

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

In re: Request for approval of
new depreciation rates effective
January 1, 2003, by St. Joe
Natural Gas Company, Inc.

DOCKET NO. 030065-GU
ORDER NO. PSC-03-1108-PAA-GU
ISSUED: October 6, 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 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.

Rule 25-7.045, Florida Administrative Code (F.A.C), requires natural gas companies to file a comprehensive depreciation study once every five years. On January 22, 2003, St. Joe Natural Gas Company (SJNG or company) filed its regular depreciation study in accordance with this rule. SJNG's last comprehensive depreciation study was filed on January 13, 1998. We have completed our review of the depreciation study and present our findings in this Order. We have jurisdiction to consider this matter pursuant to Sections 366.04, 366.05, and 366.06, Florida Statutes.

SJNG's last comprehensive depreciation study was filed on January 13, 1998, with an effective date for the revised

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depreciation rates of January 1, 1998. Changes in activity and company planning since the last study indicate the need to revise currently prescribed depreciation rates.

SJNG proposed an implementation date for new depreciation rates of January 1, 2003. All data and related calculations that have been submitted by the company support this date. This date is the earliest practicable date for utilizing the revised rates. Accordingly, we hereby approve January 1, 2003, as the date of implementation for the new depreciation rates.

As part of our analysis of the company's study, a review of the reserve position for each account was performed. When significant surpluses and deficits exist, corrective reserve transfers between accounts are considered. We believe that such deficiencies should be recovered as fast as possible, unless such recovery prevents the company from earning a fair and reasonable return on its investments. The effect of prior depreciation rates, average service lives, and net salvage projections results in surpluses and deficits which need to be addressed. These allocations bring each account more in line with its theoretically correct reserve level. For this reason, we have transferred the related reserve surpluses to help correct the existing reserve deficiency in the accounts. Attachment A to this Order shows these corrective reserve allocations by account.

The purpose of depreciation is to systematically spread the recovery of prudently invested capital over the period the plant assets represented by the capital are providing service. Ideally, the timing of depreciation expenses matches the timing of the active period of service of the related assets.

A depreciation study provides an opportunity to review the present recovery position and determine any need for changing the existing pattern of recovery (depreciation rates). A prime concern of the depreciation study is life and salvage. As part of the review process, the prudence of company planning (including additions and retirements), technological impact, retirement and salvage practices, and other related activities are reviewed.

The average service life refers to the overall period the account is expected to serve the public and is projected based on

experience or estimates. The average remaining life is the remaining period of service which can be expected from the equipment under study. This period is measured from the time of implementation of the depreciation rates being designed to the expected ultimate retirement of the embedded investment in the equipment under discussion. The average remaining life is determined by applying the average of the surviving investment to an expected pattern of retirements (curve shape, retirement dispersion, or mortality dispersion). In selecting a curve shape, we work with 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 high growth tend to increase early retirements (infant mortality). 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.

SJNG's filing provided aged retirement data for the 1999-2002 period and average age distributions of the December 31, 2002 surviving investments for each account. Our staff then worked with the company in developing life and salvage values. As a result of the review and analytical process, an agreement was reached with the company on lives, net salvage values, and resultant depreciation rates for all accounts. The approved remaining lives, net salvage values, reserves, and resultant rates are shown on Attachment B to this Order. The rates, based upon actual investments as of December 31, 2002, will result in a decrease in annual expenses of about \$10,000.

The approved changes in depreciation rates can be attributed mainly to: 1) activity since the last depreciation study; and, 2) the correction of reserve positions by transfers to appropriate accounts. A brief discussion of individual accounts is set forth below.

Distribution Plant

Mains and Services (Accounts 376 and 380)

Mains and Services comprise about 79% of the investment in the distribution plant function. SJNG is still in the process of upgrading its system from steel to plastic services.

The Steel Services account is a declining account, showing no additions since 1985 and increasing retirements through 2002. The company continues to upgrade cathodic protection, as maintenance dictates. The upgrade consists of inserting plastic pipe in the existing steel service and then retiring the steel pipe. The retirement rate averaged 2.4% during the 1998-2002 period with 1993-1997 averaging 3.5%. This activity is consistent with an S3 curve and 35-year average service life. Using an account average age of 32.1 years results in an approved average remaining life of 8.1 years.

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. Surface restoration normally occurs at the service riser, and the other at the property line or at the connection to the main. The galvanic action of dissimilar metals such as a galvanized steel service line running off a cast iron main requires that the line be cut at the main rather than the property line. Under these circumstances, paving restoration is required. We find it is appropriate to continue to use the negative net salvages of 25% and 21% for steel and plastic, respectively, as being in line with labor and material estimates required to abandon and replace a typical service line.

