



Public Service Commission

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DATE: NOVEMBER 18, 1999
TO: DIRECTOR, DIVISION OF RECORDS AND REPORTING (BAYO)
FROM: DIVISION OF AUDITING AND FINANCIAL ANALYSIS (LEE, SWAIN, CAUSSEAU)
DIVISION OF ELECTRIC AND GAS (MILLS)
DIVISION OF LEGAL SERVICES (ELIAS)
RE: DOCKET NO. 990229-GU - DEPRECIATION STUDY BY CITY GAS COMPANY OF FLORIDA.

AGENDA: 11/30/1999 - REGULAR AGENDA - PROPOSED AGENCY ACTION - INTERESTED PERSONS MAY PARTICIPATE

CRITICAL DATES: NONE

SPECIAL INSTRUCTIONS: NONE

FILE NAME AND LOCATION: S:\PSC\AFA\WP\990229.RCM
R:\PSC\AFA\123\cgstudy2.wk4

CASE BACKGROUND

Rule 25-7.045, Florida Administrative Code, requires gas utilities to file comprehensive depreciation studies at least once every five years. On March 1, 1999, City Gas Company of Florida (City or company) filed its regular depreciation study in accordance with this rule. Staff has completed its review and presents its recommendation herein.

DOCUMENT NUMBER-DATE
14243 NOV 18 99
FPSC-RECORDS/REPORTING

DISCUSSION OF ISSUES

ISSUE 1: Should the current depreciation rates of City Gas Company of Florida (City or company) be changed?

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

STAFF ANALYSIS: The last comprehensive depreciation represcription for City was made in 1994. This current study is in keeping with Rule 25-7.045, Florida Administrative Code, which requires gas companies to file a comprehensive depreciation study at least once every five years from the submission date of the previously filed study. A review of the company's activity data indicates the need to revise depreciation rates.

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

RECOMMENDATION: Staff recommends approval of the company's requested January 1, 1999 implementation date for new rates. (SWAIN)

STAFF ANALYSIS: City has proposed an implementation date for new depreciation rates of January 1, 1999. All supportive data and calculations have been submitted abutting this date. Staff recommends approval of this date as being the earliest practicable date for utilizing the revised rates.

ISSUE 3: Should any corrective reserve transfers be made?

RECOMMENDATION: Yes. Staff recommended corrective measures are shown on Attachment A, page 8. This action will bring each affected account's reserve more in line with its calculated theoretical level. (LEE, SWAIN)

STAFF ANALYSIS: This study affords staff and the company the opportunity to review the reserve status of all accounts to determine the need for corrective reserve measures. Due to the effects reserve transfers may have on lease arrangements, reserve allocations should ideally be made between accounts of a given function. The allocations shown on Attachment A, page 8, address major imbalances generally brought about by past missed estimates of life and salvage factors. The recommended corrective action will bring each affected account's reserve more in line with its calculated theoretically correct level.

ISSUE 4: What are the appropriate depreciation rates?

RECOMMENDATION: Staff recommended depreciation rates are shown on Attachment B, page 9. Resultant estimated expenses for 1999 are shown on Attachment C, page 10. As summarized on Attachment C, the recommended rates result in an increase in annual expenses of about \$470,000. (LEE, SWAIN)

STAFF ANALYSIS: Staff recommendations are the result of a comprehensive review of the Company's submitted study. The investments and reserves reflect actual amounts as of January 1, 1999 restated to reflect the results of recently completed physical inventories. In addition, certain accounts' reserve positions have been restated to reflect corrective measures.

This filing was essentially a staff-assisted study. The company provided aged retirement data for the 1995 - 1999 period. Staff determined the average age and worked with the company in developing life and salvage values. As a result of the review and analytical process, staff and the company agree on lives, net salvages, and resultant depreciation rates for all accounts.

The recommended changes in depreciation rates can be attributed mainly to the following factors: updated ages to reflect activity since the last represcription, results of physical inventories, and/or changes in the reserve position. The accounts with a substantial change in depreciation expense are outlined below.

