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State of Florida

TIMOTHY DEVLIN, Director
Auditing & Financial Analysis
(904) 413-6480

Public Service Commission

November 5, 1996

Mr. Jerry Melendy
Sebring Gas Systems
3515 Highway 27 South
Sebring, Florida 33870-5452

RE: Docket No. 960775-GU - Depreciation Study for Sebring Gas Systems, Inc.

Dear Mr. Melendy:

Enclosed is the Staff Report on your depreciation study filed in the above referenced docket. We would appreciate your written review and response including differences, concurrences, suggestions, or counter-proposals by December 9, 1996. This will assist staff in meeting the current target date of January 21, 1997. However, if the Company provides its response by November 20, 1996, staff will be able to proceed to a December 17, 1996 agenda. Should you have any questions, please contact Pamela Johnson at (904) 413-6459 or myself at (904) 413-6453.

Sincerely,

Patricia S. Lee

Patricia S. Lee
Utility Systems Engineer Supervisor

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FPSC-RECORDS/REPORTING

STAFF REPORT ON
SEBRING GAS SYSTEMS, INC. REPRESCRIPTION

GENERAL QUESTIONS/COMMENTS

1. In general, staff has no problem with the Company's service life proposals on most accounts. For those accounts where staff and the company are in agreement, the average remaining life was calculated by bringing forward the average age of the account from the last depreciation study and rate case to the present. In addition to the average age component, the average remaining life was calculated using either the currently prescribed curve shape or the curve shape utilized by the majority of the industry. Also, the investment and reserve activity was recalculated from the amounts submitted in the last study and rate case. Further, Staff proposed average remaining life for each account is rounded to the nearest year when twenty years or more, and the depreciation rate to one decimal point.

2. Investment Tax Credit and Deferred Taxes: Assuming that your proposed depreciation rates are approved as reflected in your most recent position in this proceeding, please quantify the impact on net operating income (income tax expense), rate base (accumulated depreciation), and cost of capital (unamortized ITCs and accumulated deferred income taxes). Your response should address the ITC amortization rate change and the change in the rate of the flowback of prior period deferred taxes, both resulting from the depreciation rate change and any other ramifications. In addition, please provide detailed workpapers supporting your calculations which ultimately show the entire achieved revenue requirement impact.

DISTRIBUTION PLANT

3. **Account 376 (Mains - Plastic, Other) -** This account is being maintained in two separate categories - plastic and other. Staff finds the company proposed 40-year service life and its proposal to maintain the currently prescribed net salvage on the steel and plastic pipe acceptable. Based on an average age of 29 and 5.8 years, the resultant remaining life is 13.5 years and 34 years for plastic and other respectively.

Plastic	Other
ASL = 40 years	ASL = 40 years
ARL = 13.5 years	ARL = 34 years
N.S. = (30%)	N.S. = (30%)
Curve = S3	Curve = S3

4. **Account 378 (Measuring & Regulating Equipment - General)** - Based on the company proposal to maintain the currently prescribed average service life of 33 years, coupled with an updated average age of 9.5 years, staff is recommending the following.

ASL = 33 years
ARL = 24 years
N.S. = (2%)
Curve = R3

5. **Account 379 (Measuring & Regulating Equipment - City Gate)** - Staff is in agreement with the currently prescribed service life and salvage factor for this account. Therefore, based on an average of 7.8 years, the resultant average remaining life is 25 years.

ASL = 32 years
ARL = 24 years
N.S. = (2%)
Curve = R3

6. **Account 380 (Services)** - Service lines connect the main to the meter on the customer's premise. As with the Mains account, services are maintained as two separate categories - plastic and other (steel). Staff is in agreement with the company to maintain the currently prescribed average service life and net salvage factors. The resultant remaining life calculations reflect updated ages of 30.3 years for steel and 4.6 years for plastic.

<u>Plastic</u>

ASL = 35 years
ARL = 29 years
N.S. = (30)%
Curve = R3

<u>Other</u>

ASL = 35 years
ARL = 9.6 years
N.S. = (30)%
Curve = R3

7. **Account 381 (Meters)** - Staff finds the company proposed average service life and net salvage factors for this account acceptable. Based on an average age of 10 years, a 15.1 year remaining life is recommended.

