

STATE OF FLORIDA



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(850) 413-6480

Public Service Commission

July 10, 1998

Mr. Stuart Shoaf, President
St. Joe Natural Gas Company, Inc.
P.O. Box 549
Port St. Joe, FL 32456

Re: Docket No. 980103-GU

Dear Mr. Shoaf:

Attached are two copies of the Staff Report for the depreciation study filed in the docket shown above.

We are hoping to bring this item to Agenda in late September, and would appreciate your written review and response including differences, concurrences or counter-proposals. We would appreciate your response by August 7, 1998. Should you have any questions, please contact either Bob Holroyd at (850) 413-6471 or myself at (850) 413-6453.

Sincerely,

Patricia S. Lee
USC/Eng. Supervisor

- ACK _____
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- APP _____
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- SEC _____
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PSL:frp
Attachment

cc: Division of Records and Reporting
Division of Electric and Gas
Division of Legal Services
Office of Public Counsel

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ST. JOE NATURAL GAS
STAFF REPORT
DOCKET NO. 980103-GU

GENERAL

As previously discussed with the company, staff has recalculated the average age for accounts 394, 396 and 397, which causes the staff proposed remaining service life for each of these accounts to differ from that proposed by the company.

The company proposed remaining service life for each account is the difference between the average service life and the average age. This implies all investment retiring simultaneously, with no ongoing retirements. Such a pattern of expected retirements (curve shape, retirement dispersion, or mortality dispersion) represents an idealized situation where the equipment is so designed and manufactured as to live efficiently until the precise year the company determined replacing equipment was ready. In reality, there is no plant type where the company has such full control over retirement. The nearest would be heavy trucks or trailers, where maintenance problems and accidents can modify the pattern.

In selecting a curve shape, we work from averages, modifying the average as necessary for any peculiarities of the given company. A basic premise is that a similar plant type, used in a similar fashion, will have the same curve shape.

Certain patterns of activity will change the curve shape. High retirements and/or high growth tend to increase early retirements (infant mortality). A stagnant situation has the opposite effect. Plant subject to theft, damage, or public requirements can be expected to have a greater incident of infant mortality than similar plant in a rural or small town setting.

DISTRIBUTION PLANT

Account 375, Building and Improvements: Staff accepts the company proposal to continue with a 40-year service life and net salvage of 5%. Using the current age of 13.6 years, staff proposes a remaining life of 26 years, based on the S3 curve which was approved in the last study and appears consistent with the industry.

Account 376-A, Mains - Plastic: Staff accepts the company proposal to continue with a 40-year service life and net salvage of negative 30%. While the 1993-1997 activity shows a net salvage of approximately negative 5%, it is based on one retirement amounting to less than 1% of the plant investment. Staff therefore concurs in the use of the negative 30% net salvage which is typical of the industry. Using the S3 curve, as approved in the last study, with an average age of 10.7 years, staff proposes a remaining life of 29 years.

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Account 376-B, Mains - Steel: Continuation of the currently approved S3 curve, 40 year average service life with net salvage of negative 30% as proposed by the company appears reasonable. With the average age of 7.2 years, using the above described curve, staff proposes a remaining life of 33 years.

Account 378, Distribution Measuring and Regulating Equipment: Per the company's response to the initial review of this study, all retirements made during the study period were made to reconcile the plant balance to a physical inventory. Continued use of a negative 5% net salvage, without evidence to the contrary, appears reasonable. Use of the R3 curve with an average service life of 35 years, as approved in the last study, also appears reasonable and is compatible with the industry averages. Staff employed these parameters with an average age of 5.0 years and proposes a remaining life of 30 years.

Account 379, Measuring and Regulating Equipment, City Gate: It appears that a majority of the other Florida Natural Gas Utilities have selected an S3 curve with an average service life in the range of 30 to 35 years as being representative of the expected retirement dispersion. A review of the account activity for St. Joe indicates there have been no retirements since the last study and the account has reached an average age of 5.7 years. Staff therefore accepts the company proposal to continue using an average service life of 35 years and net salvage of negative 5% as being reasonable. Use of an S3 curve results in a remaining life of 29 years.

