

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

In re: Request for approval of depreciation study for five-year period 1996 through 2000 by Sebring Gas System, Inc.

DOCKET NO. 010906-GU
ORDER NO. PSC-03-0260-PAA-GU
ISSUED: February 24, 2003

The following Commissioners participated in the disposition of this matter:

LILA A. JABER, Chairman
J. TERRY DEASON
BRAULIO L. BAEZ
RUDOLPH "RUDY" BRADLEY
CHARLES M. DAVIDSON

NOTICE OF PROPOSED AGENCY ACTION
ORDER APPROVING NEW DEPRECIATION RATES

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 substantial interests are substantially affected files a petition for a formal proceeding pursuant to Rule 25-22.029, Florida Administrative Code.

Rule 25-7.045, Florida Administrative Code, requires natural gas companies to file a comprehensive depreciation study once every five years. On June 25, 2001, Sebring Gas System, Inc. (Sebring or company) filed its 2001 depreciation study in compliance with this rule. The company's last depreciation review was filed June 6, 1996, with an effective date of January 1, 1997. We have jurisdiction under Sections 350.115 and 266.05, Florida Statutes.

Sebring's last comprehensive depreciation study was filed on June 6, 1996. By Order No. PSC-97-0276-FOF-GU, issued March 11, 1997, in Docket No. 960775-GU, we approved revised depreciation rates and components, effective January 1, 1997. The company has filed this current study in accordance with Rule 25-7.045, Florida Administrative Code, which requires natural gas companies to file a comprehensive depreciation study at least once every five years from the submission date of the previous filed study. Based on a review of the company's activity data we find that the depreciation rates need to be revised.

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The company originally proposed an effective date for revised depreciation rates of January 1, 2001. However, due to the need for further information and time constraints, Sebring updated its study data through December 31, 2001, with an implementation date of January 1, 2002, for new depreciation rates. Company data and related calculations about the proposed January 1, 2002, date. Because the later date of January 1, 2002, is the earliest practicable date for utilizing the revised rates, we find that January 1, 2002 shall be the implementation date for the revised rates.

Attachment A shows a comparison of the currently approved depreciation rate parameters and those approved herein, with which the company agrees. These revisions are the result of a comprehensive review of Sebring's depreciation study.

Adjustments

As part of our audit, it was discovered that Sebring excluded certain investments from the calculation of its monthly depreciation expenses because they were "fully depreciated." We utilize group depreciation, not unit depreciation. Group depreciation recognizes that some assets within the group will experience service lives shorter than, and some longer than, the average. The prescribed depreciation rate is applied to the average period investment for the group on a monthly basis. The depreciation reserve is not maintained by individual asset but by account. We find that the appropriate adjustments to correct the understatement of prior years depreciation expenses were booked in 2001.

Also, our review of Sebring's data found that several retirements recorded to the depreciation reserve in 1998 and 1999 were understated. Additionally, a truck was retired from service in 2000, but the accounting had not yet occurred. The company has stated that the corrective adjustments shown in the table below were booked in 2002.

Account	Corrective Reserve Adjustment
391.1 Office Furniture	\$ (928)
391.2 Office Equipment	(827)

394 Tools, Shop, and Garage Equip.	(1,577)
392.1 Transportation - Trucks	(12,966)
	Corrective Investment Adjustment
392.1 Transportation - Trucks	(12,197)

Recovery Schedules

The reserve adjustment shown above for Account 391.1, Office Furniture, to correct an understatement of a 1999 retirement, results in a negative balance in the account's reserve of \$644. This unrecovered investment reflects the effect of prior depreciation rates not matching historic activity. Moreover, a negative reserve has the effect of increasing the company's rate base. The deficiency relates to assets no longer serving the public; it is not "life related." As such, we find that the deficiency should be corrected as fast as economically practicable. For Sebring, a five year recovery schedule is most practicable. The recovery schedule will begin January 1, 2002, and continue through December 31, 2006. The annual amortization expense will be \$129.

Depreciation Parameters

The recommended changes in the depreciation life and salvage parameters for the distribution and general plant accounts can be attributed mainly to two factors: 1) updated account ages to reflect activity since the last re-prescription; and, 2) changes in the associated reserve position. The accounts with a substantial change in depreciation expense are discussed below.

Mains and Services

The Mains and Services accounts have historically experienced minimal retirement activity making reliance on industry averages necessary. In fact, these accounts have experienced little, if any, retirement activity since 1992. With this in mind, we find that a change in the average service life for these accounts is warranted. We find that a 45-year average service life for Mains and a 40-year average service life for Services are appropriate.

These are at the high end of the range of the industry average service lives currently estimated for Florida.

When a main or service is retired, it is generally abandoned in place rather than physically removed. Cost of removal is associated with activities incurred with the abandonment process. This involves labor and material costs associated with a crew to travel to the site, digging down to the pipe, cutting and capping, refilling the hole, and restoring the roadway. Restoring the roadway becomes significant if the main or service is located under pavement. In view of this, we find that the current salvage factors for these accounts are appropriate.

