

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

In Re: South Florida Natural) DOCKET NO. 921277-GU
Gas Company - 1992 Depreciation) ORDER NO. PSC-93-1030-FOF-GU
Study.) ISSUED: July 13, 1993
_____)

The following Commissioners participated in the disposition of this matter:

J. TERRY DEASON, Chairman
THOMAS M. BEARD
SUSAN F. CLARK
JULIA L. JOHNSON
LUIS J. LAUREDO

NOTICE OF PROPOSED AGENCY ACTION

ORDER ON THE 1992 DEPRECIATION STUDY
OF SOUTH FLORIDA NATURAL GAS COMPANY

BY THE COMMISSION:

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

Under Rule 25-7.045 (8), F.A.C., gas companies are to file a comprehensive depreciation study at least once every five years. South Florida Natural Gas Company (company) filed the current depreciation study in keeping with this rule. We find that changes since the last study, brought about by activity and company planning, indicate the need to revise currently prescribed depreciation rates. We find that the new depreciation rates should be implemented on May 1, 1993, as proposed by the company. This date coincides with the beginning of its fiscal year.

We find the lives, net salvages, reserve amounts, and resultant depreciation rates shown on Attachment A to be appropriate for each listed account.

Even though SFNG's own study did not include a proposal for new rates or parameters, the study did include the necessary data and information that permitted Commission review and analysis of the current recovery status of each account. As a result of that analysis, we find that certain changes in the currently prescribed life and salvage parameters are warranted. The company agrees with the Commission's position for all accounts.

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The company has successfully resolved data problems encountered during the last review and has initiated policies and procedures to ensure the proper accounting of retirements, salvage and cost of removal.

Depreciation Rates

For each of the following listed accounts, the average remaining lives which we find appropriate simply reflect the update of currently prescribed lives with accounting data since the last depreciation study. We find that the currently prescribed net salvage factors do not require changes.

Distribution Assets:

Measuring and Regulating Station Equipment-General
Measuring and Regulating Station Equipment-City Gate
House Regulators
Industrial Measuring and Regulator Station Equipment
Other Equipment

General Support Assets:

Structures and Improvements
Office Furniture
Office Machines and Equipment
Transportation
Small Tools
Laboratory Equipment
Power Operated Equipment
Miscellaneous Equipment

The remaining accounts, discussed below, warrant a change in either the life and/or net salvage factor.

Structures and Improvements : During the last review, these were believed to be leased facilities, which is reflected in the currently prescribed life and salvage parameters. However, the company has stated that this investment consists of fences and other protective improvements. With this in mind, we find the use of a 25 year service life and SQ curve to be appropriate for this account. The adopted 6.3 year remaining life is based on an average age of 18.7 years. The currently prescribed salvage factor of zero is still appropriate for this account. The embedded portion of this account is approaching 100% recovery. For this reason, the depreciation rate for the embedded investment is not appropriate for new additions. With this in mind, we find a 4%

whole life depreciation rate for new additions is appropriate, based on the 25 year average service life and zero salvage factor.

Mains-General: During the review of the submitted data, it was noted that removal costs were not incurred when a replacement main was installed at the same time the old main was removed. This results in the capitalization of the cost of digging down to and abandoning the old facility plus the cost of filling and any resurfacing. We believe that the costs associated with removal (i.e., labor, overhead, digging, backfilling, etc.) as well as restoration of any pavement or concrete should be equitably shared between the removal of the retired facility and installation of the replacing facility. We find that in this case, the appropriate approach is that the cost associated with digging down to, and any work associated with, abandoning the retiring facility should be charged as cost of removal. The cost to install the replacing facility along with any costs associated with filling and resurfacing would then be capitalized with the new main. The company has agreed to change its procedures to utilize this approach.

Mains and Services: The average remaining lives which we find appropriate for these accounts simply reflect an update of the currently prescribed lives with the accounting data since the last depreciation study. Mains and Services are generally abandoned in place upon retirement, involving travel time for the crew, digging down to the facility, cutting and capping, refilling the hole, and restoring the roadway. Costs for restoring the roadway can be significant if the facility is under the pavement. In the case of SFNG, less than 3% of its mains and service lines are under pavement and potentially subject to costly surface restoration upon retirement. The Commission-approved cost of removal factors are based on information received from the company detailing labor and materials generally associated with abandonment.

