

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

In re: Southern Gas Company, a Division of Iowa)	DOCKET NO. 871420-GU
Public Service Company - 1987 Depreciation Study.)	ORDER NO. 20560
-----)	ISSUED: 1-6-89

The following Commissioners participated in the disposition of this matter:

KATIE NICHOLS, Chairman
 THOMAS M. BEARD
 GERALD L. GUNTER
 JOHN T. HERNDON
 MICHAEL McK. WILSON

NOTICE OF PROPOSED AGENCY ACTIONORDER PRESCRIBING DEPRECIATION RATES

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 adversely affected files a petition for a formal proceeding, pursuant to Rule 25-22.029, Florida Administrative Code.

Rule 25-7.045(7), Florida Administrative Code, adopted November, 1982, requires natural gas companies subject to this Commission's jurisdiction to file a comprehensive depreciation study at least every five (5) years. In compliance with that Rule, Southern Gas Company (Southern Gas or utility) filed a depreciation study on December 31, 1987. The current study represents the utility's initial transition to a reserve-sensitive remaining life depreciation methodology. Southern Gas last applied for a comprehensive depreciation study of life and salvage factors in January, 1974, at which time depreciation rates based on the whole-life methodology were prescribed.

The Commission Staff has reviewed the utility's study and has recommended certain modifications to the depreciation rate components submitted by the utility. Having reviewed the utility's study, and having considered the modifications proposed by Staff, we find that Southern Gas' rates should be represeted consistent with the Staff's recommendation. The specific rates and components being approved by this Order are set forth on Attachment 1. Major adjustments to individual accounts are discussed below.

CORRECTIVE RESERVE TRANSFERS

Since this is the first overall study of Southern Gas' depreciation rates utilizing the depreciation reserve in the rate design, it provides us with our first opportunity to review the distribution of the reserve by account. The cumulative effect of prior rates and allocations have resulted in surpluses in some accounts and deficits in others. Staff, as shown in the following schedule has identified those accounts that have significant reserve imbalances and recommended transfers of five accounts' calculated surpluses to seven accounts that exhibit reserve deficiencies. The corrective transfers will bring the affected accounts' reserves in line with their respective theoretical positions. We find the following corrective reserve transfers to be appropriate and approve them.

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00103 JAN -6 1989

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<u>Accounts</u>	<u>Book Reserves</u>	<u>Calculated Theoretical Reserves</u>	<u>Recommended Reserve Transfers</u>	<u>Restated Reserves</u>
376.1 Mains-Steel	\$1,485,655	\$1,287,217	\$(126,394)	\$1,359,261
378 Measuring & Reg. Station Equipment	12,794	16,798	4,004	16,798
380.1 Services-Steel	328,087	486,100	158,013	486,100
380.2 Services-Plastic	103,846	130,364	26,518	130,364
381 Meters	64,854	112,777	47,923	112,777
383 Regulators	27,165	30,683	3,518	30,683
385 Indust. Meas. & Reg.	55,183	35,989	(19,194)	35,989
387 Other Equip.	9,936	6,119	(3,817)	6,119
391 Office Furn.	11,648	18,068	6,420	18,068
391.2 Office Equip.	24,870	17,412	(7,458)	17,412
392.1 Cars & Light Trucks	213,624	122,975	(90,649)	122,975
398 Miscel Equip.	373	1,489	1,116	1,489

DEPRECIATION RATES - ATTACHMENT 1

The major differences between the positions of Staff and the utility are Staff's utilization of the reserve transfers and different life proposals in the Meters Account. The rates we are approving reflect the reserve transfers approved above and Staff's recommended treatment of the Meters Account.

I. Distribution Plant

A. Services (Account 380)

Service lines connect the mains to the meters on the customers' premises. As with the Mains Account, services have historically experienced minimal retirement activity. The retirement rate during the past fifteen years averaged about 0.1%. This lack of activity makes reliance on industry averages for life and salvage factors necessary. We accept the remaining life recommended by Staff, which is based upon the current existing average service life factor and a recalculated age.

When a service line is retired, it is generally cut and capped at the main and abandoned in place. The cost of removal involves travel time for the crew, digging down to the point where the service joins the main, cutting and capping, refilling the hole, and restoring the roadway. During the course of our Staff's review of the retirements, it was determined that cost of removal has been increased above the industry average because a large portion of the utility's service lines are located on beachfront property, beneath pavement or some type of decorating landscaping, such as a pebble yard or drive.

