

State of Florida



Public Service Commission

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TALLAHASSEE, FLORIDA 32399-0850

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COMMISSION CLERK

DATE: JUNE 6, 2002

TO: DIRECTOR, DIVISION OF THE COMMISSION CLERK &  
ADMINISTRATIVE SERVICES (BAYÓ)

FROM: DIVISION OF ECONOMIC REGULATION (MEEKS) *BBM DM*  
OFFICE OF THE GENERAL COUNSEL (ECHTERNACHT) *KNE JDJ*

RE: DOCKET NO. 020340-GU - REQUEST BY FLORIDA PUBLIC UTILITIES  
COMPANY FOR DEPRECIATION RATES TO REFLECT ACQUISITION OF  
ATLANTIC UTILITIES, A FLORIDA DIVISION OF SOUTHERN UNION  
COMPANY D/B/A SOUTH FLORIDA NATURAL GAS.

AGENDA: 06/18/02 - REGULAR AGENDA - PROPOSED AGENCY ACTION -  
INTERESTED PERSONS MAY PARTICIPATE

CRITICAL DATES: NONE

SPECIAL INSTRUCTIONS: NONE

FILE NAME AND LOCATION: S:\PSC\ECR\WP\020340.RCM

CASE BACKGROUND

Florida Public Utilities Company (FPUC or the Company) acquired the operating assets of South Florida Natural Gas Company (SFNG), effective December 15, 2001. On April 18, 2002, FPUC submitted a request to consolidate the depreciation rates for the combined assets of FPUC and SFNG, effective January 1, 2002. Also, FPUC requests it be allowed to use these consolidated depreciation rates until its next scheduled depreciation review, which is due by March 10, 2004. Staff has completed its review and presents its recommendation herein.

DOCUMENT NUMBER-DATE

05909 JUN-68

FPSC-COMMISSION CLERK

**DISCUSSION OF ISSUES**

**ISSUE 1:** Should Florida Public Utilities Company's request for consolidated depreciation rates be granted?

**RECOMMENDATION:** Yes. Staff recommends approval of the consolidated depreciation rates as shown on Attachment A, page 5. These rates represent a composite of the rates currently approved for the assets affected by the purchase of the distribution system of South Florida Natural Gas. The impact of these consolidated rates is a slight increase in annual depreciation expense of approximately \$200. (MEEKS)

**STAFF ANALYSIS:** On December 15, 2001, FPUC acquired the distribution and general plant assets of SFNG. On April 18, 2002, FPUC submitted the instant request for consolidated depreciation rates for the combined assets of FPUC and SFNG. Also, FPUC requests it be allowed to use these consolidated depreciation rates until its next scheduled depreciation review.

The instant request does not reflect an overall review of life, salvage, and reserve parameters but merely represents a composite of the currently prescribed rates of each company. FPUC's current depreciation rates were approved by Order No. PSC-00-1082-PAA-GU, issued June 5, 2000, in Docket No. 990302-GU. The rates were effective January 1, 2000. SFNG's current depreciation rates were approved by Order No. PSC-98-1763-FOF-GU, issued December 30, 1998, in Docket No. 980700-GU. Its rates were implemented effective July 1, 1998. By Rule 25-7.045(8)(a), Florida Administrative Code, FPUC is required to file its next overall review of depreciation parameters on or before March 10, 2004. At that time, a comprehensive review of the overall capital recovery position of the combined assets will be made.

The books and records of SFNG are being combined with those of FPUC. For this reason, FPUC has requested that the currently approved depreciation rates for each company be consolidated for the combined assets. The company has developed a consolidated depreciation rate for each individual account using acceptable weighting principles.

The total investment of the FPUC and SFNG combined assets is \$62,444,288. Only 7%, or \$4,197,252, represents the SFNG assets. For this reason, there is relatively little impact on depreciation expense due to the merger of the two companies, as is indicated on Attachment B, page 6. The consolidated rates will remain in effect until FPUC's next depreciation review.

