

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

In re: Application for approval of new
depreciation rates, effective January 1, 2013,
by St. Joe Natural Gas Company, Inc.

DOCKET NO. 120325-GU
ORDER NO. PSC-13-0174-PAA-GU
ISSUED: April 26, 2013

The following Commissioners participated in the disposition of this matter:

RONALD A. BRISÉ, Chairman
LISA POLAK EDGAR
ART GRAHAM
EDUARDO E. BALBIS

NOTICE OF PROPOSED AGENCY ACTION
ORDER APPROVING DEPRECIATION RATES

BY THE COMMISSION:

NOTICE is hereby given by the Florida Public Service Commission that the action discussed herein is preliminary in nature and will become final unless a person whose interests are substantially affected files a petition for a formal proceeding, pursuant to Rule 25-22.029, Florida Administrative Code (F.A.C.).

DECISION

Rule 25-7.045, 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. A review of St. Joe's activity data indicates the need to revise the depreciation rates. St. Joe's last comprehensive depreciation study was filed in 2007. By Order No. PSC-08-0259-PAA-GU,¹ we approved revised depreciation rates and components, effective January 1, 2008. We have jurisdiction pursuant to Sections 350.115 and 366.05, Florida Statutes (F.S.).

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.

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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FPSC-COMMISSION CLERK

The proposed depreciation rates are the result of a comprehensive review of St. Joe's study, including a staff-issued data request and report. As a result of our staff's review and the Company's responses to our staff's questions, we find that the proposed lives, net salvage percentages, and the resulting depreciation rates for all accounts, contained in Attachment A, are appropriate. The Company concurs with this assessment. Attachment B contains a comparison of current and proposed depreciation expense. The new 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." We find that an increase in life to 50 years is appropriate; the remaining life will increase to 8.1 years. Since the last study, the cost of removal has averaged 48 percent (there is no gross salvage). The current net salvage is (25) percent. We find that a decrease in net salvage to (30) percent is appropriate.

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. We find that increasing this rate from (30) to (25) percent is appropriate. 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.

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, we find that increasing this account's net salvage rate from (50) to (40) percent is appropriate. 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. We further find that 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, is appropriate.

Account 387 – Other Equipment

For Account 387, St. Joe proposed to increase the average service life from 8 to 10 years. We agree as 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." We find that an increase to 16 years, resulting in a remaining life of 5.8 years, is appropriate.

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. We find 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 that the applicable rate is 12.2 percent, and a fall-out annual expense of \$22,206. However, we further find that a negative reserve transfer to this account in the amount of (\$1,889), is necessary. This transfer increases the remaining life depreciation rate to 12.9 percent and annual expense to \$23,480.

Account 398 – Miscellaneous Equipment

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

Reserve Transfers

Our staff reviewed the reserve position for each account. Based on staff's recommended life and salvage inputs for this study, we have 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. The reserve transfers are listed in Table 1 in order to help mitigate certain imbalances. St. Joe concurs that the reserve transfers contained in Table 1 are appropriate. Table 1 displays the actual and theoretical reserves for each account, our approved transfers, and the resulting restated reserves.

Table 1: Approved Reserve Allocation

Account	Account Title	Reserve 12/31/2012 (\$)	Theoretical Reserve (\$)	Approved 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

Based on the foregoing, it is

ORDERED by the Florida Public Service Commission that the proposed lives, net salvage percentages, and the resulting depreciation rates for all accounts are hereby approved as set forth in the body of this Order and as contained in Attachment A to this Order. It is further

ORDERED that Attachments A and B to this Order are incorporated herein by reference. It is further

ORDERED that the implementation date for the revised depreciation rates is January 1, 2013. It is further

ORDERED that corrective reserve allocations shall be made as set forth in the body of this Order and as contained in Attachment B to this Order. It is further

ORDERED that the provisions of this Order, issued as proposed agency action, shall become final and effective upon the issuance of a Consummating Order unless an appropriate petition, in the form provided by Rule 28-106.201, Florida Administrative Code, is received by the Commission Clerk, 2540 Shumard Oak Boulevard, Tallahassee, Florida 32399-0850, by the close of business on the date set forth in the "Notice of Further Proceedings" attached hereto. It is further

ORDERED that in the event this Order becomes final, this docket shall be closed.

By ORDER of the Florida Public Service Commission this 26th day of April, 2013.



ANN COLE
Commission Clerk
Florida Public Service Commission
2540 Shumard Oak Boulevard
Tallahassee, Florida 32399
(850) 413-6770
www.floridapsc.com

Copies furnished: A copy of this document is provided to the parties of record at the time of issuance and, if applicable, interested persons.

CMK

NOTICE OF FURTHER PROCEEDINGS OR JUDICIAL REVIEW

The Florida Public Service Commission is required by Section 120.569(1), Florida Statutes, to notify parties of any administrative hearing that is available under Section 120.57, Florida Statutes, as well as the procedures and time limits that apply. This notice should not be construed to mean all requests for an administrative hearing will be granted or result in the relief sought.

Mediation may be available on a case-by-case basis. If mediation is conducted, it does not affect a substantially interested person's right to a hearing.

The action proposed herein is preliminary in nature. Any person whose substantial interests are affected by the action proposed by this order may file a petition for a formal proceeding, in the form provided by Rule 28-106.201, Florida Administrative Code. This petition must be received by the Office of Commission Clerk, 2540 Shumard Oak Boulevard, Tallahassee, Florida 32399-0850, by the close of business on May 17, 2013.

In the absence of such a petition, this order shall become final and effective upon the issuance of a Consummating Order.

Any objection or protest filed in this/these docket(s) before the issuance date of this order is considered abandoned unless it satisfies the foregoing conditions and is renewed within the specified protest period.

Comparison of Rates and Components									
Account Number	Account Title	Current			Commission Approved				
		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		Commission Approved		
		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