State of Florida

Public Service Commission

CAPITAL CIRCLE OFFICE CENTER • 2540 SHUMARD OAK BOULEVARD
TALLAHASSEE, FLORIDA 32399-0850

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

DATE: DECEMBER 3, 1998

TO: DIRECTOR, DIVISION OF RECORDS AND REPORTING (BAYÓ)

FROM: DIVISION OF AUDITING AND FINANCIAL ANALYSIS (CAUSSEAUX, LEE, SWAIN)
DIVISION OF ELECTRIC AND GAS (MILLS)
DIVISION OF LEGAL SERVICES (ELIAS)

RE: DOCKET NO. 980845-GU - 1998 DEPRECIATION STUDY BY INDIANTOWN GAS COMPANY.

AGENDA: 12/15/98 - REGULAR AGENDA - PROPOSED AGENCY ACTION - INTERESTED PERSONS MAY PARTICIPATE

CRITICAL DATES: NONE

SPECIAL INSTRUCTIONS: ATTACHMENTS ARE NOT AVAILABLE ON-LINE

FILE NAME AND LOCATION: S:\PSC\AFA\WP\980845.RCM

CASE BACKGROUND

Rule 25-7.045, Florida Administrative Code, requires gas companies to file comprehensive depreciation studies at least once every five years. On July 9, 1998, Indiantown Gas Company, Inc. (Indiantown or the company) filed its regular depreciation study in accordance with this rule. Staff has completed its review of this study and presents its recommendation herein.

DISCUSSION OF ISSUES

ISSUE 1: Should the current depreciation rates for Indiantown Gas Company, Inc. be changed?

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

STAFF ANALYSIS: Indiantown filed its last depreciation study in 1992 with an effective date of January 1, 1993. Under Rule 25-7.045(8), Florida Administrative Code, gas companies are to file a comprehensive depreciation study at least once every five years. Changes since the last study brought about by activity and company planning indicate the need to revise currently prescribed depreciation rates.

ISSUE 2: What should be the date of implementation for new rates?

RECOMMENDATION: Staff recommends approval of the company's proposed January 1, 1998 date of implementation for the new depreciation rates. (LEE)

STAFF ANALYSIS: The company proposed January 1, 1998 implementation date for new depreciation rates matches the beginning of its fiscal year. Data and related calculations have been provided abutting this date. Staff therefore recommends its approval.

ISSUE 3: Should any corrective reserve measures be made?

RECOMMENDATION: Yes. Staff recommends the following reserve corrections be made:

Account	Book Reserve	Recommended Transfers	Restated Reserve
	($)	($)	($)
Office Furniture	32,028	7,119	32,028
Computers - Post '92 Adds.	33,335	(8,057)	25,278
Power Operated Equipment	0	938	938

(LEE)

STAFF ANALYSIS: As part of staff's review of the company's study, a review of the reserve position for each account was performed. Staff's approach to reserve transfers is where surpluses and deficits exist, corrective reserve transfers between accounts should be considered.

The investment in the Power Operated Equipment account reflects the cost of a mini-trackhoe designed to excavate in small areas such as easements and back yards. It was leased throughout 1996 and then purchased in December, 1996. Even though the company has stated that a 5% depreciation rate is being applied to this investment, no depreciation accruals were recorded for 1996 or 1997. Accordingly, this account has an existing reserve deficiency.

On the other hand, the depreciation accruals recorded for the furniture and computer accounts are more than what the current rates provide. In the last depreciation review, a 0.5% depreciation rate was approved for the embedded investment in furniture as of January 1, 1993, with a 12.5% rate approved for post 1993 additions of computer equipment. Activity submitted in the current study indicates no accruals recorded for either 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 higher depreciation rate than 0.5% for two years. According to staff calculations, expenses for 1993 and 1994 combined should not have been more than $324 ($32,417*.005*2). The same type of situation applies for the post 1993 category. The accruals recorded are in excess of what they should have been. Because the furniture investment is over 25 years of age, staff recommends a transfer of $7,119 from the surplus existing for computers to complete the recovery of this investment. Additionally, staff recommends that a transfer of $938 be made to correct the reserve deficiency in Power Operated Equipment.

In light of the possible impact of reserve transfers on cost allocations, the company should make corresponding entries to the related depreciation expense accounts.

