

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

In re: 2008 depreciation study by Indiantown  
Gas Company.

DOCKET NO. 080170-GU  
ORDER NO. PSC-09-0328-PAA-GU  
ISSUED: May 11, 2009

The following Commissioners participated in the disposition of this matter:

MATTHEW M. CARTER II, Chairman  
KATRINA J. McMURRIAN  
NANCY ARGENZIANO  
NATHAN A. SKOP

NOTICE OF PROPOSED AGENCY ACTION  
ORDER REVISING DEPRECIATION STUDY

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 (F.A.C.).

BACKGROUND

Rule 25-7.045, Florida Administrative Code (F.A.C.), requires regulated natural gas companies to file a comprehensive depreciation study once every five years. On March 21, 2008, Indiantown Gas Company (Indiantown or company) filed its regular depreciation study in accordance with this rule. Indiantown's last comprehensive depreciation study was filed on January 14, 2003.

We have jurisdiction in this matter pursuant to Sections 366.04, 366.05, and 366.06, Florida Statutes (F.S.).

DECISION

We have conducted a comprehensive review of Indiantown Gas Company's planning and activity since its last depreciation filing, and, as discussed below, our review shows a need for a revision to the company's currently prescribed depreciation rates. The implementation date for the new depreciation rates approved in this Order shall be January 1, 2009.

During the 1993-2003 period, the company experienced significant commercial growth attributed to the addition of the US Generating Cogeneration facility. Currently, however,

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Indiantown is experiencing limited residential and commercial growth in its service territory due to the current downturn of the economy.

The company officially separated its regulated and non-regulated activities by establishing Indiantown LP Gas Company, LLC. The Articles of Organization were filed with the Secretary of State, Division of Corporations, with an effective date of February 6, 2008. The company states that the change will enable it to streamline the accounting and finance functions, and to maximize two separate and different business models. The company sold fully depreciated plant equipment to the non-regulated side, and the proceeds or salvage received was applied to the corresponding plant account's depreciation reserves.

#### Revised Depreciation Rates

The approved remaining lives, net salvage values, reserves, and resultant depreciation rates explained below are shown on Attachment A to this Order. Attachment A also shows a comparison of the currently approved depreciation rate parameters and those that we are revising. The rates, based upon actual investments as of December 31, 2008, with the reserve positions restated to reflect the corrective measures discussed below, result in a decrease in the annual depreciation expense of approximately \$5,125, as summarized on Attachment B.

A depreciation study provides an opportunity to review the present recovery position and determine whether any changes should be made to the existing pattern of recovery (depreciation rates). A prime concern of the depreciation study is life and salvage. As part of the review process, we consider the prudence of company planning, including additions and retirements, technological impacts, retirement and salvage practices, and other related activities. 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 or plant assets under study.

The company's filing provided aged retirement data for the 2004 through the 2008 period. The company provided the average age distributions of the surviving investments for each account. The review of each account's activity indicates that the service lives and curve shapes recommended in the last depreciation review remain reasonable. The company agrees with the lives, net salvages, and the resultant depreciation rates that we approve for all accounts as a result of the review and analytical process.

#### Depreciation Parameters

Our changes in depreciation rates can be attributed mainly to: 1) activity since the last depreciation study, 2) age recalculation by plant account, and 3) the correction of reserve positions by transfers to appropriate accounts. We will continue to monitor the reserve positions of the plant accounts when the company files its annual status report. A brief discussion of the plant accounts life parameters with an approved change is set forth below.

## Distribution Plant

### Mains and Services

The company has completed several notable projects that increased its customer base and enabled it to comply with local and state requirements. These projects include: 1) a main replacement program which included replacing all ¾ inch steel mains with plastic mains, steel service lines, risers, meters, and regulators; 2) renovations to a six-inch gas main to comply with the Department of Transportation requirements for a road construction project; and 3) updating the system pressure to accommodate the US Generating Cogeneration facility.