Distribution Assets

The recommended cost of removal factors for Mains (Account 376) and Services (Account 380) represent the most significant changes in distribution plant depreciation rates. While mains and services are generally abandoned in place, there are removal costs incurred with cutting, capping, and surface restoration. The recommended cost of removal factors are based on company specific information regarding the average length of retired main or service, and the labor, equipment, and material charges to abandon the pipe.

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General Plant

The accounts in this function have been impacted by the results of company performed physical inventories and recommended corrective reserve measures. The investment and reserve positions for the affected accounts have been restated to recognize the inventory adjustments. Additionally, the average age was recalculated for the remaining surviving investments.

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 and recovery schedules?

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, 1999. (CAUSSEAUX)

STAFF ANALYSIS: In earlier issues, staff recommends revisions to the company's remaining lives, to be effective January 1, 1999. 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

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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: If no person whose substantial interests are affected by the proposed agency action files a protest within twenty-one days of the issuance of the order, this docket should be closed upon the issuance of a consummating order. (ELIAS)

STAFF ANALYSIS: If no person whose substantial interests are affected files a timely request for a Section 120.57, Florida Statutes, hearing within twenty-one days, no further action will be required and this docket should be closed upon the issuance of a consummating order.

ATTACHMENT A

RECOMMENDED CORRECTIVE RESERVE TRANSFERS

Account	Book Reserve 1/1/99	Theoretical Reserve	Recommended Transfer	Restated Reserve
	(\$)	(\$)	(\$)	(\$)
390 Structures & Imprv.	505,308	388,456	(116,852)	388,456
391.1 Office Furniture	327,396	374,143	12,468	339,864
391.2 Office Machines and Equip.	416,807	338,855	(77,952)	338,855
391.3 Computers	813,020	835,532	22,512	835,532
392 Transportation	130,955	260,604	129,649	260,604
393 Stores	1,858	8,661	6,803	8,661
397 Communication	245,687	269,059	23,372	269,059
Total	2,441,031	2,475,310	0	2,441,031

**CITY GAS COMPANY OF FLORIDA
1999 STUDY
COMPARISON OF RATES AND COMPONENTS**

ACCOUNT	CURRENT		
	AVERAGE REMAINING LIFE	NET SALVAGE	REMAINING LIFE RATE
	(YRS.)	(%)	(%)
DISTRIBUTION ASSETS			
375.0 Structures & Improvements	35.0	0.0	2.1
376.0 Mains - Other Than Plastic	23.0	(15.0)	2.9
376.0 Mains - Plastic	36.0	(15.0)	2.9
379.0 M&R Equipment - City Gate	23.0	(5.0)	3.6
380.0 Services - Other Than Plastic	17.1	(35.0)	4.5
380.0 Services - Plastic	30.0	(30.0)	3.8
381.0 Meters	13.4	0.0	4.4
382.0 Meter Installations	21.0	(5.0)	3.0
383.0 House Regulators	16.3	0.0	3.7
384.0 Regulator Installations	21.0	(5.0)	3.4
385.0 Industrial M&R Station Equipment	19.5	0.0	3.9
387.0 Other Equipment	6.6	0.0	4.1
GENERAL PLANT			
390.0 Structures & Improvements	36.0	0.0	1.9
391.1 Office Furniture	13.5	0.0	5.5
391.2 Office Machines & Equipment	5.2	2.0	8.3
391.3 Computers	3.6	5.0	15.5
392.0 Transportation Equip. - Combined	4.7	0.0	4.5
393.0 Stores Equipment	10.4	0.0	4.7
394.0 Tools, Shop, Garage Equipment	6.7	0.0	6.3
395.0 Laboratory Equipment	10.7	0.0	4.6
397.0 Communication Equipment	6.5	5.0	6.8
398.0 Misc. Equipment	5.9	0.0	6.4

