

STATE OF FLORIDA



ORIGINAL

TIMOTHY DEVLIN, DIRECTOR  
AUDITING & FINANCIAL ANALYSIS  
(850) 413-6480

Commissioners:  
JULIA L. JOHNSON, CHAIRMAN  
J. TERRY DEASON  
SUSAN F. CLARK  
JOE GARCIA  
E. LEON JACOBS, JR.

Public Service Commission

October 21, 1998

Brian Powers  
Indiantown Gas Company  
P.O. Box 8  
Indiantown, Florida 34956

Re: Docket No. <sup>845</sup>980485 - GU

Dear Mr. Powers:

Enclosed are two copies of the Staff Report for your current depreciation study filed in the subject docket. Please provide the Company Response by November 16, 1998 in order to meet our target date of December 15, 1998 for Agenda Conference. In your response, please provide us with any concurrences, differences, and/or additional input.

For your convenience we have enclosed a diskette containing the Staff Report formatted in WordPerfect, Version 6.1. If you have any questions concerning this review, please do not hesitate to contact me at (850) 413-6453.

Sincerely,

Patricia S. Lee  
USC/Eng. Supervisor

- ACK \_\_\_\_\_
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- WAS \_\_\_\_\_
- OTH \_\_\_\_\_

PS:frp  
Enclosure

cc: Paul Nick, Davidson & Nick  
Division of Records and Reporting  
Division of Electric and Gas  
Division of Legal Services  
Office of Public Counsel

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DOCUMENT NUMBER DATE  
1718 OCT 21 98  
PSC RECORDS/REPORTING

**INDIANTOWN GAS COMPANY**  
**DOCKET NO. 980845-GU**

**General**

The company has proposed no changes to the currently approved service lives and salvage parameters. A review of the information submitted in this current filing indicates that these current parameters remain reasonable. Indiantown operates in a stable community, which has been reflected in the past by the lack of additions and retirements. However, during the 1993-1997 period, Indiantown has experienced significant growth in its operating area while retirements have remained infrequent. Please provide a general narrative explaining the nature of the growth that has taken place and whether this growth is expected to continue during the next five year period.

Attached to this report are spreadsheets showing staff's position regarding life, salvage, and resulting depreciation rates for each account. For some accounts, the staff proposed life and salvage values have not been developed at this time due to questions which are addressed below.

**Distribution Plant**

Mains (Account 376)

1. We have noticed that the January 1, 1993 investment for each category Plastic and Other as submitted in your last study is different from the investment submitted in this current filing for the same period of time. In the last study the investments were shown as \$139,453 and 146,368, respectively. The current study shows January 1, 1993 investments as 173,867 and 111,961, respectively. Please reconcile.  
As part of the recommendation in your last depreciation review, an adjustment to the January 1, 1993 investment for Other Mains in the amount of negative \$3,558 was approved. This adjustment was necessitated to reflect retirement of a main retirement in 1989. However, from the activity data submitted in this filing, it appears that this adjustment was not made. Please explain.
3. A review of the activity submitted in the current filing indicates an adjustment of \$7,097 into the Plastic Mains account in 1996. What account did this adjustment originate? Please provide the original placement year(s) of this investment.

Services (Account 380)

1. We notice that the activity submitted with the current filing, indicates a 1996 adjustment out of the Plastic Services account in the amount of \$10,441 with no commensurate treatment to the reserve. Please provide the original placement year for this investment. What account was this investment adjusted into?
2. As part of the recommendation in your last depreciation review, an adjustment to the

January 1, 1993 investment for Plastic Services was approved in the amount of negative \$152 to reflect a retirement that should have been recorded in 1992. However, from a review of the activity submitted in this current filing, it does not appear as though this adjustment was recorded. Please explain.

Meter Installations (Account 382)

1. As part of the recommendation in your last depreciation review, an adjustment to the January 1, 1993 investment for Meter Installations was approved in the amount of negative \$7 to reflect a 1992 retirement that was not properly recorded. However, from a review of the activity submitted in this current filing, it does not appear as though this adjustment was recorded. Please explain.

