

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

In re: 1997 depreciation study  
by Atlantic Utilities, a Florida  
Division of Southern Union  
Company d/b/a South Florida  
Natural Gas.

DOCKET NO. 980700-GU  
ORDER NO. PSC-98-1763-FOF-GU  
ISSUED: December 30, 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 APPROVING DEPRECIATION RATES AND RESERVE TRANSFERS

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.

CASE BACKGROUND

Atlantic Utilities, a Florida Division of Southern Union Company d/b/a South Florida Natural Gas (SFNG or the company) filed its last depreciation study on December 21, 1992 with an effective date of January 1, 1993. Rule 25-7.045(8)(a), Florida Administrative Code, requires gas companies to file a study for each category of depreciable property for Commission review at least once every five years from the submission date of the previous study unless otherwise required by the Commission. In accordance with this Rule, SFNG's next depreciation study was due on or before December 21, 1997. By Order No. PSC-98-0706-FOF-GU, issued May 21, 1998, the company was granted an extension of time

DOCUMENT NUMBER-DATE

14677 DEC 30 88

FPSC-RECORDS/REPORTING

to file its depreciation study to no later than May 31, 1998. The company filed its regular five-year comprehensive study on May 29, 1998. Changes since the last study brought about by activity and company planning indicate the need to revise currently prescribed depreciation rates. The company proposed July 1, 1998 implementation date for new depreciation rates matches the beginning of its fiscal year. Data and related calculations have been provided abutting this date. We find the company's proposal to be reasonable, and therefore approve the revisions detailed in this order, effective July 1, 1998.

#### **CORRECTIVE RESERVE TRANSFERS**

As part of our analysis of the company's study, a review of the reserve position for each account was also performed. Our approach to reserve transfers is where significant surpluses and deficits exist, corrective reserve transfers between accounts should be considered. Significant imbalances are those that result in abnormal depreciation rates for the ongoing account. Such is the case for Distribution Structures & Improvements and Measuring & Regulating Industrial Equipment. The existence of reserve surpluses in these accounts cause an abnormality in the resulting depreciation rates. For this reason, we find that the reserve surpluses in the Distribution Structures & Improvements and Measuring & Regulating Industrial Equipment accounts shall be transferred to help correct the existing reserve deficiency in the Steel Services account.

#### **APPROPRIATE DEPRECIATION RATES**

Our approved remaining lives, net salvages, reserves, and resultant depreciation rates, detailed in Attachment A, are the result of a comprehensive review of the company's study. The company's initially proposed remaining service lives represented 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 nearest would be heavy trucks or trailers, where maintenance problems and accidents can modify the pattern.

In selecting a curve shape, we utilize averages, modifying the average as necessary for any peculiarities of the given company. A basic 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.

The expected average service life for each account is estimated from an analysis of historic activity, expected impact of factors such as growth and technological change, and industry averages. Our review of each account's activity indicates that the service lives and curve shapes recommended in the last depreciation review basically remain reasonable. As a result, the approved remaining life for each account simply reflects an update of activity since the last study.

The investment associated with mains and services represents almost 80% of the total depreciable investment for SFNG. Mains and service lines are generally abandoned in place upon retirement. This involves travel time for the crew, digging down to the main or service, cutting and capping, refilling the hole, and restoring the roadway. Restoring the roadway can become significant if the lines are under pavement. Approved removal factors are based on information received from the company detailing labor and materials generally associated with abandonment under pavement and abandonment not under pavement.

The company purchased some computer equipment in 1997. According to the reserve information submitted in the current study, a 20% depreciation rate (five-year life with zero net salvage) has been utilized with this investment. Even though this rate is reasonable for computer equipment, the company apparently violated Rule 25-7.045, Florida Administrative Code, by not petitioning the Commission for approval of the depreciation rate prior to its initiation. However, no harm has come to the customers of St. Joe due to this apparent violation. In fact, the associated depreciation expenses and resultant rate base are more correct now than if the related investment had assumed the same depreciation rate as Furniture and Office Equipment which was 3.3%. In the future, however, the company shall petition the Commission, in accordance with the rule, anytime a new account is established thus necessitating the need for a new depreciation rate.

The company has been recording motor vehicle trade-in allowances as gains or losses. This activity should be properly treated as gross salvage and credited to the reserve. The approved net salvage factor reflects that appropriate accounting for this type of activity will be made in the future.

**AMORTIZATION OF INVESTMENT TAX CREDITS (ITCS) AND THE FLOWBACK OF EXCESS DEFERRED INCOME TAXES (EDIT)**

By this order, we have approved revisions to the company's remaining lives, to be effective July 1, 1998. Revising a utility's book depreciation lives generally results in a change in its rate of ITC amortization and flowback of EDIT in order to comply with the normalization requirements of the Internal Revenue Code (IRC) and underlying Regulations (REGs) found in Sections 46, 167, and 168 and 1.46, 1.67, and 1.68, respectively.