Mains and services comprise about 69 percent of the investment in the distribution plant function. In addition, mains and service lines are generally abandoned in place upon retirement. Activities involved in line abandonment are traveling to the site, 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 two locations for each service line retired, one at the point of 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.

According to Indiantown, the majority of its mains and services are located on easements, not under pavement. Generally, when a main or service line is replaced, the new pipe is placed in the same trench parallel to the existing pipe. In other words, a single trench is dug in which the existing main or service is cut and capped, and the new pipe is placed in the same trench parallel to the existing pipe. The company's labor is not segregated between new installations and costs of abandoning the retired installation. The associated labor cost of abandoning the retired main or service is included with the capitalization cost of the new installation.

The remaining lives we approve for these accounts simply reflect an update of each account's age to reflect activity since the last study. The recommended net salvage values are based on the company's experience and that of the other Florida regulated gas companies.

### Account 378-Measuring and Regulating Station Equipment-General

Currently, this account has an average service life of 35 years, a remaining life of 26 years, and a salvage factor of zero. The account includes regulators and other equipment used to maintain the correct operating pressure throughout the distribution system. At the time of the last study, two odorizers had been retired. The company required no additional assistance in the disposal of the first odorizer. The second odorizer was purchased in 1993 for \$3,306, and retired from service in 2001. This odorizer had 3-gallons of odorant remaining and required special disposal procedures based upon local and state laws. The company used Maverick Recovery Company to remove and dispose of 3-gallons of odorant from the premises at a cost of \$9,740. This removal cost is calculated to be approximately 20 percent of the \$47,982 investment into this plant account. Currently, the company is proposing a negative net salvage of 20 percent for

this account, instead of the approved net salvage of zero percent. This change is to reflect the cost incurred to remove the odorant from the retired odorizer. Based upon the data provided, we find the company's proposal reasonable and approve a negative net salvage of 20 percent on a going forward basis.

### General Plant

#### Account 392-Transportation

This account consists of service trucks that are required in the operation of the distribution system. At the end of 2007, the company had a total of three service trucks. The current life parameters for this account are a 6-year service life and a 10 percent net salvage. During 2008, 2 fully depreciated service trucks were sold to the non-regulated entity. The salvage received was applied to the account's depreciation reserves. The company provided a detailed cost estimate of 2 new service trucks. The company is not requesting any change to the life parameters of this account. Based upon the data provided, we approve a 6-year service life and a 10 percent net salvage on a going forward basis.

#### Account 394-Tools, Shop & Garage Equipment

This account consists of highly sensitive electronic leak detection equipment. Initially, the plant equipment in this account used a 20-year service life. The company states that the equipment represented a 10-year service life and proposes a change from a 20-year to a 10-year service life. Based upon the data provided, we approve a 10-year service life for this account on a going-forward basis.

#### Account 397-Communication Equipment

The remaining plant investment for this account from the last depreciation study is the company's office telephone system. This account has an average service life of 15 years and a salvage factor of zero, but for this study, the company requested an 11-year service life. The equipment was sold to Indiantown LP Gas, the non-regulated entity, at net value. The company states that the telephone service will be handled by Indiantown LP Gas. Currently, the companies are in two separate but connected buildings and any calls for Indiantown Gas will be transferred to the appropriate employee. Should the company add any new investment in this account, we approve a whole life depreciation rate based on an 11-year service life, S4 mortality dispersion, and a zero salvage factor, as indicated on Attachment A.

#### Account 398 – Other Equipment

This account was established after the last depreciation study. It consists of a 2004 15KW Generac generator and a 2006 flatbed trailer. The generator is used to keep the utility building operations functioning during an emergency and the flatbed trailer holds the power generating equipment. Currently, this account is operating under a whole life rate of 10 percent. The company is proposing a 10-year service life and a salvage value of 5 percent. The average

age of this plant account is 3.2 years. Based upon the analysis of the data provided, we approve a 10-year service life, and a 5 percent salvage value on a going-forward basis.