House Regulators and House Regulator Installations (Accounts 382 and 383)

1. The House Regulator account has experienced about 300% growth over the 1993-1997 period, with most of the growth taking place in 1996. However, no growth was experienced in the installations account for this same time period. Please help us understand this seeming inconsistency where regulators can increase without an increase in the installations.

M&R Equipment - Industrial (Account 385)

1. In the last depreciation review, the January 1, 1993 investment was shown as \$13,196. A \$2,396 adjustment was approved to reflect the reclassification of the 1991 vintage industrial meter which was installed at the juice plant, replacing a vintage 1972 chart recorder. According to the data submitted in this filing, it does not appear that this adjustment was ever made to the investment. Any insight you can give to help us understand will be appreciated.

**General Plant**

Since the last depreciation review, several general plant accounts have been added. As a reminder to the company, Rule 25-7.045 (2a), Florida Administrative Code, requires Commission approval before any new depreciation rate is initiated. The company should have petitioned the Commission for new rates for these newly established accounts.

We have noticed that the company did not record any depreciation expense to many of the general plant accounts in 1993. The footnote in the submitted data states that the 1994 depreciation expenses reflect combined expenses for 1993 and 1994. What happened to cause no depreciation expense to be recorded for these accounts in 1993?

Structures & Improvements (Account 390)

1. In the 1997 Annual Status Report, a depreciation rate of 3.23% is shown as being used for this account. Please provide the life and salvage values inherent in this rate.
2. This account was established in 1996 and has a reported December 31, 1997 reserve balance of \$491. At 1.5 years of age and utilizing a 3.23% depreciation rate, the implied reserve balance is only \$169. Please verify that a 3.23% depreciation rate has indeed been used in calculating the depreciation expenses for this account.

Computer Equipment (Account 391)

1. A review of the recorded depreciation accruals since the last study are of concern. In the last depreciation review, a 0.5% depreciation rate was approved for the embedded investment as of January 1, 1993, with a 12.5% rate approved for post 1993 additions. Activity submitted in the current study indicates that no accruals were recorded for either one of these categories and then doubled in 1994 as a make up. The \$26,680 accruals recorded in 1994 for the embedded investment implies use of a higher depreciation rate than 0.5% for the two years. According to staff calculations, expenses for 1993 and 1994 combined should not have been more than \$324 ( $\$32,417 * .005 * 2$ ). Please help us understand how the \$26,680 in depreciation expense was determined. The same situation applies for the new additions account. The accruals recorded in 1994 appear to be much higher than a 12.5% depreciation rate would produce. Again, please help us understand.
2. The January 1, 1993 investment as submitted in the last depreciation review was \$32,417. As part of the review process, it was found that a 1992 retirement had not been recorded. The investment and reserve were therefore to be reduced \$640. Additionally, the reserve was to be increased \$701 to reflect 12 months of depreciation rather than 10 months. The data submitted in this current filing reflects no adjustment to the 1993 investment as required. Further, it is impossible to tell if the required adjustment to the reserve was made since there are no reserve balances or reserve activity shown for 1993.

Transportation Equipment (Account 392)

1. According to the data submitted with the current filing, this account was established in 1994 and is currently being depreciated at 10%. Please provide the life and salvage values used in this rate. Using this rate, staff calculates the reserve as of January 1, 1998 to be around \$23,987 rather than \$13,493 as shown on the filed activity. Please review the depreciation expense calculations for each year and let us know if there is an error.
2. Does the company have a policy regarding the retirement of its transportation equipment (mileage, age)? Provide the original in-service date of the equipment that retired in 1995 and 1996?
3. The removal costs associated with the 1996 retirement were greater than the gross salvage

realized. Please explain the types of activities associated with the incurred removal costs.

4. What type of transportation equipment does the investment in this account relate (passenger cars, light trucks up to 1 ton, or heavy trucks over 1 ton)?

Small Tools (Account 394)

1. Please provide a description of the equipment in this account.

Power Operated Equipment (Account 396)

1. This is a new account established in 1996 with additions of \$9,824. Please provide a description of the equipment associated with these additions.
2. We also notice that no depreciation expense was recorded in 1996 or in 1997. Why not?
3. The currently used depreciation rate as shown on the Annual Status Report is 5%. Please provide the life and salvage values used in this rate.
4. Please describe the equipment retired in 1996. Also, please describe the activities associated with the incurred removal costs.

