

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

In re: 1997 depreciation study
by St. Joe Natural Gas Company,
Inc.

DOCKET NO. 980103-GU
ORDER NO. PSC-98-1686-FOF-GU
ISSUED: December 10, 1998

The following Commissioners participated in the disposition of this matter:

JULIA L. JOHNSON, Chairman
J. TERRY DEASON
SUSAN F. CLARK
JOE GARCIA
E. LEON JACOBS, JR.

NOTICE OF PROPOSED AGENCY ACTION
ORDER REVISING DEPRECIATION RATES FOR
ST. JOE NATURAL GAS COMPANY, INC.

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.

By Order No. PSC-94-0150-FOF-GU, issued February 7, 1994 in Docket No. 921337-GU, St. Joe Natural Gas Company, Inc.'s (St. Joe or the company) current depreciation rates were approved with an effective date of January 1, 1993. Pursuant to Rule 25-7.045, Florida Administrative Code, the company filed its regular five year comprehensive study on January 14, 1998, for our review.

A review of the company's current capital recovery position indicates the need to revise the current depreciation rates. Pursuant to Rule 25-7.045(8), Florida Administrative Code, gas companies must file a comprehensive depreciation study at least once every five years. The company filed the current study in keeping with this rule. Changes since the last study brought about by activity and company planning indicate the need to revise currently prescribed depreciation rates. We find the company's proposed January 1, 1998, date for implementation of the new depreciation rates to be reasonable. The company has provided data and related calculations abutting its proposed implementation date of January 1, 1998.

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PSC-RECORDS/REPORTING

The company's initially proposed remaining service lives represent the difference between each account's average service life and its average age. This implies all investment retiring simultaneously, with no ongoing retirements. Such a pattern of expected retirements (curve shape, retirement dispersion, or mortality dispersion) represents an idealized situation where the equipment is so designed and manufactured as to live efficiently until the precise year the company determined replacing equipment was ready. In reality, there is no plant type where the company has such full control over retirement. The most similar example would be heavy trucks or trailers, where maintenance problems and accidents can modify the pattern.

In selecting a curve shape, Commission practice has been to work from averages, modifying the average as necessary for any peculiarities of the given company. The fundamental premise is that a similar plant type, used in a similar fashion, will have the same curve shape.

Certain patterns of activity will change the curve shape. High retirements and/or high growth tend to increase early retirements. A stagnant situation has the opposite effect. Plant subject to theft, damage, or public requirements can be expected to have a greater incident of infant mortality than similar plant in a rural or small town setting.

As a result of the comprehensive review of the company's submitted study, an agreement was reached with St. Joe on all life and salvage parameters for each account. In many instances the recommended remaining life simply reflects an update of activity since the last study.

Distribution Plant

Account 375, Structures and Improvements: We find the company proposal to continue with a 40-year average service life and a 5% net salvage reasonable and in line with industry expectations. Using the current age of 13.6 years with an S3 curve that was approved in the last review, a remaining life of 26 years results.

Account 376, Mains - Steel: The company's proposal to continue the currently approved 40-year service life and net salvage of negative 30% are in line with industry estimates and are acceptable to staff. With an average age of 7.2 years at December 31, 1997, and

continued use of an S3 curve, a remaining life of 33 years results.

Account 376, Mains - Plastic: We accept the company proposal to continue using an average service life of 40 years and net salvage of negative 30% as being reasonable and in line with industry expectations. While the 1993-1997 activity shows a net salvage of approximately negative 5%, it is based on one retirement amounting to less than 1% of the plant investment. We therefore concur in the use of a negative 30% net salvage, which is typical of the industry. Using an S3 curve, as approved in the last study, with an average age of 10.7 years, produces an average remaining life of 29 years.

Account 378, Measuring and Regulating Equipment - General: All retirements included in this account during the study period were made to reconcile the plant balance to a physical inventory. Continued use of a negative 5% appears reasonable and is acceptable. Use of an R3 curve with an average service life of 35 years, as approved in the company's last depreciation review, also appears reasonable and is compatible with other companies in Florida. We employed these parameters with an average age of five years in the resulting 30 year remaining life.

Account 379, Measuring and Regulating Equipment - City Gate: This account was established in 1992. A review of the account activity indicates there have been no retirements since the last study and the account has reached an average age of 5.7 years. We find that an S3 curve, an average service life of 35 years, a negative 5% net salvage, and an average age of 5.7 years, results in an average remaining life of 29 years which is reasonable. This is consistent with industry expectations.