ISSUE 4: What are the appropriate depreciation rates for Indiantown?

RECOMMENDATION: The staff recommended remaining lives, net salvages, reserves, and resultant depreciation rates are shown on Attachment A, page 10. These recommendations result in an increase in annual depreciation expense of about $3,300, based on January 1, 1998 investments and reserves as shown on Attachment B, page 11. (LEE)

STAFF ANALYSIS: Staff's recommendations are the result of a comprehensive review of the company's submitted data and information. This filing was essentially a staff-assisted study. The company provided the necessary data for staff to develop an average age for each account's surviving investment as of January 1, 1998. Staff and the company then worked together in developing appropriate life and salvage values.

Indiantown operates in a stable community, which has been reflected in the past by the lack of additions and retirements. However, during the 1993-1999 period, Indiantown has experienced significant growth while retirements have remained infrequent. The growth is attributed to the addition of a second industrial customer, the US Generating Cogeneration facility, and a system upgrade. Over the past few years, the company has been replacing its 3/4-inch steel main with 1.25-inch plastic. This upgrade program also involves the replacement of the service line riser, and new meter and regulator sets. The company plans to complete the upgrade within the next three years.

The expected average service life for each account is estimated from an analysis of historic activity, expected impact of factors such as growth and technological change, and industry averages. Staff's review of each account's activity indicates that the service lives and curve shapes recommended in the last depreciation review remain reasonable.

Also, as a result of the 1993 Continuing Property Records (CPR) audit performed by the Division of Research and Regulatory Review, Indiantown has developed a CPR system. This system has been used to develop the current average age of surviving investment for each account. The recommended remaining life for each account reflects CPR data and activity since the last study.

As a result of the review and analytical process, Indiantown has agreed with staff on all life and salvage parameters for each account. The recommended changes in depreciation rates can be attributed mainly to two factors - updated ages to reflect activity since the last represcription, and/or changes in the reserve position.

Distribution Plant

In 1993 and 1994, Indiantown began renovations to a six inch gas main to comply with the Department of Transportation requirements for a road construction project and to uprate the system pressure to accommodate the US Generating Cogeneration facility. Additionally, the company is upgrading its system by replacing all 3/4 inch steel mains with 1.25 inch plastic mains. This project also involves replacement of service lines, risers, meters, and regulators. Current planning is for the upgrade to be completed by year-end 2000.

The company has provided an estimate of the investments planned for replacement as part of the upgrade program. Staff developed the associated reserve amounts and assumed a 30% cost of removal relating to the abandonment of the mains. The net unrecovered investments of $14,148 are recommended to be place on a recovery schedule and amortized over three years coinciding with completion of the program. The annual expense associated with this recovery schedule will be $4,715. Any necessary true-up can be made at the time of the next prescription.

As a result of the renovations and upgrades, significant additions have been made in Industrial Measuring and Regulating Equipment, Account 384; Plastic Services, Account 380; Meters and Regulators, Accounts 381 and 383; and, Meter and Regulator Installations, Accounts 382 and 384. These additions translate into a younger average age for the related investments, thus a longer remaining life than last prescribed.

According to the company, installation costs associated with house regulators are recorded along with the meter installation costs due to the minimal cost per installation. All embedded regulator installations are associated with regulators that will be replaced as part of the upgrade program.

General Plant

During staff's review of the company's submitted data, it was discovered that four new general plant accounts have been established since the last depreciation review (Power Operated Equipment, Account 396; and, Communication Equipment, Account 397,.

The depreciation rates currently applied to these accounts have not been approved by the Commission. The company violated Rule 25-7.045, Florida Administrative Code, by not petitioning the Commission for approval of the depreciation rates prior to their initiation. However, because the rates are in the range of reasonableness for the associated equipment, no harm has come to the customers of Indiantown due to this violation. For this reason, staff is recommending no penalty be assessed for the violation. In the future, however, the company should petition the Commission, in accord with the Rule, anytime a new account is established thus necessitating the need for a new depreciation rate.

With the reserve transfers recommended in Issue 3, the existing investment in the furniture account is fully recovered. For any furniture investment added after January 1, 1998, staff recommends a 5% depreciation rate (20 year life and zero net salvage).

The Communication Equipment Account investment is comprised of four two-way radios purchased in 1997. The recommended life recognizes that this equipment is subject to technological impacts.

