

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

In re: 2008 depreciation study by Florida City
Gas.

DOCKET NO. 080182-GU
ORDER NO. PSC-09-0835-PAA-GU
ISSUED: December 21, 2009

The following Commissioners participated in the disposition of this matter:

MATTHEW M. CARTER II, Chairman
LISA POLAK EDGAR
NANCY ARGENZIANO
NATHAN A. SKOP
DAVID E. KLEMENT

NOTICE OF PROPOSED AGENCY ACTION
ORDER REGARDING 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, F.A.C., requires gas utilities to file comprehensive depreciation studies at least once every five years. On March 28, 2008, Florida City Gas (FCG or Company) filed its regular depreciation study in accordance with this rule. Subsequently, FCG filed updated information through December 31, 2008. FCG, a wholly-owned subsidiary of NUI Corporation (NUI), which is a wholly-owned subsidiary of AGL Resources Inc. (AGL Resources or AGLR), is a natural gas distribution company engaged in distributing and transporting natural gas to approximately 104,000 consumers in Dade, Broward, Martin, St. Lucie, Indian River, Palm Beach, and Brevard counties within the State of Florida.

On November 30, 2004, AGL Resources completed the acquisition of NUI, parent company of NUI Utilities, Inc., for approximately \$825 million, including the assumption of \$709 million in debt. As a result, AGL Resources acquired the operations of NUI Utilities, Inc., which became a wholly owned subsidiary and was subsequently renamed Pivotal Utility. Additionally, effective December 1, 2004, Pivotal Utility's fiscal year end was changed from September 30 to December 31.

A comprehensive review of FCG's planning and activity since the prior depreciation filing, which was filed on March 4, 2003, indicates a need for a revision to the currently

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prescribed depreciation rates. We have jurisdiction in this matter pursuant to Sections 366.04, 366.05, and 366.06, Florida Statutes.

DECISION

Introduction

Rule 25-7.045(6)(b), F.A.C., requires that the data submitted in a depreciation study, including plant and reserve balances or Company estimates, “shall be brought to the effective date of the proposed rates.” The supporting data and calculations provided by FCG match an implementation date of January 1, 2009.

Some of the notable changes to plant include significant expansion in Vero Beach, Port St. Lucie, and Brevard County. FCG installed 3.5 miles of 6 inch plastic pipe in Indian River County to serve a housing development and a large commercial gas user, and an additional 3.5 miles of 6 inch plastic pipe was installed in Port St. Lucie to serve a commercial laundry facility. Over 4 miles of 6 inch pipe was installed in Brevard County to serve residential subdivisions and commercial sites. FCG also constructed a gate station in Brevard County for pressure improvement to support the system during heavy demand. FCG installed a regulator station to serve the WASA Blackpoint water treatment plant, and it installed two meter and regulator stations to serve South Florida Water Management District pumping stations off the East West Transmission line in West Palm Beach.

The Company also updated its computer system. The upgrades provided standardization of business processes, and more consistent customer services. FCG migrated legacy desktop operating systems to Window XP, and implemented Citrix/Terminal Servers along with migration network data onto standard AGL Resources infrastructure. Further, FCG integrated three automated dispatch systems into one, allowing for standardization of business processes, and positioning for future integration with distribution work management. FCG implemented storage replacement to handle increasing demands and outdated existing storage. These developments, as well as other changes in account activity and Company planning, indicate the need to revise currently prescribed depreciation rates.

Revised Depreciation Rates

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. Attachment A shows a comparison of the current rate components (lives, salvages, and reserves), and the final rate components we have approved. Investment and reserve positions, shown on Attachment B,

reflect actual amounts as of December 31, 2008, with the reserve positions restated to reflect the corrective measures discussed below.

The Company's filing provided aged retirement data for the 2003 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 has agreed to the lives, net salvages, and the resultant depreciation rates for all accounts.

The changes in depreciation rates that we have approved can be attributed mainly to: 1) activity since the last depreciation study; 2) age recalculation by plant account; and 3) correction of reserve positions by transfers to appropriate accounts. Our staff 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 changes we have approved is set forth below.

Distribution Plant

Account 379 - Measuring and Regulating Station Equipment

A gate station was constructed in Viera, Brevard County for pressure improvement to support the system during heavy demand. We approve the Company's proposed change in salvage from -5.0 percent to 0.0 percent.

Account 380.2 - Services - Plastic

The majority of new services being installed by FCG are plastic. FCG reports high levels of attrition in its residential customer class, resulting in increased retirements of plastic services. Currently, salvage is set at -35.0 percent. However, the Company's experience and the industry average indicate a change is appropriate, from -35.0 percent to -30.0 percent. We approve this change, with which the Company agrees.

Account 382 - Meter Installations

There have been no major changes that have affected this account. However, the Company's experience indicates that a change in salvage is appropriate. Currently, salvage is set at -10.0, and the industry average is -13.6 percent. The actual cost experienced by FCG has been -26.56 in recent years. We approve a change in salvage to -25.0 percent. The Company agrees with this change.

