**FLORIDA PUBLIC SERVICE COMMISSION**

 **Fletcher Building**

 **101 East Gaines Street**

 **Tallahassee, Florida 32399-0850**

 **M E M O R A N D U M**

 **June 3, 2015**

**TO : DIRECTOR, DIVISION OF RECORDS AND REPORTING**

**FROM : DIVISION OF AUDITING AND FINANCIAL ANALYSIS (BASS, HICKS, LEE, LROMIG)**

 **DIVISION OF ELECTRIC AND GAS (EMILLS)**

 **DIVISION OF LEGAL SERVICES (ELIAS)**

**RE : DOCKET NO. 921337-GU - ST. JOE NATURAL GAS COMPANY - REQUEST FOR REVIEW OF FIVE-YEAR CONPREHENSIVE STUDY OF DEPRECIABLE PROPERTY FOR PERIOD ENDING 12/31/92 BY ST. JOE NATURAL GAS COMPANY, INC.**

**AGENDA : 1/18/94 - REGULAR AGENDA - PROPOSED AGENCY ACTION - INTERESTED PERSONS MAY PARTICIPATE**

**CRITICAL DATES: CLOSE OF 1993 BOOKS**

**SPECIAL INSTRUCTIONS: I:\PSC\AFA\WP\921337.RCM**

 **R:STJOE-GS.WK3**

 **DISCUSSION OF ISSUES**

**ISSUE 1:** Should the depreciation rates be revised for the St. Joe Natural Gas Company (St. Joe or Company)?

**RECOMMENDATION:** Yes. A review of the Company's current capital recovery position indicates the need to revise the current depreciation rates. (BASS)

**STAFF ANALYSIS:** The current depreciation rates for St. Joe were approved effective January 1, 1988. That was the first prescription of rates utilizing the depreciation reserve, and the first opportunity to address reserve by account. The depreciation study under current review was filed by the Company in a timely manner and in accord with requirements of Rule 25-7.045, Florida Administrative Code. This study depicts considerable activity since the last represcription, and some situations which had not been previously encountered within the operation of this small Company. An audit of the Company's continuing property records system, completed in 1992 by the Bureau of Research and Regulatory Review, was instrumental in developing an improved working knowledge of CPR management, and use of the standard sub-accounts for record keeping. As an example of the impact of this work, sub-accounts not previously used have recently been activated. The Company has participated in an active and positive manner in Staff's in-depth analysis of the current recovery position; the following recommended rates result from that analysis.

**ISSUE 2:** What is the recommended date of implementation for these proposed rates?

**RECOMMENDATION:** Staff recommends implementation at January 1, 1993, as proposed by the Company. (BASS)

**STAFF ANALYSIS:** The Company has provided data to abut their proposed implementation date of January 1, 1993. Therefore, this date is recommended by Staff.

**ISSUE 3:** Should any recovery schedules be provided for St. Joe Gas Company?

**RECOMMENDATION:** Yes; a one year recovery schedule should be provided for the $9,790 reserve deficiency associated with the Tools, Shop and Garage Equipment Account. (BASS)

**STAFF ANALYSIS:** Following an inventory of the plant in service in the Account 394, Tools, Shop and Garage Equipment, it was recognized that various capitalized items were no longer in service. An adjustment was made to plant and to reserve to remove the original costs for each of these items, and as a result the adjusted reserve for this account stood at negative $2,461. Staff recommends that the reserve be brought to it's theoretically correct level of $7,329, which requires a recovery of $9,790. Since this deficiency is attributed to plant no longer in service, recovery should be afforded as fast as practicable. After reviewing St. Joe's earnings position, it appears that a one year amortization period is appropriate.