Staff recommends approval of the consolidated depreciation rates as shown on Attachment A, page 5.

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

**RECOMMENDATION:** Staff recommends approval of FPUC's requested January 1, 2002, implementation date for the new consolidated depreciation rates. (MEEKS)

**STAFF ANALYSIS:** FPUC has proposed January 1, 2002, as the implementation date for new consolidated depreciation rates. The calculations to combine the rates of FPUC and SFNG are based on an acquisition date of December 14, 2001, for the SFNG assets and November 30, 2001, for the existing FPUC assets since that was the balance sheet date closest to the acquisition date. January 1, 2002 is the first full month representing the combined FPUC and SFNG assets. Staff recommends the approval of the proposed date as being the earliest practicable date for utilizing the consolidated rates.

**ISSUE 3:** When should FPUC file its next comprehensive depreciation study?

**RECOMMENDATION:** Pursuant to Rule 25-7.045(8)(a), Florida Administrative Code, FPUC is required to file its next comprehensive depreciation review by March 10, 2004.

**STAFF ANALYSIS:** This instant filing simply represents a compositing of the currently prescribed depreciation rates for FPUC and SFNG based on the combined investments for the consolidated company. It is not a comprehensive review of life, salvage, or reserve factors. Depreciation parameters for FPUC were last reviewed in a study filed on March 10, 1999. Under Rule 25-7.045(8)(a), Florida Administrative Code, gas companies are to file a comprehensive depreciation study at least once every five years from the date of the last submitted study. Staff therefore recommends that the next comprehensive depreciation study be filed no later than March 10, 2004.

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**ISSUE 4:** Should this docket be closed?

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

**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 should be closed upon the issuance of a consummating order.

**Florida Public Utilities Company  
 Recommended Consolidated Depreciation Rates**

| <b>Account</b>                               | <b>Fla. Pub. Utilities</b>             | <b>So. Fla. Natural Gas</b>            | <b>Staff Recommended</b>                    |
|--|--|--|---|
|  | <u>Current Remaining Life Rate (%)</u> | <u>Current Remaining Life Rate (%)</u> | <u>Consolidated Remaining Life Rate (%)</u> |
| <b>Distribution Plant</b>                    |  |  |   |
| 375.0 Structures & Improvements              | 2.9                                    | 3.3                                    | 2.9   |
| 376.1 Mains-Plastic                          | 2.5                                    | 3.0                                    | 2.5   |
| 376.2 Mains-Steel                            | 2.6                                    | 3.5                                    | 2.7   |
| 378.0 Measuring & Regulating Eqpt.-General   | 3.7                                    | 3.1                                    | 3.6   |
| 379.0 Measuring & Regulating Eqpt.-City Gate | 3.6                                    | 2.9                                    | 3.6   |
| 380.1 Services-Plastic                       | 3.5                                    | 4.1                                    | 3.5   |
| 380.2 Services-Steel                         | 6.0                                    | 5.7                                    | 5.9   |
| 381.0 Meters                                 | 3.4                                    | 3.4                                    | 3.4   |
| 382.0 Meter Installations                    | 3.2                                    | 3.6                                    | 3.2   |
| 383.0 House Regulators                       | 3.6                                    | 3.3                                    | 3.6   |
| 384.0 Regulator Installations                | 3.1                                    | N/A                                    | 3.1   |
| 385.0 Industrial M & R Station Eqpt.         | 3.9                                    | 2.9                                    | 3.8   |
| 387.0 Other Eqpt.                            | 3.9                                    | 2.7                                    | 3.9   |
| <b>General Plant</b>                         |  |  |   |
| 390.0 Structures & Improvements              | 2.5                                    | 5.2                                    | 2.6   |
| 391.1 Office Furn.                           | 4.8                                    | 3.9                                    | 4.6   |
| 391.2 Office Machines & Eqpt.                | 7.7                                    | 6.7                                    | 7.7   |
| 391.3 Computers                              | 8.1                                    | 20.2                                   | 8.7   |
| 392.1 Trans.-Autos                           | 11.3                                   | N/A                                    | 11.3  |
| 392.2 Trans.-Light Trucks                    | 4.3                                    | 13.9                                   | 4.7   |
| 392.3 Trans.-Trailers                        | 2.7                                    | N/A                                    | 2.7   |
| 393.0 Stores Eqpt.                           | 5.8                                    | N/A                                    | 5.8   |
| 394.0 Tools, Shop, Garage Eqpt.              | 6.7                                    | 1.8                                    | 6.5   |
| 395.0 Laboratory Eqpt.                       | 5.0                                    | 2.2                                    | 2.2   |
| 396.0 Power Operated Eqpt.                   | 6.0                                    | 8.5                                    | 6.4   |
| 397.0 Communication Eqpt.                    | 7.1                                    | 10.0                                   | 7.2   |
| 398.0 Misc. Eqpt.                            | 5.0                                    | 6.9                                    | 5.3   |