Account 399 – Computer Software

This is a new account established by the company in 2004 that consists of utility software for the customer database and financial applications. Also, in 2004, a major COBOL software update was required to keep the company’s 12-year old customized utility package functioning. The company also purchased a new software package in December 2007 to meet its changing needs. The company maintains the old software since it contains necessary customer data. Also, the company has employed extra staff to convert the continuing property records to match the new software format. The company is proposing an 8-year service life and is operating under a whole life rate of 12.5 percent. Based upon the data provided, we find that the age of the utility software is 2.9 years old with a remaining life of 5.1 years, a zero salvage value, and a resultant depreciation rate of 10.2 percent. We approve the 8-year service life and zero net salvage for this account on a going forward basis.

Reserve Allocations

As part of our review of the company’s depreciation study, we considered the reserve position for each account. When significant surpluses and deficits exist, corrective reserve transfers between accounts should be considered. The effect of prior depreciation rates, average service lives, and net salvage projections results in surpluses and deficits that need to be addressed. For these reasons, we approve the transfer of these related reserve surpluses to correct the existing reserve deficiencies in the accounts, as shown in the table below. The company shall make corresponding entries to the related depreciation expense accounts.

RESERVES RE-ALLOCATION					
Account Number	Account Name	Actual Reserves (A)	Theoretical Reserves (B)	Reserve Transfers (C)	2009 Restated Reserves D=(A)+(C)
Distribution		(\$)	(\$)	(\$)	(\$)
376.0	Mains-Plastic	\$125,033	\$84,802	\$(33,994)	\$ 91,039
376.1	Mains-Steel	222,541	234,432	11,891	234,432
378.0	M & R Equipment	9,492	14,527	5,035	14,527
380.0	Services -Plastic	36,583	52,094	15,511	52,094
381.0	Meters	18,270	22,012	3,742	22,012
382.0	Meter Installations	3,269	2,785	(484)	2,785
383.0	House Regulators	4,968	5,389	421	5,389
385.0	M&R Equipment Industrial	63,905	61,783	(2,122)	61,783
	<b>Total</b>	<b>\$484,061</b>	<b>\$477,824</b>	<b>0</b>	<b>\$484,061</b>

Based on the foregoing, it is

ORDERED by the Florida Public Service Commission that the 2008 depreciation study by Indiantown Gas Company is approved as set forth in the body of this Order. It is further

ORDERED that the implementation date for the new depreciation rates approved in this Order shall be January 1, 2009. 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, F.A.C., is received by the Commission Clerk, 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 11th day of May, 2009.



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ANN COLE  
Commission Clerk

(SEAL)

MCB

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 Office of Commission Clerk, 2540 Shumard Oak Boulevard, Tallahassee, Florida 32399-0850, by the close of business on June 1, 2009.

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.