**ISSUE 4:** What are the appropriate depreciation rates for St Joe?

**RECOMMENDATION:** The Staff recommended remaining lives, net salvages, reserves and resultant depreciation rates are shown on Attachment B, page 14. The recommended depreciation rates and recovery schedule will result in an estimated increase of $20,000 to annual expense for 1993, based on January 1, 1993 investment, as shown on Attachment C, page 15. There is a non-recurring expense amount of $9,790 included in this increase. (BASS)

**STAFF ANALYSIS:** Within the analysis of the current study, the Company and Staff have reached accord in regard to the application of expensing and capitalization procedures and accounting practices which were reviewed. The previous depreciation study, implemented January 1, 1988, was the Company's initial prescription based on remaining life rates. The Company has proposed no change to the parameters underlying the currently prescribed remaining life for each of the accounts, except computers. In many instances, the Staff recommendation is to continue the current approved curve and service life, with incorporation of activity since the last study. However, there are several situations which involve depreciation concepts not previously encountered within the operation of this small Company; as an example, the Company's proposed remaining life for each account is simply the difference between the average service life and the average account age, without regard to implication of retirement dispersions such as those in the selected Iowa curves. For many accounts, this results in a Staff recommended remaining life which is different from the Company proposal. Other differences come from rounding, and from rearrangement of the plant in service by account following the CPR audit described in Issue 1.

 Distribution Plant

 Account 375, Building and Improvements: Continuation of the current approved 40-year service life and net salvage of negative 5% with the S3 curve is recommended. This is in line with the Company's proposal and industry usage. Based on the current age of 8.7 years, a resulting remaining life of 31 years is recommended.

 Account 376-A, Mains - Plastic: Company and Staff have agreed that continuation of the current approved 40-year average service life is appropriate for this account. The Company's retirements are due to relocation rather than wear and tear, and they amount to less than 1%. This is in line with industry expectation, and with

the recommended S3 curve. With an account age of 10.8 years, a remaining life of 29 years results. Continuation of the net salvage of negative 30% is typical for the industry and is also recommended.

 Account 376-B, Mains - Steel: Continuation of the current approved S3 curve, 40-year average service life with net salvage of negative 30% is recommended for the Steel Mains Account. This matches the expectations of Florida Companies, and St. Joe's experience since the last study does not indicate a change. With the average age of 4.2 years at 12-31-92, a remaining life of 36 years results.

 Account 378, Distribution Measuring and Regulating Equipment: This account has experienced a high level of activity since the last study. After the CPR audit and physical inventory, there was an adjustment removing $4,900 from both plant and reserve for this account. Also, the Account 379, City Gate, has been activated, and approximately $450,000 of 1992 vintage investment, which had been recorded in this account, has been transferred into Account 379 with associated reserve. As a result, this account currently has investment of similar type and amount as that in the last study. Staff recommends continuation of current approved parameters, which is in line with the Company's proposal and average industry expectations. Using the R3 curve and 35-year average service life with an average age of 4.3 years, a remaining life of 31 years results. Continuation of the net salvage of negative 5% is recommended as well.

 Account 379, Measuring and Regulating Equipment, City Gate:

This account has been activated since the last study, when the Company recognized that multiple investments of a six-figure magnitude should be recorded in Account 379. Prior to the recent additions, there had been a single addition of less than $3,600 of this type of equipment, with a vintage of 1964. The current average age of investment in this account is less than one year; therefore, Staff recommends a whole life rate, based on industry expectations of a 35-year average service life and net salvage of negative 5%.

 Account 380-A, Services - Plastic: Continuation of the current approved S2 curve and 30-year average service life is recommended, based on average expectation for the industry. Using the current age of 7.1 years, a remaining life of 23 years results. Based on Company estimates of labor involved in the cutting and capping required to abandon a service, Staff has determined that removal costs for this type of plant result in the recommended net salvage of negative 21%.

 Account 380-B, Services - Steel: Recent activity is in line with the current approved S2 curve and 30-year average service life; Staff recommends continuation of these life parameters which is in line with the Company proposal. Based on the average age of 22.1 years for the account, a remaining life of 11.3 years results. To reflect the removal costs associated with cutting and capping when a steel service is abandoned, a negative net salvage of 25% is recommended.

 Account 381, Meters: For equipment recorded in this account, Rule 25-7.0461(6) specifies that accounting treatment is cradle-to- grave. The meter is capitalized upon initial purchase, and it is retired when it is junked because it can no longer perform metering functions. All costs associated with meter change-out and refurbishment are expensed. There is nothing in the Company's data which would imply a need for change from the current approved R4 curve, 25-year average service life and 0% net salvage. With the updated average age of 11.3 years, a recommended remaining life of 13.9 years results.