Account 380, Services - Steel: This account has had no additions since 1985 with increasing retirements through 1994 due to the company upgrading cathodic protection by inserting plastic pipe in the steel and retiring the steel. Annual retirements recorded for the years 1995-1997 amount to less than half of the annual retirements previously incurred. The retirement rate averaged 3.5% during the 1993-1997 period with 1995-1997 averaging 1.5%. This activity is consistent with an S3 curve and 30-year average service life. Using an account average age of 27.1 years results in an average remaining life of 8.8 years.

Removal costs incurred for the 1993-1997 period are approximately 8% of the retirements, significantly below the

industry average of negative 40+% net salvage. We find that continuing the currently approved negative net salvage of 25% is in line with labor and material estimates required to abandon a typical service line.

Account 380, Services - Plastic: Continuation of the currently approved S2 curve and 30 year average service life is recommended, based on average expectation for the industry. Using the current average age of 8.5 years, a remaining life of 22 years results. Based on company estimates of labor involved with cutting and capping required to abandon a typical plastic service, a negative 21% net salvage results.

Account 381, Meters: Under Rule 25-7.0461(6), Florida Administrative Code, the addition and retirement of meters should be accounted for as cradle-to-grave. The meter is capitalized upon initial purchase and it is retired when it is junked because it can no longer perform metering functions. All costs associated with meter change-out and refurbishment are expensed. There is nothing in the current study to indicate the need for a change from the currently approved R4 curve, average service life of 25 years and zero net salvage and their continued use is approved. With an average age of 12.5 years, a remaining life of 12.8 years results.

Account 382, Meter Installations: A meter installation is only retired when a meter is removed from the location and no new meter is installed or when service through a meter is cut off. The life of meter installations, as a result, is similar to the life of services. Therefore, we find that continued use of the currently approved S2 curve, average service life of 30 years and net salvage of negative 5% is reasonable. With an account age of 18.7 years, a remaining life of 13.4 years results.

Account 383, Regulators: As with the Meters Account, cradle-to-grave accounting is used for this account. The currently approved average service life of 30 years, R4 curve shape and zero net salvage are typical for gas companies in Florida and are reasonable. With an average age of 7.6 years, the resultant remaining life is 22 years.

Account 384, Regulator Installation: The accounting treatment for regulator installations is the same as that for meter installations. We find the continuation of the currently approved S2 curve with an average service life of 30 years, a net salvage of

negative 5%, an account age of 15.7 years, and a remaining life of 15.5 years to be reasonable.

Account 385, Industrial Measurement and Regulating Equipment: There has been very limited retirement activity indicated in this account. Continued use of an average service life of 30 years with an S4 curve and a negative 5% net salvage is reasonable. With an average age of 5.8 years, a remaining life of 24 years results.

Account 387, Other Equipment: Company reports for this account indicate no retirement activity from the beginning of 1993 through the end of 1997. Considering the lack of retirement activity, we find that continuing with the currently approved S4 curve with an average service life of 15 years and zero net salvage is reasonable. With an average age of 6.1 years, the remaining life is 8.9 years.

General Plant

Account 390, Structures and Improvements: There was only one retirement indicated in this study period and that was shown as a 1994 entry. The company stated that the retirement was made to reconcile to a physical inventory of the account. We find continued use of the square wave curve with an average service life of 27 years and a negative 5% net salvage as currently approved is reasonable. An account age of 10.9 years produces a remaining life of 16.1 years.

Account 391.1, Office Furniture: We find that an average service life of 20 years, use of the S2 curve shape, and a zero net salvage, which are in line with industry expectations and are reasonable. A remaining life of 11.8 years is also reasonable based on the account age of 8.6 years.

Account 391.2, Office Devices: We find that the company should continue to use the currently approved S1 curve, 5% net salvage and 8 year average service life. Using these parameters with an account age of 3.1 years, a remaining life of 5.3 years is reasonable.

Account 391.3, Computers: The currently prescribed depreciation rate was based on an 8 year average service life with an S3 curve and 0% net salvage. We find that the company should continue their use with an average age of 2.0 years and a remaining life of 5.3 years.

