

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

In Re: Request for Review of ) DOCKET NO. 921337-GU  
Five-Year Comprehensive Study of ) ORDER NO. PSC-94-0150-FOF-GU  
Depreciable Property for Period ) ISSUED: February 7, 1994  
Ending 12/31/92 by St. Joe )  
Natural Gas Company )  
\_\_\_\_\_)

The following Commissioners participated in the disposition of this matter:

J. TERRY DEASON, Chairman  
SUSAN F. CLARK  
JULIA L. JOHNSON  
DIANE K. KIESLING  
LUIS J. LAUREDO

NOTICE OF PROPOSED AGENCY ACTION  
ORDER REVISING DEPRECIATION RATES FOR  
ST. JOE NATURAL GAS COMPANY

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 formal proceeding pursuant to Rule 25-22.029, Florida Administrative Code.

St. Joe Natural Gas Company (St. Joe or the Company) filed its most recent depreciation study in accord with requirements of Rule 25-7.045, Florida Administrative Code. This study indicates considerable activity since the last prescription and some situations which had not been previously encountered within the operation of this Company. 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. After in-depth analysis of the current recovery position the following rates, useful lives and remaining lives are approved and prescribed.

Recovery Schedule

We find that a one year recovery schedule shall be provided for the \$9,790 reserve deficiency associated with the Tools, Shop and Garage Equipment Account. Following an inventory of the plant

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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. We find 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, we find that a one year amortization period is appropriate.

Depreciation Rates, Useful Lives, Remaining Lives, Net Salvage Values

We find that the appropriate depreciation rates, useful lives, remaining lives and net salvage values for St Joe Natural Gas Company are approved as discussed by individual account and sub-account. The approved 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. There is a non-recurring expense amount of \$9,790 included in this increase.

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, our finding 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 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 an approved remaining life which is different from the Company proposal. Other differences come from rounding, and from rearrangement of the plant in service by account.

### 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 approved. This is consistent with the Company's proposal and industry experience. Based on the current age of 8.7 years, a resulting remaining life of 31 years is approved.

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 approved.

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 the other Florida Natural Gas Utilities. St. Joe's experience since the last study does not indicate a change. With the average age of 4.2 years as of December 31, 1992, a remaining life of 36 years results and is approved.

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. We approve the continuation of the currently approved parameters, which is consistent 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 also approved.

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, we approve the use of 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 approved, 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, We have 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. We approve continuation of these life parameters which is consistent 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 approved.

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, we approve the use of a remaining life of 13.9 years.

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. We therefore approve 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 approved. The net salvage of negative 5% is an allowance for cost of materials and labor, incurred when an installation is removed, and appears 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 approved. This reflects the Company's proposal and industry expectation. The approved 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. We approve continuation of the current approved S2 curve with 30-year average service life, along with net salvage of negative 5%. We find that these are reasonable, based on industry expectations and reflect the Company's proposal. With an account age of 15 years, we approve the use of a remaining life of 16.8 years.

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. We approve the use of 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 an approved remaining life of 27 years.

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. Our finding 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. We approve 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. We also approve the use of 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 and is approved, 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 approved 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. A physical inventory 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. We approve the use of 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 approved 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. The Company has agreed that an average service life of 8 years is appropriate for the current equipment, which is therefore approved. 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, we approve the retention of 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 personal computers currently provides data processing 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 personal computer 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, we approve the 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, we find that the service life of 8 years, S2 curve, and net salvage of 10% are approved. With the current average age of 5.1 years, a remaining life of 3.5 years results.

Account 394, Tools Shop and Garage Equipment: 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, we find that the current approved S3 curve shall be retained and average service life shall 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 approved. Since there is nothing to indicate a change, the current approved net salvage of 0% is approved 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, we approve continued utilization of these parameters. A remaining life of 9.5 years results from the account age of 5.5 years and is also approved.