 Account 382, Meter Installations: A meter installation is only retired when the meter is removed from a location and no new one is installed, or when service through a meter is cut off. As a result, the life of meter installations is very similar to the average life of services. Staff therefore recommends continuation of the current approved S2 curve with average service life of 30 years for the meter installations account. With an account age of 16 years, a remaining life of 15.3 years results and is recommended. The net salvage of negative 5% is an allowance for cost of materials and labor, incurred when an installation is removed, and is representative of industry expectations.

 Account 383, Regulators: The accounting treatment for regulators is specified as cradle-to-grave, as with meters. There is nothing in the Company data to indicate that a change is warranted from the current approved R4 curve and average service life of 30 years and net salvage of 0%, which are recommended. This reflects the Company's proposal and industry expectation. The recommended remaining life of 24 years results from using the account average age of 6.4 years with these parameters.

 Account 384, Regulator Installations: The accounting treatment for this account is the same as that for meter installations. Staff recommends continuation of the current approved S2 curve with 30-year average service life, along with net salvage of negative 5%. These are reasonable, based on industry expectations, and reflect the Company's proposal for no change. With an account age of 15 years, a remaining life of 16.8 years is recommended.

 Account 385, Industrial Measuring and Regulating Equipment: This account has been activated to record installations made since the 1987 study to serve large industrial customers. The oldest vintage being 1989, no retirements have occurred to provide a record of life or retirement pattern. Staff recommends the S4 curve and a 30-year service life, based on typical industry expectation, along with the net salvage of negative 5%. Using an average age of 2.4 years for the investment in this account results in a remaining life of 27 years, which is recommended also.

 Account 387, Other Equipment: The make-up of this account has changed drastically since the last study. Since the filing of the current study, a physical inventory of the account showed that no equipment of vintage 1985 or prior remained in service. Based on that physical inventory,an adjustment was made to this investment account and the associated reserve account to remove the equipment which is no longer in service. When the Company implemented the findings of the CPR audit, it was decided to record the modems, recording gauges, and other redundant electronic devices required for verification of gas flow in this account. Since the earliest vintage of this equipment is 1985, there is no Company history upon which to base an assessment of life pattern. The determination of average service life is also complicated by the diversity of equipment which may be recorded in this account industry wide. Staff recommendation is based on the observation that equipment in this account is similar in many respects to that in Account 385, Industrial Meters, but in other respects it is similar to Account 391.3, Computers. With advice from our Gas bureau, Staff is recommending an average service life of 15 years. The uncertain nature of future requirements and unsettled projection of future needs argue against any longer average service life. However, the devices in Account 387 are employed in extremely dedicated service, rather than the broader utilization of general purpose computers, and trends toward obsolescence may not impact this equipment. Staff also recommends an S4 curve, which is commonly used in the industry for both Accounts 387 and 385. With an average age of 3.9 years, a remaining life of 11.1 years results; this is recommended, along with zero net salvage.

 General Plant

 Account 390, Structures and Improvements: Investment in this account relates to a single building, which houses the Company's general offices and administrative operations. Our analysis is based on a 50-year expected life-span for the major structure, which is a typical industry expectation for such buildings. The investment associated with the interior is treated separately, and a 15-year life span correlates with both Company and industry experience. The composite average service life is 27 years. Using the average age of 6.1 years for the account, a remaining life of 21 years results. A net salvage of negative 5% is recommended to allow for cost of removal associated with the short-lived investment.

 Account 391.1, Office Furniture: The Company proposes to continue use of the current 20-year service life, which was approved with the S2 curve in the last study. However, the CPR audit completed since the original filing of the study prompted a physical inventory and thorough review of the CPR's for this account. This work revealed that all equipment relating to vintages prior to 1973 had been retired. Current Company data indicates that this type of equipment is rarely in service at age 20 or beyond, which is contrary to expectations for a 20-year average service life. Staff recommends using the S2 curve and an average service life of 18 years, which is within the range of expectations for Florida Companies, and appears more in line with the Company's experience. With the account average age of 3.6 years, a remaining life of 14.4 years results. The Company proposal for retaining 0% net salvage is recommended since it is in line with their experience and with the industry.