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. Since we have approved a change in remaining lives, it is also important to change the amortization of ITC to avoid violation of the provisions of sections 46 and 1.46, IRC and REGs, respectively.

Section 203(3) of the Tax Reform Act of 1986 (the Act) prohibits rapid flowback 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 flowback of EDIT.

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. Therefore, we find that the current amortization of ITC and the flowback of EDIT shall 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. The company shall file detailed calculations of the revised ITC amortization and flowback of EDIT at the same

ORDER NO. PSC-98-1763-FOF-GU  
DOCKET NO. 980700-GU  
PAGE 5

time it files its surveillance report covering the period ending June 30, 1999.

Based on the foregoing, it is

ORDERED by the Florida Public Service Commission that the revisions detailed in this order, are approved effective July 1, 1998. It is further

ORDERED that the reserve surpluses in the Distribution Structures & Improvements and Measuring & Regulating Industrial Equipment accounts shall be transferred to help correct the existing reserve deficiency in the Steel Services account. It is further

ORDERED that the remaining lives, net salvages, reserves, and resultant depreciation rates, detailed in Attachment A are approved. It is further

ORDERED that the current amortization of investment tax credits and the flowback of excess deferred income taxes shall be revised to reflect the approved remaining lives. It is further

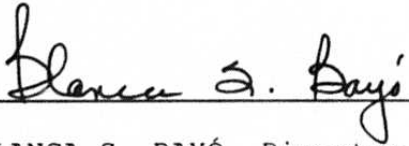
ORDERED that Atlantic Utilities, a Florida Division of Southern Union Company d/b/a South Florida Natural Gas shall file detailed calculations of the revised investment tax credit amortization and flowback of excess deferred income taxes at the same time it files its surveillance report covering the period ending June 30, 1999. It is further

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 28-106.201, 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

ORDER NO. PSC-98-1763-FOF-GU  
DOCKET NO. 980700-GU  
PAGE 6

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

By ORDER of the Florida Public Service Commission this 30th day of December, 1998.



---

BLANCA S. BAYÓ, Director  
Division of Records and Reporting

( S E A L )

RVE

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.

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 January 20, 1999.

ORDER NO. PSC-98-1763-FOF-GU  
DOCKET NO. 980700-GU  
PAGE 7

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.

SOUTH FLORIDA NATURAL GAS COMPANY  
 1997 DEPRECIATION STUDY

ACCOUNT	COMMISSION APPROVED			
	AVERAGE REMAINING LIFE (YRS.)	NET SALVAGE (%)	RESERVE (%)	REMAINING LIFE RATE (%)
<b>GAS DISTRIBUTION</b>				
375.0 Structures & Improvements	6.2	0.0	79.53	3.3
376.0 Mains - Steel	19.1	(25.0)	58.09	3.5
376.0 Mains - Plastic	33.0	(15.0)	15.38	3.0
378.0 M&R Equipment - General	27.0	(3.0)	19.87	3.1
379.0 M&R Equipment - City Gate	13.6	(3.0)	63.05	2.9
380.0 Services - Steel	16.2	(60.0)	67.55	5.7
380.0 Services - Plastic	31.0	(40.0)	12.74	4.1
381.0 Meters	10.9	0.0	63.46	3.4
382.0 Meter Installations	22.0	(5.0)	25.20	3.6
383.0 Regulators	21.0	0.0	30.07	3.3
385.0 M&R Equipment - Industrial	7.5	0.0	78.25	2.9
387.0 Other Equipment	28.0	0.0	25.48	2.7
<b>GENERAL PLANT</b>				
390.0 Structures & Improvements	13.9	0.0	28.39	5.2
391.1 Office Furniture and Equipment	9.6	0.0	62.30	3.9
391.2 Computer Equipment	4.0	0.0	19.30	20.2
491.0 Office Machines Embedded **	N/A	N/A	N/A	N/A
491.0 Office Machines (Additions after 1/1/98) *	15.0	0.0	0.00	6.7
392.0 Transportation Equipment	4.3	10.0	30.33	13.9
394.0 Tools, Shop, & Garage Equipment	5.6	0.0	89.75	1.8
395.0 Laboratory Equipment	4.9	0.0	89.43	2.2
396.0 Power Operated Equipment	9.5	0.0	18.86	8.5
397.0 Communication Equipment	7.9	0.0	20.87	10.0
398.0 Misc. Equipment	8.1	0.0	44.31	6.9

\* Whole life rate

\*\* Old equipment fully accrued.