B. Meters (Account 381)

Meters are used to measure gas consumption at a customer's premise. The accounting treatment for this equipment is cradle-to-grave, that is, at the time a meter is purchased, the cost is immediately charged to plant-in-service and not retired until final disposition. The utility's life proposal reflects its belief that the high concentration of phosphate in the soil in its service territory results in a much lower average service life than is customary for the industry. The utility considers that its proposal reflects not only soil but atmospheric corrosion caused by the salt air to its predominately aluminum meters.

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Our Staff found a majority of the corroded meters in question were improperly installed with respect to ground clearance - either they were installed too close to the ground or a portion of the meter was actually buried into the soil. According to Southern Gas, the reason for this was it had to hire temporary help who were inexperienced at installing meters. Assuming that the rest of the utility's meters are properly installed, there is still the question that was raised about phosphate and atmospheric corrosion. Other regulated gas companies that are either on the coastline or have a territory of equal or higher phosphate concentrations do not have such a corrosion problem even if you include fertilizer as a source of phosphate.

The utility does own some meters that have been retired after five to seven years of service, but these were bought as refurbished or used meters. Southern Gas has expressed some concern that the meters made today are of a lesser quality and might not last as long. Even if this may be true, the record does not support a shorter life. We adopt our Staff's recommendation and find it in line with current industry estimates for this type of equipment.

C. Meter and Regulator Installations (Accounts 382 and 384)

Meter and Regulator Installations are only retired when the meter or regulator is removed from the location and a new one is not installed or when the service through the meter or regulator is cut off. In other words, the life of the meter or regulator installation is similar to the life of Services. We approve our Staff's recommendation which is based on the same average service life found appropriate for the Services Account, Account 380.

D. Industrial Meters and Regulators (Account 385)

This account is comprised of special installations of measuring and regulating station equipment serving large industrial customers. We approve Staff's recommendations which are based on current industry estimates in the calculation of average age.

II. General Plant

A. Office Equipment (Account 391.2)

The equipment in this account typically experiences a life between 12 to 15 years, but after the implementation of our new Capitalization Versus Expensing Rules 25-7.0461(2)(f & g) and 25-7.0461.(5), F.A.C., which state that any item or minor item added to plant that has a book cost of less than \$500 shall be expensed, our Staff is finding that this typical life may not be appropriate. A majority of the investment (approximately 80%) consists of two copy machines and a mailing machine, which, for this utility, are experiencing average lives of about six years. We approve our Staff's life recommendation that is based on compositing this with the remaining investment at an industry average life.

B. Stores Equipment (Account 393)

This account is comprised of equipment used for the receiving, shipping, handling and storage of materials and supplies. We approve our Staff recommendation, which is based on current industry estimates for such equipment.

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C. Tools, Shop and Garage Equipment (Account 394)

This account consists of equipment such as ditching, drilling and welding machines, odor and leak detectors, pipe locators and miscellaneous hand tools. We approve Staff recommendation, which is based on retaining the currently prescribed service life and salvage for this account.

D. Lab Equipment (Account 395)

We agree with our Staff that the record does not support Southern Gas' proposal and approve retaining the current average service life for this account.

E. Communications Equipment (Account 397)

This account is comprised of such items as mobile and stationary radios, pagers, and telemetering and telephone equipment. We adopt Staff's recommendation, which is within the current industry estimates for this type of equipment.

F. Amortization Schedule - Communications Equipment

The utility indicates that their telephone system is scheduled to be retired and replaced in 1988. We agree with our Staff's recommendation which is based on a one-year amortization schedule for the remaining unrecovered investment of approximately \$9,016 to be written-off in 1988.

INACTIVE SERVICE LINE RETIREMENTS

Rule 25-7.014(1), Florida Administrative Code, provides that:

(1) Except as provided in subsection (2), each natural gas utility shall maintain its accounts and records in conformity with the Uniform System and Classification of Accounts prescribed by the Federal Energy Regulatory Commission (FERC)...

FERC's Uniform System and Classification of Accounts requires that service lines shall, for accounting purposes, be retired from plant after an inactive period of two (2) years.

According to data filed by Southern Gas, there are estimated to be 2,329 inactive service lines. In order to be in compliance with the requirements of our Rule and the FERC, Southern Gas shall proceed to identify any service lines that have been inactive for more than 2 years, and retire them from plant and physically abandon them within 18 months from the date of this Order.