Account 380-A, Services - Plastic: Account activity for the period provided with this study indicates a net salvage of approximately negative 10%. However, estimates of labor involved with cutting and capping required to abandon a service, provided by the company in the last study resulted in the currently approved negative 21%. Considering company estimates and an industry average of nearly negative 24%, staff proposes continued use of a negative 21% net salvage. Staff further proposes continued use of an S2 curve with an average service life of 30 years and an average age of 8.5 years resulting in a remaining life of 22 years.

Account 380- B, Services - Steel: Continued activity in this account remains consistent with the currently approved S2 curve with an average service life of 30 years and a net salvage of negative 25%. A remaining life of 8.8 years is proposed based on an average age of 27.1 years.

Account 381, Meters: Staff concurs with the company proposal of a 25 year average service life, 0% net salvage, and an average age of 12.5 years. Continuing with the currently approved R4 curve, a remaining life of 12.8 years is proposed.

Account 382, Meter Installations: As discussed with the company, a meter installation is only retired when a meter is retired from the location and no new meter is installed or when service

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through a meter is cut off. Staff therefore concurs in the company proposed 30 year average service life with a net salvage of negative 5%. Using the currently approved S2 curve with an account age of 18.7 years, staff proposes a remaining life of 13.4 years.

Account 383, Regulators: As with the Meters Account, cradle to grave accounting is used for this account. With cradle to grave accounting, the cost of a regulator is immediately charged to plant-in-service and not retired until final disposition. Change-out or refurbishment costs are expensed. The currently approved 30 year average service life and R4 curve are typical for gas companies in Florida. Staff proposes continued use of these parameters with 0% net salvage as proposed by the company. Using an account age of 7.6 years, staff proposes a remaining life of 22 years.

Account 384, Regulator Installation: As noted in the Meters Installation Account, regulator installation retirements occur only when a regulator is retired and no new regulator is installed. Continued use of the currently approved S2 curve with an average service life of 30 years, a net salvage of negative 5%, an account age of 15.7 years, and a remaining life of 15.5 years are therefore proposed.

Account 385, Industrial Measurement & Regulating Equipment: There has been very limited retirement activity indicated in this account. Continued use of an average service life of 30 years with an S4 curve and a negative 5% net salvage is therefore proposed. With an average age of 5.8 years, a remaining life of 24 years results.

Account 387, Other Equipment: The 1997 Status Report for this account indicates no retirement activity from the beginning of 1993 through the end of 1997. Considering the lack of retirement activity, staff proposes continuing the currently approved S4 curve with an average service life of 15 years and 0% net salvage. With an account age of 6.1 years, staff proposes a remaining life of 8.9 years.

GENERAL PLANT

Account 390, Structures and Improvements: In response to initial inquiries, the company stated that the 1994 retirement was made to reconcile to a physical inventory of the account. Staff therefore proposes continued use of the square wave curve with an average service life of 27 years and a negative 5% net salvage, as approved in the last study. An account age of 10.9 years produces a proposed remaining life of 16.1 years.

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Account 391.1, Office Furniture: Industry averages for this account indicate that the proposed average service life of 20 years, net salvage of 0%, and use of the S2 curve shape are reasonable. Staff proposes a remaining life of 11.8 years, based on the account age of 8.6 years.

Account 391.2, Office Devices: Staff accepts the company proposal to continue the average service life for this account as 8 years, with a net salvage of 5% and an account age of 3.1 years. Using the currently approved S1 curve, staff proposes a remaining life of 5.3 years.

Account 391.3, Computers: The currently prescribed depreciation rate was based on an 8 year average service life with an S3 curve and 0% salvage. Continuing these parameters with an average age of 2.0 years, staff proposes a remaining life of 6 years.

Account 392, Transportation Equipment: Continuation of the currently approved average service life of 8 years and net salvage of 10% is proposed by the company and staff concurs. With an S2 curve and an average age of 4.1 years, staff proposes a remaining life of 4.2 years.

Account 394, Tools Shop & Garage Equipment: Of the retirements booked to this account between January 1, 1993 and December 31, 1997, approximately 96% were booked in 1993. This appears to be the result of a physical inventory accomplished during 1993, the need for which was recognized during the review of the previous depreciation study. The balance of the retirement activity does not support a change in the currently approved parameters. Staff therefore proposes continued use of the S3 curve, 20 year average service life, 0% net salvage. Use of an average age of 11.8 years results in a remaining life of 8.7 years.