Account 382.1 - ERT Installations

A regulatory subaccount was established in 2008, with a 15 year average service life for Encoder Receiver Transmitter installations (ERTs).¹ The stated goal of the Company is to fully

¹ Order No. PSC-08-0623-PAA-GU, issued September 24, 2008, in Docket No. 080163-GU, In re: Petition for approval to create regulatory subaccount of meter installation to capitalize all incurred and future costs associated

install ERT devices on all FCG meters by the end of 2009. The Company proposed a 15 year average service life based on industry standards. We find that it is appropriate to continue the 15 year life. The Company agrees.

Account 384 - Regulator Installation

There have been no major changes that have affected this account. However, the Company's experience indicates that a change in salvage is appropriate. Currently, salvage is set at -10.0 percent, and the industry average is -17.6 percent. The actual cost experienced by FCG has been minimal. We approve a change in salvage to 0.0 percent. The Company agrees.

General Plant

Account 392 - Transportation Equipment

In 2004, AGL Resources acquired NUI companies, which included FCG. The Company reports that since joining AGLR, FCG has made no material purchases of transportation equipment. FCG states that it will execute operating leases in the future for light weight transportation equipment and plans to purchase heavy duty distribution transportation equipment. FCG states that even with plans to purchase some heavy duty equipment, the transportation asset class is expected to decline. Currently, salvage is set at 0.0 percent. The Company's experience over recent years has been a salvage of 12.1 percent. We approve a change to 10.0 percent, which is the industry average. The Company agrees.

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 are appropriate. The effect of prior depreciation rates, average service lives, and net salvage projections results in surpluses and deficits that need to be addressed. Transferring these related reserve surpluses will help 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. We approve the reserve allocations shown in the table below. These allocations bring each account more in line with its theoretically correct reserve level.

with installation of encoder receiver transmitters (ERTs) under provisions of Statement of Financial Accounting Standard No. 71, Accounting for the Effects of Certain Types of Regulation (SFAS 71); and requesting depreciation of installation costs of ERTs over 15-year period beginning January 1, 2008, by Florida City Gas.

Reserve Re-Allocation					
Account Number	Account Name	Actual Reserves (A)	Theoretical Reserves (B)	Reserve Transfers (C)	2009 Restated Reserves D=(A)+(C)
Distribution		(\$)	(\$)	(\$)	(\$)
375.0	Structures & Improvements	\$296,605	\$267,421	\$(29,184)	\$267,421
376.2	Mains-Plastic	19,105,866	18,677,833	(428,033)	18,677,833
380.1	Services-Other Than Plastic	16,119,615	18,046,506	228,609	16,348,224
380.2	Services -Plastic	13,130,961	14,324,081	228,608	13,359,569
390.0	Structures & Improvements	449,524	1,007,542	558,018	1,007,542
391.1	Office Furniture	775,019	844,868	69,849	844,868
391.2	Office Machines & Equipment	119,732	574,772	455,040	574,772
391.3	Computers	4,567,129	2,306,453	(898,283)	3,668,846
392.0	Transportation Equip-Combined	1,448,244	1,213,233	(235,011)	1,213,233
393.0	Stores Equipment	3,088	3,859	771	3,859
394.0	Tools, Shop, Garage Equipment	530,238	571,407	41,169	571,407
395.0	Laboratory Equipment	(5,928)	3,243	9,171	3,243
397.0	Communication Equipment	986,479	1,025,834	39,355	1,025,834
398.0	Misc. Equipment	183,975	143,896	(40,079)	143,896
	Total	\$57,710,54	\$59,009,948	0	\$57,710,547

Based on the foregoing, it is

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

ORDERED that the implementation date of 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, Florida Administrative Code, 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 21st day of December, 2009.

ANN COLE
Commission Clerk

By: Dorothy E. Mehasco
Dorothy E. Mehasco
Chief Deputy Commission Clerk

(S E A L)

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 January 11, 2010.

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.