INDIANTOWN GAS COMPANY  
 2008 DEPRECIATION STUDY  
 RATE COMPONENTS

ATTACHMENT A

ACCOUNT	CURRENT			COMMISSION APPROVED			
	AVERAGE REMAINING LIFE	NET SALVAGE	REMAINING LIFE RATE	AVERAGE REMAINING LIFE	NET SALVAGE	1/1/2009	REMAINING LIFE RATE
	(YRS.)	(%)	(%)	(YRS.)	(%)	(%)	(%)
<b>GAS DISTRIBUTION</b>							
376.1 Mains - Plastic	191,859	91,039**	3.3	26.0	-30.0	47.45	3.2
376.2 Mains - Steel	249,316	234,432**	4.2	10.9	-30.0	94.03	3.3
378.0 M&R Equipment - General	59,054	14,527**	3.4	26.0	-20.0	24.60	3.7
380.0 Services - Plastic	105,882	52,094**	3.3	22.0	-35.0	49.20	3.9
381.0 Meters	62,891	22,012**	3.8	13.0	0.0	35.00	5.0
382.0 Meter Installations	15,471	2,785**	2.6	29.0	-5.0	18.00	3.0
383.0 House Regulators	19,667	5,389**	3.0	22.0	0.0	27.40	3.3
385.0 M&R Equipment - Industrial	99,570	61,783**	3.5	11.5	0.0	62.05	3.3
387.0 Other Equipment	0	0	4.0	0.0	0.0	0.00	4.0
<b>Total Distribution Plant</b>	<b>803,710</b>	<b>484,061</b>					
<b>GENERAL PLANT</b>							
390.0 Structures & Improvements	171,895	43,740	2.5	32.0	0.0	25.45	2.3
391.0 Office Furniture	27,774	11,804	5.0	12.3	0.0	42.50	4.7
391.3 Computer Equipment	6,500	2,092	12.9	6.9	0.0	32.18	9.8
392.0 Transportation Equipment	106,661	43,176	14.8	4.3	10.0	40.48	11.5
394.0 Tools, Shop, and Garage Equip.	5,926	3,751	5.1	8.0	0.0	63.30	4.6
396.0 Power Operated Equipment	35,794	12,816	6.6	9.8	0.0	35.80	6.6
397.0 Communication Equipment	0	0	8.3	0.0	0.0	0.00	9.1*
398.0 Misc. Equipment	13,647	4,722	NA	6.8	5.0	34.60	8.9
399.0 Computer Software	12,311	5,885	NA	5.1	0.0	47.80	10.2
<b>Total General Plant</b>	<b>380,508</b>	<b>127,986</b>					
<b>Total Plant</b>	<b>1,184,218</b>	<b>612,047</b>					

\* Denotes whole life rate.  
 \*\* Denotes restated reserve after corrective measures.



INDIANTOWN GAS COMPANY  
 2008 Depreciation Study

COMPARISON OF EXPENSES

Attachment B

ACCOUNT	INVESTMENT 1/1/2009 (\$)	RESERVE 1/1/2009 (\$)	CURRENT		COMMISSION APPROVED			
			RATE	EXPENSES	RATE	EXPENSES	CHANGE IN EXPENSES	
			(%)	(\$)	%	\$	\$	
<b>GAS DISTRIBUTION</b>								
376.1	Mains -Plastic	191,859	91,039 **	3.3	6,331	3.2	6,139	-192
376.2	Mains -Steel	249,316	234,432 **	4.2	10,471	3.3	8,227	-2,244
378.0	M&R Equipment - General	59,054	14,527 **	3.4	2,008	3.7	2,185	177
380.0	Services - Plastic	105,882	52,094 **	3.3	3,494	3.9	4,129	635
381.0	Meters	62,891	22,012 **	3.8	2,390	5.0	3,145	755
382.0	Meter Installations	15,471	2,785 **	2.6	402	3.0	464	62
383.0	House Regulators	19,667	5,389 **	3	590	3.3	649	59
385.0	M&R Equipment - Industrial	99,570	61,783 **	3.5	3,485	3.3	3,286	-199
387.0	Other Equipment	0	0	4	0			
Total Distribution		803,710	484,061		29,171		28,224	-947
<b>GENERAL PLANT</b>								
390.0	Structures & Improvements	171,895	43,740	2.5	4,297	2.3	3,954	-343
391.1	Office Furniture	27,774	11,804	5 *	1,389	4.7	1,305	-84
391.3	Computer Equipment	6,500	2,092	12.9 *	839	9.8	637	-202
392.0	Transportation Equipment	106,661	43,176	14.8	15,786	11.5	12,266	-3,520
394.0	Tools, Shop, and Garage Equip.	5,926	3,751	5.1 *	302	4.6	273	-29
396.0	Power Operated Equipment	35,794	12,816	6.6	2,362	6.6	2,362	0
397.0	Communication Equipment	0	0	8.3	0	9.1	0	0
398.0	Other Equipment	13,647	4,722	0	0	8.9	1,215	1,215
399.0	Computer Software	12,311	5,885	0	0	10.2	1,256	1,256
Total General Plant		380,508	127,986		24,975		20,797	-4,178
<b>TOTAL PLANT</b>		<b>1,184,218</b>	<b>612,047</b>		<b>54,146</b>		<b>49,021</b>	<b>-5,125</b>

\* Denotes whole life rate.

\*\* Denotes restated reserve after corrective measures.