Account 396, Power Operated Equipment: Continuation of the current average service life of 15 years and 0% net salvage is proposed by the company and is acceptable. The January 1, 1998 average age calculated by staff is 4.2 years. Use of the currently prescribed S4 curve results in a remaining life of 10.8 years.

Account 397, Communication Equipment: Staff accepts the company proposal to continue use of the 15 year average service life and 0% net salvage. A review of the account's activity and industry curve shapes indicates that the currently prescribed S3 curve remains appropriate. Using the average age of 6.8 years, staff proposes a remaining life of 8.3 years.

Account 398, Miscellaneous Equipment: The balance in this account remains at zero. Staff recommends a whole life rate, based on a 20 year service life and 0% net salvage for any equipment purchases which may be capitalized and recorded in this account, as approved by Order No. PSC-94-0150-FOF-GU.

ST JOE NATURAL GAS COMPANY
 1997 STUDY
 COMPARISON OF RATES AND COMPONENTS

ACCOUNT	CURRENT			COMPANY PROPOSAL				STAFF PROPOSED			
	AVERAGE REMAINING LIFE (YRS.)	NET SALVAGE (%)	REMAINING LIFE RATE (%)	AVERAGE REMAINING LIFE (YRS.)	NET SALVAGE (%)	RESERVE (%)	REMAINING LIFE RATE (%)	AVERAGE REMAINING LIFE (YRS.)	NET SALVAGE (%)	RESERVE (%)	REMAINING LIFE RATE (%)
Gas Distribution											
375.0 Structures & Improvements	31.0	(5.0)	2.5	26.4	(5.0)	39.04	2.5	26.0	(5.0)	39.04	2.5
376.0 Mains Steel	36.0	(30.0)	1.2	32.8	(30.0)	23.01	1.2	33.0	(30.0)	23.01	1.2
376.0 Mains Plastic	29.0	(30.0)	1.3	29.3	(30.0)	34.83	1.2	29.0	(30.0)	34.83	1.3
378.0 M&R Equipment General	31.0	(5.0)	2.8	30.0	(5.0)	14.34	3.0	30.0	(5.0)	14.34	3.0
379.0 M&R Equipment City Gate	35.0	(5.0)	3.0	29.3	(5.0)	17.26	3.0	29.0	(5.0)	17.26	3.0
380.0 Services Steel	11.3	(25.0)	4.7	2.9	(25.0)	90.11	12.0	8.8	(25.0)	90.11	4.0
380.0 Services Plastic	23.0	(21.0)	4.4	21.6	(21.0)	24.65	4.5	22.0	(21.0)	24.65	4.4
381.0 Meters	13.9	0.0	4.1	12.5	0.0	48.79	4.1	12.8	0.0	48.79	4.0
381.0 Meter Installations	15.3	(5.0)	3.4	11.3	(5.0)	54.48	4.5	11.4	(5.0)	54.48	3.8
381.0 Regulators	24.0	0.0	3.4	22.4	0.0	23.33	3.4	22.0	0.0	23.33	3.5
384.0 Regulators Installation	16.8	(5.0)	3.4	14.3	(5.0)	36.96	4.8	15.5	(5.0)	36.96	4.4
385.0 M&R Equipment Industrial	27.0	(5.0)	3.7	24.2	(5.0)	17.65	3.6	24.0	(5.0)	17.65	3.6
387.0 Other Equipment	11.1	0.0	6.6	8.9	0.0	41.40	6.6	8.9	0.0	41.40	6.6
General Plant											
390.0 Structures & Improvements	21.0	(5.0)	4.8	16.1	(5.0)	26.66	4.9	16.1	(5.0)	26.66	4.9
391.1 Office Furniture	14.4	0.0	6.2	11.4	0.0	45.40	4.8	11.8	0.0	45.40	4.6
391.2 Office Machines	6.3	5.0	9.3	4.9	5.0	32.67	12.7	5.3	5.0	32.67	11.8
391.3 Computers	5.0	0.0	10.2	6.0	0.0	18.59	13.6	6.0	0.0	18.59	13.6
392.0 Transportation Equip. Cars & Trucks	3.5	10.0	10.4	3.9	10.0	41.69	12.4	4.2	10.0	41.69	11.5
394.0 Tools, Shop, & Garage Equipment	9.9	0.0	5.0	9.1	0.0	56.04	4.8	8.7	0.0	56.04	5.1
396.0 Power Operated Equipment	9.5	0.0	7.6	7.4	0.0	19.69	10.9	10.8	0.0	19.69	7.4
397.0 Communication Equipment	6.4	0.0	7.7	5.6	0.0	45.97	9.6	8.3	0.0	45.97	6.5
398.0 Misc. Equipment	20.0	0.0	5.0	20.0	0.0	0.00	5.0	20.0	0.0	0.00	5.0