**FLORIDA CITY GAS
2008 DEPRECIATION STUDY
COMPARISON OF RATES AND COMPONENTS**

ACCOUNT	CURRENT			COMMISSION APPROVED				
	AVERAGE	NET	REMAINING	AVERAGE	NET	12/31/2008	REMAINING	
	REMAINING	SALVAGE	LIFE	REMAINING	SALVAGE	ESTIMATED	LIFE	
	LIFE	(%)	(%)	LIFE	(%)	RESERVE	RATE	
	(YRS.)	(%)	(%)	(YRS.)	(%)	(%)	(%)	
DISTRIBUTION ASSETS								
375.0	Structures & Improvements	27.0	0.0	2.2	25.6	0.00	36.00	2.5
376.0	Mains - Other Than Plastic	26.0	-20.0	2.8	20.7	-20.00	57.30	3.0
376.0	Mains - Plastic	32.0	-20.0	2.9	29.1	-20.00	32.70	3.0
379.0	M&R Equipment - City Gate	26.0	-5.0	2.9	17.3	0.00	42.64	3.3
380.0	Services - Other Than Plastic	11.8	-80.0	7.1	7.6	-80.00	126.57	7.0
380.0	Services - Plastic	27.0	-35.0	3.8	23.1	-30.00	39.38	3.9
381.0	Meters	14.5	0.0	4.2	16.8	0.00	23.93	4.5
382.0	Meter Installations	21.0	-10.0	3.5	17.6	-25.00	46.20	4.5
382.1	ERT Installations	0.0	0.0	3.5	15.0	0.00	0.00	6.7
383.0	House Regulators	11.7	0.0	4.4	10.9	0.00	45.98	5.0
384.0	Regulator Installations	20.0	-10.0	3.7	16.4	0.00	47.72	3.2
385.0	Industrial M&R Station Equipment	21.0	0.0	3.2	16.8	0.00	43.55	3.4
387.0	Other Equipment	10.4	0.0	2.9	14.8	0.00	32.93	4.5
GENERAL PLANT								
390.0	Structures & Improvements	27.0	0.0	2.5	22.7	0.00	43.25	2.5
391.1	Office Furniture	98.8	0.0	4.3	3.6	0.00	80.92	5.3
391.2	Office Machines & Equipment	8.2	0.0	1.9	8.2	0.00	31.94	8.3
391.3	Computers	2.6	0.0	16.7	7.1	0.00	46.13	7.6
392.0	Transportation Equip. - Combined	7.2	0.0	2.7	6.3	10.00	42.75	7.5
393.0	Stores Equipment	6.9	0.0	3.6	12.0	0.00	51.99	4.0
394.0	Tools, Shop, Garage Equipment	8.5	0.0	6.7	6.0	0.00	59.80	6.7
395.0	Laboratory Equipment	4.6	0.0	4.0	4.9	0.00	80.39	4.0
397.0	Communication Equipment	6.2	0.0	6.9	1.0	0.00	91.70	8.3
398.0	Misc. Equipment	11.3	0.0	6.7	10.0	0.00	33.00	6.7

FLORIDA CITY GAS
2008 DEPRECIATION STUDY
COMPARISON OF EXPENSES

ACCOUNT			CURRENT		COMMISSION APPROVED		
	12/31/2008 INVESTMENT (\$)	12/31/2008 RESERVE (\$)	RATE (%)	EXPENSES (\$)	RATE (%)	EXPENSES (\$)	CHANGE IN EXPENSES (\$)
DISTRIBUTION ASSETS							
375.0 Structures & Improvements	742,836	267,421	2.2	16,342	2.5	18,571	2,229
376.0 Mains - Other Than Plastic	82,462,048	47,252,826	2.8	2,308,937	3.0	2,473,861	164,924
376.0 Mains - Plastic	57,118,756	18,677,833	2.9	1,656,444	3.0	1,713,563	57,119
379.0 M&R Equipment - City Gate	5,766,845	2,458,819	2.9	167,239	3.3	190,306	23,067
380.0 Services - Other Than Plastic	12,916,194	16,348,224	7.1	917,050	7.0	904,134	(12,916)
380.0 Services - Plastic	33,927,240	13,359,569	3.8	1,289,235	3.9	1,323,162	33,927
381.0 Meters	8,922,161	2,135,077	4.2	374,731	4.5	401,497	26,766
382.0 Meter Installations	3,155,080	1,457,651	3.5	110,428	4.5	141,979	31,551
382.1 ERT Installations	0	0	3.5	0	6.7	0	0
383.0 House Regulators	2,497,833	1,148,470	4.4	109,905	5.0	124,892	14,987
384.0 Regulator Installations	1,349,317	643,953	3.7	49,925	3.2	43,178	(6,747)
385.0 Industrial M&R Station Equipment	3,186,398	1,387,642	3.2	101,965	3.4	108,338	6,373
387.0 Other Equipment	454,679	149,721	2.9	13,186	4.5	20,461	7,275
TOTAL DISTRIBUTION	212,499,387	105,287,206		7,115,387		7,463,942	348,555
GENERAL PLANT							
390.0 Structures & Improvements	2,329,578	1,007,542	2.5	58,239	2.5	58,239	0
391.1 Office Furniture	1,044,078	844,868	4.3	44,895	5.3	55,336	10,441
391.2 Office Machines & Equipment	1,799,537	574,772	1.9	34,191	8.3	149,362	115,171
391.3 Computers	7,953,286	3,668,846	16.7	1,328,199	7.6	604,450	(723,749)
392.0 Transportation Equip. - Combined	2,837,973	1,213,233	2.7	76,625	7.5	212,848	136,223
393.0 Stores Equipment	7,422	3,859	3.6	267	4.0	297	30
394.0 Tools, Shop, Garage Equipment	955,530	571,407	6.7	64,021	6.7	64,021	0
395.0 Laboratory Equipment	4,034	3,243	4	161	4.0	161	0
397.0 Communication Equipment	1,118,685	1,025,834	6.9	77,189	8.3	92,851	15,662
398.0 Misc. Equipment	436,048	143,896	6.7	29,215	6.7	29,215	0
TOTAL GENERAL PLANT	18,486,171	9,057,500		1,713,002		1,266,780	(446,222)
GRAND TOTAL	230,985,558	114,344,706		8,828,389		8,730,722	(97,667)