Account 392, Transportation Equipment: The company agreed that continuation of current underlying parameters is warranted by lack of contrary indications. Therefore, we find that the service life of 8 years, an S2 curve, and a 10% net salvage are reasonable. With the current average age of 4.1 years, a remaining life of 4.2 years results.

Account 394, Tools Shop and Garage Equipment: Of the retirements booked to this account between January 1, 1993, and December 31, 1997, approximately 96% were booked in 1993. This appears to be the result of a physical inventory accomplished in 1993, the need for which was recognized during the review of the previous depreciation study. The balance of the retirement activity does not support a change in the currently approved parameters. We therefore find that continued use of the S3 curve, 20 year average service life, and zero net salvage to be reasonable. Use of an average age of 11.8 years results in a remaining life of 8.7 years.

Account 396, Power Operated Equipment: We find that for this account, continuation of the current average service life of 15 years, S4 curve, and zero net salvage is reasonable. Using these parameters with an average account age of 4.2 years produces a remaining life of 10.8 years.

Account 397, Communication Equipment: A review of the account's activity indicates that the S3 curve, 15-year average service life, and zero net salvage remain appropriate. With an average age of 6.8 years and the above parameters, the remaining life is 8.3 years.

Account 398, Miscellaneous Equipment: The balance in this account remains at zero. We find a whole life rate based on a 20 year service life and 0% net salvage for any equipment purchases which may be capitalized and recorded in this account are reasonable.

Taxes

Previously in this Order, we have found revisions to the company's remaining lives, to be effective January 1, 1998. Revising a utility's book depreciation lives generally results in a change in its rate of investment tax credit (ITC) amortization and flow back of excess deferred income taxes (EDIT) in order to comply with the normalization requirements of the Internal Revenue Code (IRC) and underlying Regulations found in Sections 46, 167, and 168 and 1.46, 1.67, and 1.68, respectively. The current

amortization of ITCs and the flow back of EDITs should be revised to match the actual recovery periods for the related property. The utility should file detailed calculations of the revised ITC amortization and flow back of EDIT at the same time it files its surveillance report covering the period ending December 31, 1998.

Section 46(f)(6), IRC, states that the amortization of ITC should be determined by the period of time actually used in computing depreciation expense for rate making purposes and on the regulated books of the utility. Because of the change in remaining lives ordered herein, it is necessary to change the amortization of ITC.

Section 203(3) of the Tax Reform Act of 1986 (the Act) prohibits rapid flow back of depreciation related (protected) EDIT. Further Rule 25-14.013, Accounting for Deferred Income Taxes Under SFAS 109, Florida Administrative Code, generally prohibits EDIT from being written off any faster than allowed under the Act. Therefore, the Act, SFAS 109, and Rule 25-14.013, Florida Administrative Code, regulate the flow back of EDIT. Therefore, we find that the flow back of EDIT must be adjusted to comply with the ACT, SFAS 109, and Rule 25-14012, Florida Administrative Code.

The Commission, the Internal Revenue Service, and independent outside auditors look to a company's books and records and at the orders and rules of the jurisdictional regulatory authorities to determine if the books and records are maintained in the appropriate manner and to determine the intent of the regulatory bodies in regard to normalization. Based on our regulatory authority, we find that the current amortization of ITC and the flow back of excess depreciation must be revised to reflect the approved remaining lives. In order for there to be a clear audit trail, a prudent utility will revise ITC and EDIT amortization and produce work papers to show how the revisions were made.

Based on the foregoing, it is

ORDERED by the Florida Public Service Commission that the depreciation rate components and amortization schedules for St. Joe Natural Gas Company, Inc. shall be revised, effective January 1, 1998, as set forth in the body of this Order and in Attachment A to this Order, which is incorporated herein by reference. It is further

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ORDERED that the provisions of this Order, issued as proposed agency action, shall become final and effective unless an appropriate petition, in the form provided by Rule 25-22.036, Florida Administrative Code, is received by the Director, Division of Records and Reporting, 2540 Shumard Oak Boulevard, Tallahassee, Florida 32399-0850, by the close of business on the date set forth in the "Notice of Further Proceedings or Judicial Review" 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 10th day of December, 1998.

BLANCA S. BAYÓ, Director
Division of Records and Reporting

By: Kay Flynn
Kay Flynn, Chief
Bureau of Records

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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 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.

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.