Account 397, Communication Equipment: This account is comprised of radio equipment which provides communication with trucks in the field. We accept the Company's proposal to continue the current approved 15-year average service life, and 0% net salvage; continuation of the S3 curve is approved 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 approved.

Account 398, Miscellaneous Equipment: Following retirement of equipment made in 1991, the balance in this account is zero. We approve 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.

The Company has provided sufficient data to support its proposed implementation date of January 1, 1993. Therefore, this date is approved by the Commission.

Based on the foregoing, it is

ORDERED by the Florida Public Service Commission that a one year recovery schedule shall be provided for the \$9,790 reserve deficiency associated with the Tools, Shop and Garage Equipment Account. It is further

ORDERED by the Florida Public Service Commission that the revised depreciation rates, useful lives, remaining lives and salvage values discussed in the body of this Order are approved. It is further

ORDERED that the depreciation rates, useful lives, remaining lives and salvage values approved in this Order shall be implemented effective January 1, 1993. It is further



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ORDERED that if there is no protest to this proposed agency action within the time frame set forth below, this docket shall be closed.

By ORDER of the Florida Public Service Commission, this 7th day of February, 1994.

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STEVE TRIBBLE, Director  
Division of Records and Reporting

( S E A L )

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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 February 28, 1994.

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In the absence of such a petition, this order shall become effective on the day subsequent to the above date as provided by Rule 25-22.029(6), Florida Administrative Code.

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 the date described above, 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 wastewater 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.

ST. JOE NATURAL GAS COMPANY

1992 DEPRECIATION STUDY

APPROVED RATES AND COMPONENTS

ACCOUNT	REMAINING LIFE	NET SALVAGE	ADJUSTED RESERVE (REFERENCE)	REMAINING LIFE RATE	
<b>DISTRIBUTION PLANT</b>					
375	Buildings and Improvements	31.0	(5)	28.86	2.5
376	Mains 1. Plastic	29.0	(30)	35.43	3.3
	2. Steel	36.0	(30)	13.11	3.2
378	Meas & Reg Equip. (Distribution)	31.0	(5)	18.58	2.8
379	Meas & Reg Equip. (City Gate)	35.0 *	(5)	4.40	3.0 *
380	Services 1. Plastic	23.0	(21)	19.72	4.4
	2. Other	11.3	(25)	71.95	4.7
381	Meters	13.9	0	42.74	4.1
382	Meter Installations	15.3	(5)	53.72	3.4
383	Regulators	24.0	0	18.44	3.4
384	Regulator Installations	16.8	(5)	48.54	3.4
385	Meas & Reg Equip - Ind.	27.0	(5)	5.55	3.7
387	Other Equipment	11.1	0	5.02	8.6
<b>GENERAL PLANT</b>					
390	Structures and Improvements	21.0	(5)	4.38	4.8
391	Office Furniture & Equipment				
	1. Office Furniture	14.4	0	10.98	6.2
	2. Office Devices	6.3	5	36.13	9.3
	3. Computer	5.0	0	49.12	10.2
392	Transportation Equipment				
	1. Cars & Lt. Trucks	3.5	10	53.49	10.4
394	Tools, Shop & Garage Equipment	9.9	0	50.50 #	5.0
396	Power Operated Equipment	9.5	0	27.87	7.6
397	Communication Equipment	6.4	0	50.96	7.7
398	Misc. Equipment (Kitchen)	20.0 *	0	0.00	5.0 *

\* Indicates whole life rate; average service life is used as remaining life.

# Denotes reserve restated to incorporate recovery schedule.

APPROVED RECOVERY SCHEDULE

ACCOUNT	1-1-93 BOOK RESERVE	1-1-93 RESTATED RESERVE	NET TO BE RECOVERED	1 YEAR RECOVERY PERIOD (1993)
394 Tools, Shop & Garage Equipment	(\$2,461)	\$7,329	\$9,790	\$9,790