Meter and Regulator Installations (Accounts 382 and 384)

When a meter or regulator is placed in a location which has never before had service, or when an additional meter or regulator is added to an old location (increasing the number at the

location), the installation costs are capitalized. Generally, meter and regulator installations are retired only when the meter or regulator is removed from the location and no new one is installed, or when service through the meter or regulator is cut. In other words, the life of these installations should be very similar to the life of the services. We, therefore, approve an average service life of 35 years for meter and regulator installations.

M&R Equipment - Industrial (Account 385)

This account serves large industrial customers and includes the cost of special and expensive installations of measuring and regulating (M&R) station equipment, located on the distribution system. The largest retirement in the industrial M&R equipment account occurred in 2000 with the closing of Florida Coast Paper Company (FCPC). When FCPC closed operations, the related \$29,154 M&R equipment retired. The reserve for the account was insufficient for the retirement, resulting in a negative reserve balance. Corrective reserve measures previously approved in this Order will bring the account reserve in line with its theoretically correct position.

General Plant Accounts

Structures and Improvements (Account 390)

The investment in this account is comprised of a single building purchased in 1984, with major interior remodeling work performed during 1990. At the time of the last study, the remodeling investment was expected to experience a shorter life span than the building itself. Now we have discovered that the remodeling consisted of structural changes that are more than likely to experience a much longer life. Accordingly, we approve a 40 year average service life and a zero net salvage, which is in line with the expectations of other companies with similar investments. The resulting remaining life of 25 years is based on a current average age of 15.8 years and a R3 mortality dispersion.

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Based on the foregoing, it is

ORDERED by the Florida Public Service Commission that the remaining lives, net salvages, reserves, and resultant depreciation rates for St. Joe Natural Gas Company, Inc. are hereby revised as set forth in the body of this Order and as contained in Attachment B 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, 2003. 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 A 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 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.

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By ORDER of the Florida Public Service Commission this 6th Day
of October, 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

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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 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.

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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 the Commission Clerk and Administrative Services, 2540 Shumard Oak Boulevard, Tallahassee, Florida 32399-0850, by the close of business on October 27, 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.

ATTACHMENT A

COMMISSION APPROVED RESERVE ALLOCATIONS					
Account		Actual 01/01/2003 Reserve	Theoretical Reserve	Approved Allocations	Restated 01/01/2003 Reserve
		(\$)	(\$)	(\$)	(\$)
376.0	Mains- Plastic	309,066	276,328	(32,738)	276,328
380.0	Services- Steel	160,237	143,044	(11,000)	149,237
380.0	Services- Plastic	164,508	181,220	11,000	175,508
381.0	Meters	161,347	171,817	8,237	169,584
385.0	M&R Equipment- Industrial	(16,167)	8,334	24,501	8,334
390.0	Structures & Improvements	60,510	45,482	(4,153)	56,357
396.0	Power Operated Equipment	54,782	58,935	4,153	58,935
Total		894,283	885,160	0	894,283

ST. JOE NATURAL GAS COMPANY
 2003 STUDY

ACCOUNT	COMMISSION APPROVED			
	AVERAGE			REMAINING
	REMAINING	NET	RESERVE	LIFE
LIFE	SALVAGE		RATE	
(YRS.)	(%)	(%)	(%)	
GAS DISTRIBUTION				
375.0 Structures & Improvements	22.0	(5.0)	51.54	2.4
376.0 Mains - Steel	28.0	(30.0)	38.73	3.3
376.0 Mains - Plastic	28.0	(30.0)	37.60 **	3.3
378.0 M&R Equipment - General	26.0	(5.0)	25.00	3.1
379.0 M&R Equipment - City Gate	24.0	(5.0)	32.26	3.0
380.0 Services - Steel	8.1	(25.0)	99.99 **	3.1
380.0 Services - Plastic	25.0	(21.0)	32.44 **	3.5
381.0 Meters	9.2	0.0	62.38 **	4.1
382.0 Meter Installations	15.1	(5.0)	56.03	3.2
383.0 Regulators	19.0	0.0	36.12	3.4
384.0 Regulators Installation	18.8	(5.0)	33.41	3.8
385.0 M&R Equipment - Industrial	18.6	(5.0)	39.90 **	3.5
387.0 Other Equipment	3.6	0.0	69.67	8.4
GENERAL PLANT				
390.0 Structures & Improvements	25.0	0.0	46.47 **	2.1
391.1 Office Furniture	8.7	0.0	61.87	4.4
391.2 Office Machines	4.5	5.0	49.24	10.2
391.3 Computers	3.3	0.0	57.68	12.8
392.0 Transportation Equip.-Cars & Trucks	3.3	10.0	56.15	10.3
394.0 Tools, Shop, & Garage Equipment	6.4	0.0	63.11	5.8
396.0 Power Operated Equipment	6.0	0.0	59.93 **	6.7
397.0 Communication Equipment	5.7	0.0	64.11	6.3
398.0 Misc. Equipment	20.0	0.0	0.00	5.0

† Denotes whole life rate.

** Denotes restated reserve after corrective transfers.