Communications Equipment (Account 397)

1. This account was established in 1997 with a \$1,502 addition. Please describe the equipment associated with this investment.
2. The depreciation rate as shown on the Annual Status Report is 12.5%. Please provide the life and salvage values used in this rate.

INDIANTOWN GAS COMPANY  
1997 STUDY  
DATA ENTRY SHEET

21-04-98  
Sheet A

ACCOUNT	INVESTMENT	RESERVE	CURRENT				STAFF PROPOSAL								
			AVERAGE SERVICE LIFE	AVERAGE REMAINING LIFE	NET SALVAGE	CURVE	AVERAGE SERVICE LIFE	AVERAGE REMAINING LIFE	NET SALVAGE	AGE	CURVE				
<b>GAS DISTRIBUTION</b>															
370 Main - Steel	142,039	120,542	40.0	19.0	(31.0)	S4	40.0	(30.0)	(30.0)						S4
378 Main - Plastic	291,388	197,703	40.0	19.0	(30.0)	S4	40.0	(30.0)	(30.0)						S4
378 MGR Equipment - General	47,581	20,086	35.0	15.3	0.0	R4	35.0	0.0	0.0	16.8	16.8				R4
380 Services - Steel	18,517	18,031	36.0	17.4	(35.0)	R3	36.0	(35.0)	(35.0)	13.0	25.5				R3
380 Services - Plastic	30,886	19,522	35.0	16.0	(35.0)	S3	35.0	(35.0)	(35.0)	26.0	8.9				S3
381 Meters	39,234	12,134	25.0	13.1	0.0	S4	25.0	0.0	0.0	15.2	9.8				S4
382 Meter Installations	6,530	3,376	35.0	23.0	(5.0)	S3	35.0	(5.0)	(5.0)	24.0	11.2				S3
383 Flow Regulators	11,899	2,576	30.0	16.7	0.0	R3	30.0	0.0	0.0	21.0	0.8				R3
384 Flow Regulators - Installations	2,425	1,998	35.0	23.0	0.0	S3	35.0	0.0	0.0	18.0	17.4				S3
385 MGR Equipment - Industrial	100,995	24,978	30.0	11.9	0.0	S4	30.0	0.0	0.0	19.6	10.4				S4
387 Other Equipment	0	0	25.0	25.0	0.0	S4	25.0	0.0	0.0	25.0	25.0				S4
Total Distribution	692,954	366,946													
<b>GENERAL PLANT</b>															
390 Structures & Improvements	3,485	491													
391 Computer Equipment - Embedded	32,417	32,028	10.0	5.3	0.0	S2	10.0	0.0	0.0	4.5	0.2				S2
391 Computer Equip. - Post '92 Add.	33,803	33,335	8.0	8.0	0.0	NA	10.0	0.0	0.0	4.5	0.2				S2
392 Transportation	70,550	13,493								4.7	3.4				S2
394 Small tools - Post '92 Add.	5,262	918	20.0	20.0	0.0	NA	20.0	0.0	0.0	17.2	2.8				S4
396 Power Operated Equipment	9,824	0								15.0	1.5				S4
397 Communication Equipment	1,502	47								11.5	0.5				S4
Total General	156,903	80,312													
Total Plant	849,857	447,258													