Meter and Regulator Installations: These installations are only retired when the meter or regulator is removed from the location and no new one is installed, or when the service through the meter or regulator is cut off. In other words, the life of the meter or regulator installation should be very similar to the life of the services. The Commission-approved remaining life is reflective of this. The removal costs associated with this account have increased slightly over the past five years. Since the removal costs are actually labor costs and are expected to continue to increase, we find a change in the future net salvage to (5)%

(negative five percent) from the current (4)% (negative four percent) salvage factor to be warranted. This is in line with recent industry projections for this type of investment.

Industrial Measuring and Regulating Station Equipment: The embedded portion of this account is approaching 100% recovery. For this reason, the depreciation rate we find appropriate for the embedded investment is not appropriate for any new additions. With this in mind, we find appropriate a whole life depreciation rate of 3.3% for any new additions. This is based on a 30 year average service life and zero salvage factor.

Office Machines and Equipment: The embedded portion of this account is approaching 100% recovery. For this reason, the depreciation rate we find appropriate for the embedded investment is not appropriate for any new additions. With this in mind, we find appropriate a whole life depreciation rate of 6.7% for any new additions, based on a 15 year average service life and zero salvage factor

Communications Equipment: The company now leases all of its communication equipment. However, should the company purchase any such equipment before the next depreciation rate review, we find use of a whole life rate based on a 10 year average service life and zero net salvage to be appropriate.

We find that the company should be required to perform a physical inventory of the Small Tools account, making the necessary accounting adjustments to its books based on the inventory results. The need for a physical inventory is indicated by the age distribution, which shows that about 78% of the surviving investment is over 15 years old with 20% over 25 years old. The company has agreed to perform a physical inventory and, based on its findings, make the necessary accounting adjustments. If that equipment is not physically in service but is still reflected in the investment on the books, then the plant in service and reserve for this account should reflect an appropriate inventory adjustment to correctly remove the investment from service.

Overhead Costs

SFNG is not correctly capitalizing overheads directly associated with each construction project, as set forth in Rule 25-7.0461(7), F.A.C. As the result of a Continuing Property Record (CPR) audit performed by the Commission's Research and Regulatory

Review Staff, we find that SFNG does not capitalize overheads directly associated with construction projects as set forth in Rule 25-7.0461 (7), F.A.C. The audit recommended that the company begin capitalizing overheads directly associated with each construction project, as a part of plant additions and retirements.

The company disagreed, stating that for a small company such as theirs, insufficient economic justification exists to devise an elaborate allocation basis to capitalize these costs, and the company would welcome a waiver from Rule 25-7.0461 (7). We find that a waiver is not justified and that the allocation basis need not be elaborate. The allocation can be based on the actual employees' salaries and benefits and a reasonable estimate of the vehicles costs which can be updated on an annual basis. This will result in a more proper allocation of overhead costs between capital and expense. We direct SFNG to implement a process of allocation to begin properly capitalizing those overhead costs directly associated with construction projects as set forth in Rule 25-7.0461(7), F.A.C.

Investment Tax Credits

The current amortization of investment tax credits (ITCs) and the flowback of excess deferred income taxes must be revised to reflect the approved depreciation rates. Further, we require the company to file detailed calculations of the revised ITC amortization and flowback of excess deferred taxes separate from, but at the same time as, it files its fourth quarterly Rate of Return Report for 1993.

As previously addressed supra and detailed on Attachment A, we find revisions to SFNG's depreciation rates will become effective May 1, 1993. Revising a utility's depreciation rates usually results in a change in its rate of ITC amortization and a change in its flowback of excess deferred taxes.

SFNG is treated under Section 46(f)(1) of the Internal Revenue Code (IRC), which results in its ITCs receiving a zero cost rate in its capital structure and below-the-line amortization. IRC Section 46(f)(6) 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. Rule 25-14.008(3)(b)(2), F.A.C., states that where an election was made under Section 46(f)(1) of the Code, restorations to rate base are allocated ratably in proportion to the ratemaking life used to

calculate the regulated depreciation expense. Consequently, a change in depreciation rates usually results in a change in the amortization of ITCs.