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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 Director, Division of Records and Reporting, 2540 Shumard Oak Boulevard, Tallahassee, Florida 32399-0850, by the close of business on December 31, 1998.

In the absence of such a petition, this order shall become effective on the day subsequent to the above date.

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 substantially 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.

ST. JOE NATURAL GAS COMPANY
 1997 STUDY

ACCOUNT	COMMISSION APPROVED			
	AVERAGE REMAINING LIFE (YRS.)	NET SALVAGE (%)	RESERVE (%)	REMAINING LIFE RATE (%)
GAS DISTRIBUTION				
375.0 Structures & Improvements	26.0	(5.0)	39.04	2.5
376.0 Mains - Steel	33.0	(30.0)	23.01	3.2
376.0 Mains - Plastic	29.0	(30.0)	34.83	3.3
378.0 M&R Equipment - General	30.0	(5.0)	14.34	3.0
379.0 M&R Equipment - City Gate	29.0	(5.0)	17.26	3.0
380.0 Services - Steel	8.8	(25.0)	90.11	4.0
380.0 Services - Plastic	22.0	(21.0)	24.65	4.4
381.0 Meters	12.8	0.0	48.79	4.0
382.0 Meter Installations	13.4	(5.0)	54.48	3.8
383.0 Regulators	22.0	0.0	23.33	3.5
384.0 Regulators Installation	15.5	(5.0)	36.96	4.4
385.0 M&R Equipment - Industrial	24.0	(5.0)	17.65	3.6
387.0 Other Equipment	8.9	0.0	41.40	6.6
GENERAL PLANT				
390.0 Structures & Improvements	16.1	(5.0)	26.66	4.9
391.1 Office Furniture	11.8	0.0	45.40	4.6
391.2 Office Machines	5.3	5.0	32.67	11.8
391.3 Computers	6.0	0.0	18.59	13.6
392.0 Transportation Equip.-Cars & Trucks	4.2	10.0	41.69	11.5
394.0 Tools, Shop, & Garage Equipment	8.7	0.0	56.04	5.1
396.0 Power Operated Equipment	10.8	0.0	19.69	7.4
397.0 Communication Equipment	8.3	0.0	45.97	6.5
398.0 Misc. Equipment	20.0	0.0	0.00	5.0*

* Denotes whole life rate

**ST. JOE NATURAL GAS COMPANY
1997 STUDY**

ACCOUNT	COMMISSION APPROVED			
	AVERAGE REMAINING LIFE	NET SALVAGE	RESERVE	REMAINING LIFE RATE
	(YRS.)	(%)	(%)	(%)
GAS DISTRIBUTION				
375.0 Structures & Improvements	26.0	(5.0)	39.04	2.5
376.0 Mains - Steel	33.0	(30.0)	23.01	3.2
376.0 Mains - Plastic	29.0	(30.0)	34.83	3.3
378.0 M&R Equipment - General	30.0	(5.0)	14.34	3.0
379.0 M&R Equipment - City Gate	29.0	(5.0)	17.26	3.0
380.0 Services - Steel	8.8	(25.0)	90.11	4.0
380.0 Services - Plastic	22.0	(21.0)	24.65	4.4
381.0 Meters	12.8	0.0	48.79	4.0
382.0 Meter Installations	13.4	(5.0)	54.48	3.8
383.0 Regulators	22.0	0.0	23.33	3.5
384.0 Regulators Installation	15.5	(5.0)	36.96	4.4
385.0 M&R Equipment - Industrial	24.0	(5.0)	17.65	3.6
387.0 Other Equipment	8.9	0.0	41.40	6.6
GENERAL PLANT				
390.0 Structures & Improvements	16.1	(5.0)	26.66	4.9
391.1 Office Furniture	11.8	0.0	45.40	4.6
391.2 Office Machines	5.3	5.0	32.67	11.8
391.3 Computers	6.0	0.0	18.59	13.6
392.0 Transportation Equip.-Cars & Trucks	4.2	10.0	41.69	11.5
394.0 Tools, Shop, & Garage Equipment	8.7	0.0	56.04	5.1
396.0 Power Operated Equipment	10.8	0.0	19.69	7.4
397.0 Communication Equipment	8.3	0.0	45.97	6.5
398.0 Misc. Equipment	20.0	0.0	0.00	5.0 *

* Denotes whole life rate