ISSUE 5: Should the current amortization of investment tax credits (ITCs) and the flowback of excess deferred income taxes be revised to reflect the approved depreciation rates?

RECOMMENDATION: Yes. The current amortization of ITCs and the flowback of excess deferred income taxes (EDIT) should be revised to match the actual recovery periods for the related property. The utility should file detailed calculations of the revised ITC amortization and flowback of EDIT at the same time it files its surveillance report covering the period ending December 31, 1998. (CAUSSEAUX)

STAFF ANALYSIS: In earlier issues, staff recommends revisions to the company's remaining lives, to be effective January 1, 1998. Revising a utility's book depreciation lives generally results in a change in its rate of ITC amortization and flowback of EDIT in order to comply with the normalization requirements of the Internal Revenue Code (IRC) and underlying Regulations (REGs) found in Sections 46, 167, and 168 and 1.46, 1.67, and 1.68, respectively.

Section 46(f)(6), IRC, states that the amortization of ITCs should be determined by the period of time actually used in computing depreciation expense for rate making purposes and on the regulated books of the utility. Since staff is recommending a change in remaining lives, it is also important to change the amortization of ITCs to avoid violation of the provisions of sections 46 and 1.46, IRC and REGs, respectively.

Section 203(3) of the Tax Reform Act of 1986 (the Act) prohibits rapid flowback of depreciation related (protected) EDIT. Further, Rule 25-14.013, Accounting for Deferred Income Taxes Under SFAS 109, Florida Administrative Code, generally prohibits EDIT from being written off any faster than allowed under the Act. The Act, SFAS 109, and Rule 25-14.013, Florida Administrative Code regulate the flowback of EDIT. Therefore, staff recommends that the flowback of EDIT be adjusted to comply with the Act, SFAS 109, and Rule 25-14.013, Florida Administrative Code.

Staff, Internal Revenue Service, and independent outside auditors look to a company's books and records and at the orders and rules of the jurisdictional regulatory authorities to determine if the books and records are maintained in the appropriate manner and to determine the intent of the regulatory bodies in regard to normalization. Therefore, staff recommends that the current amortization of ITCs and the flowback of EDIT be revised to reflect the approved remaining lives. In order for there to be a clear audit trail, a prudent utility will revise ITCs and EDIT amortization and produce work papers to show how the revisions were made.

ISSUE 6: Should this docket be closed?

RECOMMENDATION: This docket should be closed if no person, whose substantial interests are affected by the proposed action, files a protest within the 21 day protest period. (ELIAS)

STAFF ANALYSIS: At the conclusion of the protest period, if no protest is filed, this docket should be closed.

INDIANTOWN GAS COMPANY
1997 STUDY
COMPARISON OF RATES AND COMPONENTS

03-Dec-98
Sheet B

	ACCOUNT	CURRENT AVERAGE REMAINING LIFE (YRS.)	CURRENT NET SALVAGE (%)	CURRENT REMAINING LIFE RATE (%)	STAFF/COMPANY RECOMMENDED AVERAGE REMAINING LIFE (YRS.)	STAFF/COMPANY RECOMMENDED NET SALVAGE (%)	STAFF/COMPANY RECOMMENDED 1/1/98 RESERVE (%)	STAFF/COMPANY RECOMMENDED REMAINING LIFE RATE (%)
GAS DISTRIBUTION								
376	Mains - Steel	19.6	(30.0)	3.1	20.0	(30.0)	64.87	2.3
376	Mains - Plastic	19.0	(30.0)	3.0	24.0	(30.0)	46.94	3.5
378	M&R Equipment - General	15.3	0.0	2.0	16.9	0.0	54.82	2.7
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	18.9	0.0	30.93	3.7
382	Meter Installations	23.0	(5.0)	1.5	34.0	(5.0)	51.70	1.6
383	House Regulators	16.7	0.0	2.0	24.0	0.0	22.68	3.2
384	House Regulators - Installations	23.0	0.0	1.0		NA		
385	M&R Equipment - Industrial	11.9	0.0	2.8	21.0	0.0	24.73	3.6
387	Other Equipment	25.0	0.0	4.0 *	25.0	0.0	0.00	4.0 *
GENERAL PLANT								
391	Office Furniture	5.3	0.0	0.5		NA		
	Computer Equip. - Post '92 Adds.	8.0	0.0	12.5 *	5.6	0.0	89.48 **	1.9
394	Small Tools	20.0	0.0	5.0 *	17.0	0.0	17.45	4.9
396	Power Operated Equipment		NA		13.5	0.0	9.55 **	6.7
397	Communication Equipment	8.0	0.0	12.5 *	11.5	0.0	3.13	8.4
RECOVERY SCHEDULES								
	Mains-Steel Rets.	19.6	(30.0)	3.1		3-YR. RECOVERY		
	Services-Steel Rets.	17.4	(35.0)	3.2		3-YR. RECOVERY		
	Meters Rets.	13.1	0.0	1.6		3-YR. RECOVERY		
	Meter Installations Rets.	23.0	(5.0)	1.5		3-YR. RECOVERY		
	House Regulators Rets.	16.7	0.0	2.0		3-YR. RECOVERY		
	House Regulators-Installations Rets.	23.0	0.0	1.0		3-YR. RECOVERY		