Measuring and Regulating Equipment - General

Any new additions to this account shall be placed in a separate sub-account from the embedded investment. The embedded investment represents the original investment for the vintage year 1988 with one small addition in 1991. This account has experienced no activity since then. Any new additions to this account shall not bear the burden of recovery associated with the embedded investment. We find that a whole life rate shall be based on a 33-year average service life and a negative two percent salvage factor. These are the same components underlying the currently prescribed depreciation rate for the embedded investment and are in line with industry expectations for this account.

Office Equipment

Recognizing that the average age of Sebring's office equipment is 4.8 years and there are no near term plans for retirement, we find that an increase in the currently prescribed 6-year service life is appropriate. A 12-year service life and an S3 mortality dispersion are more in line with the activity of the account.

Transportation

An increase in the currently prescribed average service life for the light trucks transportation account is indicated in view of the company's replacement policy. Sebring determines the retirement of its vehicles based on the amount of reliability and maintenance costs rather than the mileage or age of the vehicle.

There has only been one recorded retirement since the last depreciation study review. With this in mind, we find that an 8-year average service life is appropriate for the light trucks account.

Power Operated Equipment

The data submitted indicates that this account's investment is 100% recovered and therefore shall receive no further depreciation accruals. Should the company add any new investment in this account, we find that a whole life rate based on a 15-year average service life, an S4 mortality dispersion, and zero salvage factor shall be utilized, as indicated on Attachment A.

Communication Equipment

In 1997, after the last depreciation review, the company purchased some communication equipment. According to the documentation provided, the company has been utilizing the 2.1% depreciation rate approved for Account 396, Power Operated Equipment, with this communication equipment investment. We find that a 12-year average service life with an S4 mortality dispersion is appropriate because it is more in line with industry expectations. Using these components together with the investment's average age of 4.5 years produces an average remaining life of 7.5 years.

This type of equipment is technologically sensitive. As such, the equipment is generally obsolete at retirement resulting in little or no salvage being realized. Therefore, we find that a salvage factor of zero is appropriate.

Based on the foregoing, it is

ORDERED by the Florida Public Service Commission that Sebring Gas Systems shall implement the recovery schedule, depreciation rates, and underlying depreciation parameters, as set forth in this Order. It is further

ORDERED that the depreciation rates and underlying depreciation parameters shall become effective on January 1, 2002. It is further

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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 Director, Division of the Commission Clerk and Administrative Services, 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 24th Day of February, 2003.

BLANCA S. BAYÓ, Director
Division of the Commission Clerk
and Administrative Services

By: Kay Flynn
Kay Flynn, Chief
Bureau of Records and Hearing
Services

(S E A L)

MKS

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 Director, Division of the Commission Clerk and Administrative Services, 2540 Shumard Oak Boulevard, Tallahassee, Florida 32399-0850, by the close of business on March 17, 2003.

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.

SEBRING GAS SYSTEM, INC.
 DOCKET NO. 010906-GU
 2000 DEPRECIATION STUDY

Attachment A

<u>ACCOUNT</u>	APPROVED			
	AVERAGE	NET	1/01/02	REMAINING
	REMAINING	SALVAGE	RESERVE	LIFE
	LIFE	(%)	(%)	RATE
	(YRS.)	(%)	(%)	(%)
DISTRIBUTION PLANT				
376.1 - Mains - Steel	17.1	(30.0)	93.49	2.1
376.2 - Mains - Plastic	36.0	(30.0)	38.85	2.5
378 - Measuring and Reg. Ept. - Gen.-Embedded	20.0	(2.0)	89.11	0.6
378 - Measuring and Reg. Ept. - Gen.-New	33.0	(2.0)	N/A	3.1 *
379 - Measuring and Regulating Ept. - City Gate	21.0	(2.0)	50.27	2.5
380.1 - Services - Steel	12.8	(30.0)	110.91	1.5
380.2 - Services - Plastic	28.0	(30.0)	49.78	2.9
381 - Meters	11.5	0.0	61.78	3.3
382 - Meter Installations	19.7	(5.0)	58.95	2.3
383 - House Regulators	17.2	0.0	53.49	2.7
384 - House Regulator Installations	17.8	(3.0)	69.53	1.9
386 - Property on Customers' Premises	11.5	0.0	43.62	4.9
387 - Other Equipment	13.3	0.0	47.74	3.9
GENERAL PLANT				
391.1 - Office Furniture	8.4	0.0	0.00	11.9
391.2 - Office Equipment	7.2	0.0	73.76	3.6
392.1 - Transportation - Trucks	3.4	15.0	42.41	12.5
392.3 - Transportation - Other	10.5	0.0	56.60	4.1
394 - Tools, Shop & Garage Equipment	5.5	0.0	31.67	12.4
396 - Power Operated Equipment	15.0	0.0	N/A	6.7 *
397 - Communication Equipment	7.5	0.0	29.84	9.4

* Denotes Whole Life Rate.

APPROVED RECOVERY SCHEDULE	1/01/02 INVESTMENT	1/01/02 RESERVE	NET TO BE RECOVERED	AMORTIZATION PERIOD	ANNUAL EXPENSE
	(\$)	(\$)	(\$)	(YRS.)	(\$)
391.1 Office Furniture	0	(644)	644	5 Years	129