Based on the foregoing, it is

ORDERED by the Florida Public Service Commission that the depreciation rates set forth in Attachment 1 to this Order are hereby approved for Southern Gas Company. It is further

ORDERED that Southern Gas Company will record the corrective reserve transfers set forth in the body of this Order. It is further

ORDERED that the effective date of the new depreciation rates is January 1, 1988. It is further

ORDERED that Southern Gas Company shall, within 18 months from the date of this Order, identify all service lines found to be inactive for over two years, retire them from plant and physically abandon them. It is further

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ORDERED that this Order shall become final unless a petition for formal proceeding is received by the Director, Division of Records and Reporting, at his office located at 101 East Gaines Street, Tallahassee, Florida 32399-0870, by the close of business on January 25, 1989. It is further

ORDERED that this docket shall be closed if no timely petition is filed objecting to this Order.

By ORDER of the Florida Public Service Commission, this 6th day of JANUARY, 1989.

STEVE TRIBBLE, Director
Division of Records and Reporting

(S E A L)

MRC

by: Kay Flynn
Chief, Bureau of Records

NOTICE OF FURTHER PROCEEDINGS OR JUDICIAL REVIEW

The Florida Public Service Commission is required by Section 120.59(4), 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.

The action proposed herein is preliminary in nature and will not become effective or final, except as provided by Rule 25-22.029, Florida Administrative Code. Any person whose substantial interests are affected by the action proposed by this order may file a petition for a formal proceeding, as provided by Rule 25-22.029(4), Florida Administrative Code, in the form provided by Rule 25-22.036(7)(a) and (f), Florida Administrative Code. This petition must be received by the Director, Division of Records and Reporting at his office at 101 East Gaines Street, Tallahassee, Florida 32399-0870, by the close of business on January 25, 1989. In the absence of such a petition, this order shall become effective January 26, 1989, as provided by Rule 25-22.029(6), Florida Administrative Code, and as reflected in a subsequent order.

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 January 26, 1989, any party adversely 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 sewer 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.

SOUTHERN GAS COMPANY
1987 STUDY
Comparison of Depreciation Rates and Components

ACCOUNT	COMMISSION		APPROVED	
	AVERAGE REMAINING LIFE	NET SALVAGE	BOOK RESERVE	REMAINING LIFE RATE
	(yrs)	(%)	(%)	(%)
DISTRIBUTION PLANT				
375 Structures & Improvements	26.0	0	63.18	1.4
376 Mains				
376.1 Steel	25.0	(30)	50.16 *	3.2
376.2 Plastic	38.0	(30)	8.25	3.2
378 Meas. & Reg. Station Equip	16.8	0	39.52 *	3.6
380 Services				
380.1 Steel	13.3	(45)	81.16 *	4.8
380.2 Plastic	27.0	(45)	15.40 *	4.8
381 Meters	18.4	0	26.40 *	4.0
382 Meter Installations	21.0	(5)	36.89	3.2
383 Regulators	19.2	0	30.88 *	3.6
384 Regulator Inst.	21.0	(5)	34.61	3.4
385 Indust. Meas. & Reg.	14.4	0	52.48 *	3.3
387 Other Equip.	8.6	0	57.00 *	5.0
GENERAL PLANT				
390 Structures & Improvements	39.0	0	1.77	2.5
391.1 Office Furniture	7.5	0	62.50 *	5.0
391.2 Office Equip.	5.2	0	35.00 *	12.5
391.3 Computers	3.3	0	48.32	15.7
392 Vehicles				
392.1 Cars & Light Trucks	1.9	5	64.98 *	15.8
392.2 Heavy Trucks	8.6	5	13.30	9.5
392.3 Other	7.5	0	47.32	7.0
393 Stores Equipment	14.7	0	40.83	4.0
394 Tools Shop & Garage Equip	9.4	0	45.10	5.8
395 Lab Equipment	19.0	0	30.06	3.7
396 Power Operated Equip.	5.5	0	75.34	4.5
397 Communication Equip.	7.9	0	73.82	3.3
398 Miscell. Equip.	9.1	0	39.02 *	6.7

AMORTIZATION SCHEDULE

Communication Equip.

1 YEAR AMORTIZATION

* Staff restated book reserve after corrective reserve transfers.