STAFF PROPOSED			
AVERAGE REMAINING LIFE	NET SALVAGE	1/1/99 RESERVE	REMAINING LIFE RATE
(YRS.)	(%)	(%)	(%)
30.0	0.0	22.72	2.6
24.0	(20.0)	51.68	2.8
33.0	(20.0)	18.25	3.1
25.0	(5.0)	17.60	3.5
13.7	(80.0)	79.02	7.4
28.0	(35.0)	21.25	4.1
15.8	0.0	36.80	4.0
23.0	(5.0)	33.97	3.1
15.1	0.0	39.60	4.0
23.0	(5.0)	31.53	3.2
24.0	0.0	20.00	3.3
9.5	0.0	68.33	3.3
33.0	0.0	17.50 **	2.5
10.2	0.0	41.73 **	5.7
3.3	2.0	70.94 **	8.2
2.2	0.0	63.26 **	16.7
4.9	0.0	59.33 **	8.3
6.1	0.0	75.60 **	4.0
12.1	0.0	17.49	6.8
10.0	0.0	5.09	9.5
8.3	0.0	31.11 **	8.3
11.1	0.0	28.23	6.5

**Denotes restated reserve after corrective transfers

**CITY GAS COMPANY OF FLORIDA
1999 STUDY
COMPARISON OF EXPENSES**

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ACCOUNT	1/1/99 INVESTMENT (\$)	1/1/99 RESERVE (\$)	CURRENT		STAFF PROPOSED		
			RATE (%)	EXPENSES (\$)	RATE (%)	EXPENSES (\$)	CHANGE IN EXPENSES (\$)
DISTRIBUTION ASSETS							
375.0 Structures & Improvements	521,761	118,519	2.1	10,957	2.6	13,566	2,609
376.0 Mains - Other Than Plastic	52,664,378	27,218,413	2.9	1,527,267	2.8	1,474,603	(52,664)
376.0 Mains - Plastic	32,296,936	5,893,643	2.9	936,611	3.1	1,001,205	64,594
379.0 M&R Equipment - City Gate	4,109,002	723,342	3.6	147,924	3.5	143,815	(4,109)
380.0 Services - Other Than Plastic	12,934,468	10,221,155	4.5	582,051	7.4	957,151	375,100
380.0 Services - Plastic	19,182,445	4,075,936	3.8	728,933	4.1	786,480	57,547
381.0 Meters	7,124,233	2,621,718	4.4	313,466	4.0	284,969	(28,497)
382.0 Meter Installations	2,596,003	881,862	3.0	77,880	3.1	80,476	2,596
383.0 House Regulators	2,154,935	853,354	3.7	79,733	4.0	86,197	6,464
384.0 Regulator Installations	1,097,490	346,003	3.4	37,315	3.2	35,120	(2,195)
385.0 Industrial M&R Station Equipment	2,201,872	440,374	3.9	85,873	3.3	72,662	(13,211)
387.0 Other Equipment	158,309	108,173	4.1	6,491	3.3	5,224	(1,267)
TOTAL DISTRIBUTION	137,041,832	53,502,492		4,534,501		4,941,468	406,967
GENERAL PLANT							
390.0 Structures & Improvements	2,219,749	388,456 **	1.9	42,175	2.5	55,494	13,319
391.1 Office Furniture	814,416	339,864 **	5.5	44,793	5.7	46,422	1,629
391.2 Office Machines & Equipment	477,664	338,855 **	8.3	39,646	8.2	39,168	(478)
391.3 Computers	1,320,790 •	835,532 **	15.5	204,722	16.7	220,572	15,850
392.0 Transportation Equip. - Combined	439,245 *	260,604 **	4.5	19,766	8.3	36,457	16,691
393.0 Stores Equipment	11,456 •	8,661 **	4.7	538	4.0	458	(80)
394.0 Tools, Shop, Garage Equipment	328,661 *	57,494	6.3	20,706	6.8	22,349	1,643
395.0 Laboratory Equipment	23,017 *	1,172	4.6	1,059	9.5	2,187	1,128
397.0 Communication Equipment	864,862	269,059 **	6.8	58,811	8.3	71,784	12,973
398.0 Misc. Equipment	92,943	26,238	6.4	5,948	6.5	6,041	93
TOTAL GENERAL PLANT	6,592,803	2,525,935		438,164		500,932	62,768
GRAND TOTAL	143,634,635	56,028,427		4,972,665		5,442,400	469,735

* Restated after inventory adjustment

** Denotes restated reserve after corrective transfers

ATTACHMENT C