St. Joe's proposal to delete this account.

Reserve Transfers

Staff reviewed the reserve position for each account. Based on staff's recommended life and salvage inputs for this study, staff determined St. Joe's theoretical or calculated reserve. The difference between an account's actual and theoretical reserve may be described as a positive or negative imbalance, or as a surplus or deficiency. When imbalances occur, corrective transfers among accounts should be made unless this action prevents the Company from earning a fair and reasonable return on its investments.

Overall, St. Joe's actual reserve is less than its theoretical reserve. Staff recommends the reserve transfers listed in Table 3-1 in order to help mitigate certain imbalances. St. Joe has agreed to staff's reserve transfer recommendation. Table 3-1 displays the actual and theoretical reserves for each account, staff's recommended transfers, and the resulting restated reserves.

Table 3-1: Recommended Reserve Allocation					
Account	Account Title	Reserve 12/31/2012 (\$)	Theoretical Reserve (\$)	Recommended Transfers (\$)	Restated Reserve (\$)
375	Building & Improvements	15,955	16,123	0	15,955
376.1	Mains Plastic	573,849	585,939	0	573,849
376.2	Mains Steel	2,056,345	2,070,128	0	2,056,345
378	Meas. & Reg. Equip.(Distribution)	36,625	49,363	3,000	39,625
379	Meas. & Reg. Equip.(City Gate)	276,817	278,194	0	276,817
380.1	Services Plastic	205,052	264,325	14,703	219,755
380.2	Services Steel	125,353	129,326	0	125,353
381	Meters	241,302	245,567	0	241,302
382	Meter Installations	49,235	60,666	0	49,235
383	Regulators	90,355	92,610	0	90,355
384	Regulator Installations	16,808	22,797	1,500	18,308
385	Industrial Meas. & Reg. Equipment	6,065	7,241	0	6,065
387	Other Equipment	6,001	6,999	0	6,001
390	Structures & Improvements	86,135	90,833	0	86,135
391.1	Office Furniture	4,161	4,493	0	4,161
391.2	Office Devices	2,107	3,273	600	2,707
391.3	Office Computers	59,405	45,970	(13,435)	45,970
392	Transportation Equipment	132,831	130,942	(1,889)	130,942
394	Tools, Shop & Garage Equipment	9,223	9,497	0	9,223
396	Power Operated Equipment	100,566	96,087	(4,479)	96,087
397	Communication Equipment	1,978	1,978	0	1,978
Total		4,096,168	4,212,351	0	4,096,168

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Issue 4: Should this docket be closed?

Recommendation: Yes. If no person whose substantial interests are affected by the Commission's Proposed Agency Action files a protest within 21 days of the issuance of the order, this docket should be closed upon the issuance of a consummating order. (Klancke)

Staff Analysis: If no person whose substantial interests are affect files a timely request for a hearing with 21 days, no further action will be required and this docket should be closed upon the issuance of a consummating order.

Comparison of Rates and Components									
Account Number	Account Title	Current			Staff Recommended				
		Average Remaining Life (yrs)	Future Net Salvage (%)	Remaining Life Rate (%)	Average Remaining Life (yrs)	Reserve (%)		Future Net Salvage (%)	Remaining Life Rate (%)
375	Building & Improvements	16.7	(5)	2.6	11.4	74.58%		(5)	2.7
376.1	Mains Plastic	24.0	(30)	3.3	22.0	56.22%		(30)	3.4
376.2	Mains Steel	23.0	(30)	3.3	18.8	67.51%		(30)	3.3
378	Meas. & Reg. Equip. (Distribution)	22.0	(5)	3.0	18.1	40.70%	*	(5)	3.6
379	Meas. & Reg. Equip. (City Gate)	19.9	(5)	3.0	14.8	60.30%		(5)	3.0
380.1	Services Plastic	26.0	(22)	2.7	24.0	39.57%	*	(22)	3.4
380.2	Services Steel	10.0	(25)	3.3	8.1	105.59%		(30)	3.0
381	Meters	7.3	0	4.0	5.6	76.25%		0	4.2
382	Meter Installations	17.0	(30)	3.3	10.3	75.53%		(25)	4.8
383	Regulators	16.4	0	3.3	13.7	53.46%		0	3.4
384	Regulator Installations	22.0	(50)	3.8	17.5	63.24%	*	(40)	4.4
385	Industrial Meas. & Reg. Equipment	13.1	(5)	3.5	18.7	33.13%		(5)	3.8
387	Other Equipment	3.0	0	12.5	5.0	42.87%		0	11.4
390	Structures & Improvements	23.0	0	2.5	16.8	55.00%		0	2.7
391.1	Office Furniture	6.8	0	6.7	6.0	55.38%		0	7.4
391.2	Office Devices	3.9	5	11.9	5.9	20.51%	*	5	12.6
391.3	Office Computers	3.4	0	10.0	5.8	63.46%	*	0	6.3
392	Transportation Equipment	4.3	10	14.2	1.4	71.94%	*	10	12.9
394	Tools, Shop & Garage Equipment	8.6	0	5.0	4.8	73.81%		0	5.5
396	Power Operated Equipment	6.6	5	6.3	4.7	65.39%	*	5	6.3
397	Communication Equipment	9.5	0	8.3	4.5	62.65%		0	8.3

*Denotes a Reserve Transfer

Comparison of Expenses						
Account Number	Account Title	Current		Staff Proposed		
		Depreciation Rate (%)	Annual Expense (\$)	Depreciation Rate (%)	Annual Expense (\$)	Change In Expense (\$)
375	Building & Improvements	2.6	556	2.7	578	21
376.1	Mains Plastic	3.3	33,686	3.4	34,707	1,021
376.2	Mains Steel	3.3	100,521	3.3	100,521	0
378	Meas. & Reg. Equip.(Distribution)	3.0	2,921	3.6	3,505	584
379	Meas. & Reg. Equip.(City Gate)	3.0	13,772	3	13,772	0
380.1	Services Plastic	2.7	14,993	3.4	18,880	3,887
380.2	Services Steel	3.3	3,918	3	3,561	(356)
381	Meters	4.0	12,658	4.2	13,291	633
382	Meter Installations	3.3	2,151	4.8	3,129	978
383	Regulators	3.3	5,578	3.4	5,747	169
384	Regulator Installations	3.8	1,100	4.4	1,274	174
385	Industrial Meas. & Reg. Equipment	3.5	641	3.8	696	55
387	Other Equipment	12.5	1,750	11.4	1,596	(154)
390	Structures & Improvements	2.5	3,915	2.7	4,228	313
391.1	Office Furniture	6.7	503	7.4	556	53
391.2	Office Devices	11.9	1,571	12.6	1,663	92
391.3	Office Computers	10.0	7,244	6.3	4,564	(2,680)
392	Transportation Equipment	14.2	25,846	12.9	23,480	(2,366)
394	Tools, Shop & Garage Equipment	5.0	625	5.5	687	62
396	Power Operated Equipment	6.3	9,258	6.3	9,258	0
397	Communication Equipment	8.3	262	8.3	262	0
Total			243,469		245,955	2,486