

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

In re: Depreciation study by  
City Gas Company of Florida.

DOCKET NO. 990229-GU  
ORDER NO. PSC-99-2505-PAA-GU  
ISSUED: December 21, 1999

The following Commissioners participated in the disposition of this matter:

JOE GARCIA, Chairman  
J. TERRY DEASON  
SUSAN F. CLARK  
E. LEON JACOBS, JR.

NOTICE OF PROPOSED AGENCY ACTION  
ORDER REQUIRING CORRECTIVE RESERVE TRANSFERS  
AND REVISING DEPRECIATION RATES

BY THE COMMISSION:

NOTICE is hereby given by the Florida Public Service Commission that the action discussed herein is preliminary in nature and will become final unless a person whose interests are substantially affected files a petition for a formal proceeding, pursuant to Rule 25-22.029, Florida Administrative Code.

I. 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. This Order addresses the Company's filing.

II. CORRECTIVE RESERVE TRANSFERS

This study affords the opportunity to review the reserve status of all accounts to determine the need for corrective reserve

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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 7, address major imbalances generally brought about by past estimates of life and salvage factors. The corrective action approved in this Order will bring each affected account's reserve more in line with its calculated theoretically correct level.

### III. APPROPRIATE DEPRECIATION RATES

We approve the remaining lives, net salvages, and resulting depreciation rates shown on Attachment B, page 8. The approved depreciation rates 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.

The company provided aged retirement data for the 1995 - 1999 period. Commission Staff then determined the average age and worked with the company in developing life and salvage values. As a result of the review and analytical process, the company agrees with the lives, net salvages, and resultant depreciation rates for all accounts.

The approved changes in depreciation rates can be attributed mainly to the following factors: updated ages to reflect activity since the last rescription, 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 approved 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 approved 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.

General Plant

The accounts in this function have been impacted by the results of company performed physical inventories and approved 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.

IV. IMPLEMENTATION DATE FOR NEW RATES

City has proposed an implementation date for new depreciation rates of January 1, 1999. All supporting data and calculations have been submitted based on this implementation date. We approve this date as being the earliest practicable date for utilizing the revised rates.

V. AMORTIZATION OF INVESTMENT TAX CREDITS (ITCS) AND THE FLOWBACK OF EXCESS DEFERRED INCOME TAXES (EDIT)

In this Order, we have approved 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 ratemaking purposes and on the regulated books of the utility. Since we have approved changes 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, we find that the flowback of EDIT shall be adjusted to comply with the Act, SFAS 109, and Rule 25-14.013, Florida Administrative Code.

The Commission, the 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, we find that the current amortization of ITCs and the flowback of EDIT shall be revised to reflect the approved remaining lives. To assure a clear audit trail, a prudent utility will revise ITCs and EDIT amortization and produce work papers to show how the revisions were made. Therefore, City Gas Company of Florida shall 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.

Based on the foregoing, it is therefore

ORDERED by the Florida Public Service Commission that the corrective reserve transfers set forth in Attachment A to this Order are approved. It is further

ORDERED that remaining lives, net salvages, and resulting depreciation rates set forth in Attachment B to this Order are approved, effective January 1, 1999. It is further

ORDERED that City Gas Company of Florida shall revise its current amortization of Investment Tax Credits and the flowback of Excess Deferred Income Taxes to reflect the changes approved in this Order. It is further

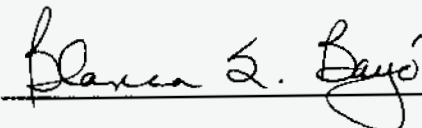
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ORDERED that City Gas Company of Florida shall file detailed calculations showing the revised Investment Tax Credit amortization and flowback of Excess Deferred Income Taxes at the same time it files its surveillance report covering the period ending December 31, 1999. It is further

ORDERED that the provisions of this Order, issued as proposed agency action, shall become final and effective upon the issuance of a Consummating Order unless an appropriate petition, in the form provided by Rule 28-106.201, Florida Administrative Code, is received by the Director, Division of Records and Reporting, 2540 Shumard Oak Boulevard, Tallahassee, Florida 32399-0850, by the close of business on the date set forth in the "Notice of Further Proceedings" attached hereto. It is further

ORDERED that in the event this Order becomes final, this Docket shall be closed.