INDIANTOWN GAS COMPANY  
1997 STUDY  
COMPARISON OF RATES AND COMPONENTS

21-Oct-98

Sheet B

ACCOUNT		CURRENT			STAFF PROPOSAL			
		AVERAGE REMAINING LIFE	NET SALVAGE	REMAINING LIFE RATE	AVERAGE REMAINING LIFE	NET SALVAGE	1/1/98 RESERVE	REMAINING LIFE RATE
		(YRS.)	(%)	(%)	(YRS.)	(%)	(%)	(%)
<b>GAS DISTRIBUTION</b>								
376	Mains - Steel	19.6	(30.0)	3.1	0.0	(30.0)	84.87	ERR
376	Mains - Plastic	19.0	(30.0)	3.0	0.0	(30.0)	46.94	ERR
378	M&R Equipment - General	15.3	0.0	2.0	18.6	0.0	54.82	2.4
380	Services - Steel	17.4	(35.0)	3.2	13.6	(35.0)	97.38	2.8
380	Services - Plastic	16.0	(35.0)	3.5	26.0	(35.0)	63.21	2.8
381	Meters	13.1	0.0	1.6	15.2	0.0	30.93	4.5
382	Meter Installations	23.0	(5.0)	1.5	24.0	(5.0)	51.70	2.2
383	House Regulators	16.7	0.0	2.0	23.0	0.0	22.68	3.4
384	House Regulators - Installations	23.0	0.0	1.0	18.0	0.0	82.39	1.0
385	M&R Equipment - Industrial	11.9	0.0	2.8	19.6	0.0	24.73	3.8
387	Other Equipment	25.0	0.0	4.0	25.0	0.0	0.00	4.0
<b>GENERAL PLANT</b>								
390	Structures & Improvements	0.0	0.0	0.0	0.0		14.09	ERR
391	Computer Equipment - Embedded	5.3	0.0	0.5	4.5	0.0	98.62	0.3
	Computer Equip. - Post '92 Adds.	8.0	0.0	12.5	4.5	NA	NA	NA
392	Transportation	0.0	0.0	0.0	4.7	10.0	19.13	15.1
394	Small Tools	20.0	0.0	5.0	17.2	0.0	17.45	4.8
396	Power Operated Equipment	0.0	0.0	0.0	13.5	0.0	0.00	7.4
397	Communication Equipment	0.0	0.0	0.0	11.5	0.0	3.13	8.4

\* Denotes whole life rate.

INDIANTOWN GAS COMPANY  
1997 STUDY  
COMPARISON OF EXPENSES

21-Oct-98  
Sheet C

ACCOUNT	INVESTMENT 1/1/98 (\$)	RESERVE 1/1/98 (\$)	CURRENT		STAFF PROPOSAL			
			RATE	EXPENSES	RATE	EXPENSES	CHANGE IN EXPENSES	
			(%)	(\$)	%	\$	\$	
<b>GAS DISTRIBUTION</b>								
376	Mains - Steel	142,039	120,542	3.1	4,403	ERR	ERR	ERR
376	Mains - Plastic	293,388	137,703	3.0	8,802	ERR	ERR	ERR
378	M&R Equipment - General	47,581	26,080	2.0	952	2.4	1,142	190
380	Services - Steel	18,517	18,031	3.2	593	2.8	518	(75)
380	Services - Plastic	30,886	19,522	3.5	1,081	2.8	865	(210)
381	Meters	39,234	12,134	1.6	628	4.5	1,700	1,138
382	Meter Installations	6,530	3,376	1.5	98	2.2	144	46
383	House Regulators	11,359	2,576	2.0	227	3.4	386	159
384	House Regulators - Installations	2,425	1,998	1.0	24	1.0	24	0
385	M&R Equipment - Industrial	100,995	24,978	2.8	2,828	3.8	3,838	1,010
387	Other Equipment	0	0	4.0 *	0	4.0	0	0
	Total Distribution	692,954	366,946		19,636		ERR	ERR
<b>GENERAL PLANT</b>								
390	Structures & Improvements	3,485	491	0.0	0	ERR	ERR	ERR
391	Computer Equipment-Embedded	32,417	32,028	0.5	162	0.3	97	(65)
	Computer Equip. - Post '92 Adds.	33,863	33,335	12.5 *	4,233	0.3	102	(4,131)
392	Transportation Equipment	70,550	13,493	0.0	0	15.1	10,653	10,653
392	Small tools - Post '92 Adds	5,262	918	5.0 *	263	4.8	253	(10)
396	Power Operated Equipment	9,824	0	0.0	0	7.4	727	727
397	Communication Equipment	1,502	47	0.0	0	8.4	126	126
	Total General	156,903	80,312	0.3	0	0.0	0	ERR
	Total Plant	849,857	447,258		19,636		ERR	ERR

\* Denotes whole life rate.