Regarding the flowback of excess deferred taxes, Section 203(e) of the Tax Reform Act of 1986 (TRA) prohibits rapid write-back of excess protected (depreciation-related) deferred taxes. Moreover, Rule 25-14.013, F.A.C., prohibits (without good cause shown) excess deferred income taxes (protected and unprotected) associated with temporary differences, from being reversed any faster than allowed under either the average rate assumption method of Section 203(e) of the TRA or Revenue Procedure 88-12, whichever is applicable. Consequently, the flowback of excess deferred taxes shall be altered to comply with the TRA and Rule 25-14.013.

To date, no calculations of the tax effect have been provided. Consequently, we direct the utility to submit detailed calculations of the tax impact, to include the revised amortization of the ITCs and flowback of excess deferred taxes. The detailed calculations will be submitted separate from, but at the same time, that the company files its fourth quarterly Rate of Return Report for 1993.

In consideration of the foregoing, it is

ORDERED by the Florida Public Service Commission that the current depreciation rates for the South Florida Natural Gas Company are to be changed as deemed appropriate in the body of this Order. It is further

ORDERED that the company's proposed May 1, 1993, date of implementation is accepted as appropriate. It is further

ORDERED that the lives, net salvages, reserve amounts, and resultant depreciation rates for each account shall be adjusted as deemed appropriate in the body of this Order and as shown in Attachment A. It is further

ORDERED that the company shall perform a physical inventory of the Small Tools account. It is further

ORDERED that the company implement a process of allocation to begin properly capitalizing those overhead costs directly associated with construction projects as set forth in Rule 25-7.0461(7), F.A.C., as discussed in the body of this Order. It is further

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ORDERED that the company's current amortization of investment tax credits and the flowback of excess deferred income taxes be revised to reflect the approved depreciation rates. It is further

ORDERED that the company file detailed calculations of the revised ITC amortization and flowback of excess deferred taxes separate from, but at the same time as, it files its fourth quarterly Rate of Return Report for 1993. It is further

ORDERED that this Order shall become final and this docket shall be closed unless an appropriate petition for formal proceeding is received by the Division of Records and Reporting, 101 East Gaines Street, Tallahassee, Florida 32399-0870, by the close of business on the date indicated in the Notice of Further Proceedings or Judicial Review.

By ORDER of the Florida Public Service Commission this 13th day of July, 1993.

STEVE TRIBBLE, Director
Division of Records and Reporting

(S E A L)
MAA:bmi

by: Kay Lynn

Chief, Bureau of Records

NOTICE OF FURTHER PROCEEDINGS OR JUDICIAL REVIEW

The Florida Public Service Commission is required by Section 120.59(4), Florida Statutes, to notify parties of any administrative hearing or judicial review of Commission orders that is available under Sections 120.57 or 120.68, 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 or judicial review will be granted or result in the relief sought.

The action proposed herein is preliminary in nature and will not become effective or final, except as provided by Rule 25-22.029, Florida Administrative Code. Any person whose substantial interests are affected by the action proposed by this order may file a petition for a formal proceeding, as provided by Rule 25-22.029(4), Florida Administrative Code, in the form provided by Rule 25-22.036(7)(a) and (f), Florida Administrative Code. This petition must be received by the Director, Division of Records and Reporting at his office at 101 East Gaines Street, Tallahassee, Florida 32399-0870, by the close of business on August 3, 1993.

In the absence of such a petition, this order shall become effective on the day subsequent to the above date as provided by Rule 25-22.029(6), Florida Administrative Code.

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

If this order becomes final and effective on the date described above, any party adversely affected may request judicial review by the Florida Supreme Court in the case of an electric, gas or telephone utility or by the First District Court of Appeal in the case of a water or wastewater utility by filing a notice of appeal with the Director, Division of Records and Reporting and filing a copy of the notice of appeal and the filing fee with the appropriate court. This filing must be completed within thirty (30) days of the effective date of this order, pursuant to Rule 9.110, Florida Rules of Appellate Procedure. The notice of appeal must be in the form specified in Rule 9.900(a), Florida Rules of Appellate Procedure.