 Account 391.2, Office Devices: This account is comprised of the fax machine and copier, along with three typewriters. Following the recent physical inventory, other capitalized investment was removed from plant and associated reserve for this account, in recognition that it no longer represents plant in service. In telephone conversation with Staff, the Company has agreed that an average service life of 8 years is appropriate for the current equipment, which is therefore recommended. The S1 curve is typically accepted for the type of equipment in this account; with an average age of 1.8 years, a remaining life of 6.3 years results. Due to expected obsolescence for this type of equipment, Staff recommends retaining the 5% net salvage without increase, instead of the Company proposed 7%.

 Account 391.3, Office Computers: This account has experienced a very high level of activity, primarily associated with the 1992 retirement of a System 36 computer which had been purchased in 1984. A network of "PC's" currently provides computer capability for St. Joe. The Company has proposed an increase in average service life from the current approved life of eight years to a ten-year life. However, pressures from increased capacity and capability requirements, along with lower initial costs for "PC" systems, suggest that current expectations for obsolescence will continue to be the norm for Florida companies. It is expected that St. Joe will fall within the mainstream in this regard. Therefore, Staff recommends continuation of the current average service life of 8 years, along with the S3 curve. The net salvage of zero is retained also, in view of obsolescence. With the current average age of 3 years, a remaining life of 5 years results.

 Account 392, Transportation Equipment: Staff and Company agree that continuation of current underlying parameters is warranted by lack of contrary indications. Therefore, the service life of 8 years, S2 curve, and net salvage of 10% are recommended. With the current average age of 5.1 years, a remaining life of 3.5 years results.

 Account 394, Tools Shop and Garage Equipment: The work done in response to the CPR audit, including a physical inventory of this account, has revealed that retirements were not being booked. Current surviving investment is only about half of what had been shown in the original study filing. Due to lack of retirement information, the Company data provides little guidance regarding life pattern. The average age of current survivors is 10.4 years, and approximately half of the surviving investment has attained an age of ten years or more. With this minimum information, Staff recommends that the current approved S3 curve be retained and average service life be reduced to 20 years; these parameters are within the range of average expectation. From these parameters, a remaining life of 9.9 years is recommended. Since there is nothing to indicate a change, the current approved net salvage of 0% is recommended as well.

 Account 396, Power Operated Equipment: The Company has proposed to continue the current approved service life of 15 years and net salvage of 0%; these parameters, as well as the S4 curve, are consistent with the expectation for this account throughout Florida companies. St. Joe has incurred few retirements of this type of equipment, and they are not sufficient to establish a life pattern unique to this Company. Therefore, Staff recommends acceptance of these parameters. A remaining life of 9.5 years results from the account age of 5.5 years, and is recommended also.

 Account 397, Communication Equipment: This account is comprised of radio equipment which provides communication with trucks in the field. Staff recommends acceptance of the Company's proposal to continue the current approved 15-year average service life, and 0% net salvage; continuation of the S3 curve is recommended as well. This service life represents a conservative estimate of the life of equipment of this type. It would be expected that new technology will impact this account when the present equipment can no longer serve, but this is not expected within the next five years. Using the 9-year average age of the account, a remaining life of 6.4 years results and is recommended.

 Account 398, Miscellaneous Equipment: Following retirement of equipment made in 1991, the balance in this account is zero. Staff recommends that a whole life rate, based on twenty-year service life and zero net salvage, be provided for any equipment purchases which may be capitalized and recorded in this account.

**ISSUE 5:** Should this docket be closed?

**RECOMMENDATION:** Yes. If no substantially affected person timely files a protest to the Commission's notice of proposed agency action, this docket should be closed. (BASS)

**STAFF ANALYSIS:** If no substantially affected person files a timely request for a Section 120.57, Florida Statutes, hearing within twenty-one days, no further action will be required and this docket

should be closed.

 ATTACHMENT A

 PAGE 1 OF 1

 **RECOVERY SCHEDULE**

 ADJUSTEDTHEORETICAL REQUIRED

ACCOUNT RESERVE RESERVE RECOVERY

 1-1-93 1-1-93

394 Tools, Shop &

 Garage Eqpt. ($2,461) $7,329 $9,790

 **ANNUAL RECOVERY**

 ACCOUNT 1993

 394 Tools, Shop & Garage Eqpt. $9,790