* Denotes whole life rate.

** Denotes restated reserve after corrective measures.

DOCKET NO. 980845-GU
DATE: December 3, 1998

ATTACHMENT B

INDIANTOWN GAS COMPANY
1997 STUDY
COMPARISON OF EXPENSES

03-Dec-98
Sheet C

	ACCOUNT	INVESTMENT 1/1/98 ($)	RESERVE 1/1/98 ($)	CURRENT RATE (%)	CURRENT EXPENSES ($)	STAFF/COMPANY RECOMMENDED RATE %	STAFF/COMPANY RECOMMENDED EXPENSES $	STAFF/COMPANY RECOMMENDED CHANGE IN EXPENSES $
GAS DISTRIBUTION								
376	Mains - Steel	132,622	112,550	3.1	4,111	2.3	3,050	(1,061)
376	Mains - Plastic	293,388	137,703	3.0	8,802	3.5	10,269	1,467
378	M&R Equipment - General	47,581	26,086	2.0	952	2.7	1,285	333
380	Services - Steel	4,343	4,229	3.2	139	2.8	122	(17)
380	Services - Plastic	30,886	19,522	3.5	1,081	2.8	865	(216)
381	Meters	31,094	9,617	1.6	498	3.7	1,150	652
382	Meter Installations	2,118	1,095	1.5	32	1.6	34	2
383	House Regulators	9,710	2,202	2.0	194	3.2	311	117
384	House Regulators - Installations	0	0	1.0	0	NA	0	0
385	M&R Equipment - Industrial	100,995	24,978	2.8	2,828	3.6	3,636	808
387	Other Equipment	0	0	4.0 *	0	4.0	0	0
	Total Distribution	652,737	337,982		18,637		20,722	2,085
GENERAL PLANT								
391	Office Furniture	39,147	39,147 **	0.5	196	NA	0	(196)
	Computer Equip. - Post '92 Adds.	27,132	24,278 **	12.5 *	3,392	1.9	516	(2,876)
392	Small tools - Post '92 Adds	5,262	918	5.0 *	263	4.9	258	(5)
396	Power Operated Equipment	9,824	938 **	NA	0	6.7	658	658
397	Communication Equipment	1,502	47	12.5 *	188	8.4	126	(62)
	Total General	82,867	65,328		4,039		1,558	(2,481)
RECOVERY SCHEDULES								
	Mains-Steel Rets.	9,471	7,992	3.1	294	3-Yr. Amort.	1,440	1,146
	Services-Steel Rets.	14,174	13,802	3.2	454	3-Yr. Amort.	124	(330)
	Meters Rets.	8,140	2,517	1.6	130	3-Yr. Amort.	1,874	1,744
	Meter Installations Rets.	4,412	2,281	1.5	66	3-Yr. Amort.	710	644
	House Regulators Rets.	1,649	374	2.0	33	3-Yr. Amort.	425	392
	House Regulators-Installations Rets.	2,425	1,998	1.0	24	3-Yr. Amort.	142	118
	Total Recovery Schedules	40,271	28,964		1,001		4,715	3,714
	Total Plant	775,875	432,274		23,677		26,995	3,318

* Denotes whole life rate.
** Denotes restated reserve after corrective measures.