By ORDER of the Florida Public Service Commission this 21st day of December, 1999.



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BLANCA S. BAYÓ, Director  
Division of Records and Reporting

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NOTICE OF FURTHER PROCEEDINGS OR JUDICIAL REVIEW

The Florida Public Service Commission is required by Section 120.569(1), Florida Statutes, to notify parties of any administrative hearing that is available under Section 120.57, Florida Statutes, as well as the procedures and time limits that apply. This notice should not be construed to mean all requests for an administrative hearing will be granted or result in the relief sought.

Mediation may be available on a case-by-case basis. If mediation is conducted, it does not affect a substantially interested person's right to a hearing.

The action proposed herein is preliminary in nature. Any person whose substantial interests are affected by the action proposed by this order may file a petition for a formal proceeding, in the form provided by Rule 28-106.201, Florida Administrative Code. This petition must be received by the Director, Division of Records and Reporting, 2540 Shumard Oak Boulevard, Tallahassee, Florida 32399-0850, by the close of business on January 11, 2000.

In the absence of such a petition, this order shall become final and effective upon the issuance of a Consummating Order.

Any objection or protest filed in this docket before the issuance date of this order is considered abandoned unless it satisfies the foregoing conditions and is renewed within the specified protest period.

CITY GAS COMPANY OF FLORIDA  
 1999 DEPRECIATION STUDY  
 COMMISSION APPROVED RESTATED RESERVES

Account	Book Reserve 01/01/99 (\$)	Approved Transfer (\$)	Restated Reserve (\$)
390.0 Structures & Improvements	505,308	(116,852)	388,456
391.1 Office Furniture	327,396	12,468	339,864
391.2 Office Machines & Equip.	416,807	(77,952)	338,855
391.3 Computers	813,020	22,512	835,532
392.0 Transportation	130,955	129,549	260,504
393.0 Stores	1,858	6,803	8,661
397.0 Communication	245,687	23,372	269,059
<b>Total</b>	<b>2,441,031</b>	<b>0</b>	<b>2,441,031</b>

CITY GAS COMPANY OF FLORIDA  
 1999 DEPRECIATION STUDY  
 APPROVED RATES AND COMPONENTS

ACCOUNT	COMMISSION APPROVED			
	Average Remaining Life (Yrs)	Net Salvage (%)	1/1/99 Reserve (%)	Remaining Life Rate (%)
<b>DISTRIBUTION ASSETS</b>				
375.0 Structures & Improvements	30.0	0.0	22.72	2.6
376.0 Mains - Other Than Plastic	24.0	(20.0)	51.68	2.8
376.0 Mains - Plastic	33.0	(20.0)	18.25	3.1
379.0 M&R Equipment - City Gate	25.0	(5.0)	17.60	3.5
380.0 Services - Other Than Plastic	13.7	(80.0)	79.02	7.4
380.0 Services - Plastic	28.0	(35.0)	21.25	4.1
381.0 Meters	15.8	0.0	36.80	4.0
382.0 Meter Installations	23.0	(5.0)	33.97	4.0
383.0 House Regulators	15.1	0.0	39.60	3.1
384.0 Regulator Installations	23.0	(5.0)	31.53	3.2
385.0 Industrial M&R Station Equipment	24.0	0.0	20.00	3.3
387.0 Other Equipment	9.5	0.0	68.33	3.3
<b>GENERAL PLANT</b>				
390.0 Structures & Improvements	33.0	0.0	17.50 **	2.5
391.1 Office Furniture	10.2	0.0	41.73 **	5.7
391.2 Office Machines & Equipment	3.3	2.0	70.94 **	8.2
391.3 Computers	2.2	0.0	63.26 **	16.7
392.0 Transportation Equip. - Combined	4.9	0.0	59.33 **	8.3
393.0 Stores Equipment	6.1	0.0	75.60 **	4.0
394.0 Tools, Shop, Garage Equipment	12.1	0.0	17.49	6.8
395.0 Laboratory Equipment	10.0	0.0	5.09	9.5
397.0 Communication Equipment	8.3	0.0	31.11 **	8.3
398.0 Misc. Equipment	11.1	0.0	28.33	6.5

\*\*Denotes restated reserve after corrective transfers