* Denotes whole life rate

ST. JOE NATURAL GAS COMPANY
1997 STUDY
COMPARISON OF EXPENSES

ACCOUNT	ESTIMATED INVESTMENT 1/1/98	ESTIMATED RESERVE 1/1/98	CURRENT		COMPANY PROPOSAL			STAFF PROPOSED		
			RATE (%)	EXPENSES (\$)	RATE (%)	EXPENSES (\$)	CHANGE IN EXPENSES (\$)	RATE (%)	EXPENSES (\$)	CHANGE IN EXPENSES (\$)
GAS DISTRIBUTION										
375.0 Structures & Improvements	21,394	8,351	2.5	535	2.5	535	0	2.5	535	0
376.0 Mains - Steel	2,949,975	678,680	3.2	94,399	3.3	97,349	2,950	3.2	94,399	0
376.0 Mains - Plastic	577,817	201,243	3.3	19,068	3.2	18,490	(578)	3.3	19,068	0
378.0 M&R Equipment - General	94,573	13,560	2.8	2,648	3.0	2,837	189	3.0	2,837	189
379.0 M&R Equipment - City Gate	452,423	78,073	3.0	13,573	3.0	13,573	0	3.0	13,573	0
380.0 Services - Steel	168,796	152,101	4.7	7,933	12.0	20,256	12,323	4.0	6,752	(1,181)
380.0 Services - Plastic	459,816	113,357	4.4	20,232	4.5	20,692	460	4.4	20,232	0
381.0 Motors	259,132	126,434	4.1	10,624	4.1	10,624	0	4.0	10,365	(259)
382.0 Meter Installations	82,146	44,753	3.4	2,793	4.5	3,697	904	3.8	3,122	329
383.0 Regulators	110,171	25,698	3.4	3,746	3.4	3,746	0	3.5	3,856	110
384.0 Regulator Installation	28,336	10,474	3.4	963	4.8	1,360	397	4.4	1,247	284
385.0 M&R Equipment - Industrial	51,593	9,107	3.7	1,909	3.6	1,857	(52)	3.6	1,857	(52)
387.0 Other Equipment	62,036	25,682	8.6	5,335	6.6	4,094	(1,241)	6.6	4,094	(1,241)
TOTAL	5,318,207	1,487,514		183,758		199,110	15,352		181,937	(1,821)
GENERAL PLANT										
390.0 Structures & Improvements	121,444	32,371	4.8	5,829	4.9	5,951	122	4.9	5,951	122
391.1 Office Furniture	42,452	19,275	6.2	2,632	4.8	2,038	(594)	4.6	1,953	(679)
391.2 Office Machines	15,841	5,175	9.3	1,173	12.7	2,012	539	11.8	1,869	396
391.3 Computers	71,716	13,334	10.2	7,315	13.6	9,753	2,438	13.6	9,753	2,438
392.0 Transportation Equip.-Cars & Trucks	138,432	57,714	10.4	14,397	12.4	17,166	2,769	11.5	15,920	1,523
394.0 Tools, Shop, & Garage Equipment	20,264	11,356	5.0	1,013	4.8	973	(40)	5.1	1,033	20
396.0 Power Operated Equipment	98,897	19,476	7.6	7,516	10.9	10,780	3,264	7.4	7,318	(198)
397.0 Communication Equipment	32,393	14,892	7.7	2,494	9.6	3,110	616	6.5	2,106	(388)
398.0 Misc. Equipment	0	0	5.0	0	5.0	0	0	5.0	0	0
TOTAL	541,439	173,593		42,669		51,783	9,114		45,903	3,234
Total Accounts	5,859,646	1,661,106		226,427		250,893	24,466		227,840	1,413

* Denotes whole life rate