ASL = 25 years
ARL = 15.1 years
N.S. = 0%
Curve = R4

8. **Account 382 (Meters Installations)** - Staff is in agreement with the company to maintain the currently prescribed average service life and net salvage factor for this account. Based on an average age of 11.9 years, the resultant remaining life is 22 years.

ASL = 34 years
ARL = 22 years
N.S. = (5)%
Curve = S2

9. **Account 383 (Regulators)** - As a result of maintaining the currently prescribed average service life and bringing forward the average age to 9.2 years, a 21 year average remaining life is recommended.

ASL = 30 years
ARL = 21 years
N.S. = 0
Curve = R4

10. **Account 384 (Regulator Installations)** - Staff finds the company proposed average service life and net salvage factors for this account acceptable. Based on an average age of 13.0 years coupled with retaining the currently prescribed curve shape of S2, a 21 year remaining life is recommended.

ASL = 34 years
ARL = 21 years
N.S. = (3)%
Curve = S2

11. **Account 386 (Customer Premises)** - This account is comprised of valves, regulators and house piping used in the conversion of LP customers to natural gas. Given that this account was established in May 1995 in Docket No. 950381-GU, activity of any kind has been rather limited. In the instances where the company activity is limited, staff has relied on industry averages in proposing the factors for the account. In this case, staff is comfortable with maintaining the currently prescribed average service life and salvage factor for this account; staff has referred to the overall industry to determine the appropriate curve shape for this account. With this in mind, staff is proposing an S2 curve shape coupled with an average age of 2.5 years, results in a remaining life of 17.5 years.

ASL = 20 years
ARL = 17.5 years
N.S. = 0
Curve = S2

12. **Account 387 (Other Equipment) -** Staff is in agreement with the company to maintain the currently prescribed average service life and net salvage for this account. Based on average age of 7.2 years, the following is recommended.

ASL = 25 years
ARL = 17.8 years
N.S. = 0
Curve = S4

GENERAL PLANT:

1. **Account 391.1 (Office Furniture) -** This account was established in May 1995 in Docket No. 950381-GU. Therefore, activity has been limited. As stated earlier, in cases where there is insufficient activity to warrant changes to the currently prescribed factors, industry averages are used. In this instance, the majority of the companies in the industry utilize an S3 curve shape. Staff is also recommending this curve shape given that it is more indicative of the expected activity for this account. Therefore, based on an average average age of 2.3 years, the following is proposed.

ASL = 18 years
ARL = 15.7 years
N.S. = 0%
Curve = S3

2. **Account 391.2 (Office Equipment) -** As in the case of Account 391.1, this account was established in Docket No. 950381-GU. Therefore, staff will rely on the industry as a basis for determining the underlying curve shape for this account. Staff is in agreement with the company regarding the proposed service life and net salvage factors for this account. Utilizing an S3 curve and an average age of 1.5 years, a remaining life of 4.5 years is proposed.

ASL = 6 years
ARL = 4.5 years
N.S. = 0%
Curve = S3

3. **Account 392 - (Transportation) -** Please provide a listing of vehicles currently in service as well as those that have been retired for each of your transportation accounts for each year 1990 - 1996 by vehicle showing the in-service date, the original cost, date of retirement, where applicable, and the salvage realized. Also, what policy is in existence regarding the retirement of cars (i.e. mileage, age, etc.) and what plans have been implemented for the retirement?

Please indicate what type of vehicles are maintained in this account. Currently, the company is proposing that currently prescribed average service life of 7 years be maintained. However, retirement activity has been miniscule and the average age of the account is 7.7 years. In light of this circumstances, staff is considering a longer life for this account.

4. **Account 392.1 (Transportation-Trucks)** - Staff was unable to determine how the proposed factors for this account were determined. Please provide the supporting data indicating when this account was established and what type of trucks are maintained in this subaccount.

5. **Account 394 (Tools, Shop, and Garage Equipment)** - Staff finds the company proposed factors for this account appropriate. Therefore, retaining the currently prescribed curve shape results in a remaining life of 9.5 years.

ASL = 15 years
ARL = 9.5 years
N.S. = 0%
Curve = S4

6. **Account 396 (Power Operated Equipment)** - Staff agrees with the company to maintain the currently prescribed average service life and net salvage factor for this account. Using an average age of 10.5 years, a remaining life of 4.7 years is proposed.

ASL = 15 years
ARL = 4.7 years
N.S. = 0%
Curve = S4