FLORIDA PUBLIC UTILITIES COMPANY  
COMPARISON OF DEPRECIATION EXPENSE

| ACCOUNT  | FPUC                         |                           |                  | SPFC                         |                           |                | COMBINED COMPANY  |                         |                  |                         |
|--|------------------------------|---------------------------|------------------|------------------------------|---------------------------|----------------|-------------------|-------------------------|------------------|-------------------------|
|  | INVEST.<br>AS OF<br>11/30/01 | CURRENT<br>DEPR.<br>RATES | EXPENSE          | INVEST.<br>AS OF<br>12/14/01 | CURRENT<br>DEPR.<br>RATES | EXPENSE        | INVEST.           | COMB.<br>DEPR.<br>RATES | EXPENSE          | CHANGE<br>IN<br>EXPENSE |
| <b>DISTRIBUTION PLANT</b>                        | (\$)                         | (%)                       | (\$)             | (\$)                         | (%)                       | (\$)           | (\$)              | (%)                     | (\$)             | (\$)                    |
| 375 0 Structures & Improvements                  | 508,087                      | 2.9                       | 14,735           | 2,790                        | 3.3                       | 92             | 510,877           | 2.9                     | 14,815           | 11                      |
| 376.1 Mains-Plastic                              | 11,051,350                   | 2.5                       | 276,284          | 1,015,178                    | 3.0                       | 30,455         | 12,066,528        | 2.5                     | 301,663          | 5,076                   |
| 376.2 Mains-Steel                                | 19,990,304                   | 2.6                       | 519,748          | 1,435,777                    | 3.5                       | 50,252         | 21,426,081        | 2.7                     | 578,504          | (8,504)                 |
| 378 0 Measuring & Regulating Equipment-General   | 190,203                      | 3.7                       | 7,038            | 41,642                       | 3.1                       | 1,291          | 231,845           | 3.6                     | 8,346            | (18)                    |
| 379.0 Measuring & Regulating Equipment-City Gate | 713,736                      | 3.6                       | 25,694           | 14,711                       | 2.9                       | 427            | 728,447           | 3.6                     | 26,224           | (103)                   |
| 380.1 Services-Plastic                           | 12,601,890                   | 3.5                       | 441,066          | 542,474                      | 4.1                       | 22,241         | 13,144,364        | 3.5                     | 460,053          | 3,255                   |
| 380.2 Services-Steel                             | 1,919,911                    | 6.0                       | 115,195          | 413,912                      | 5.7                       | 23,593         | 2,333,823         | 5.9                     | 137,696          | 1,092                   |
| 381 0 Meters                                     | 3,828,551                    | 3.4                       | 130,171          | 238,917                      | 3.4                       | 8,123          | 4,067,468         | 3.4                     | 138,294          | 0                       |
| 382 0 Meter Installations                        | 1,453,354                    | 3.2                       | 46,507           | 125,729                      | 3.6                       | 4,526          | 1,579,083         | 3.2                     | 50,531           | 503                     |
| 383.0 House Regulators                           | 1,124,343                    | 3.6                       | 40,476           | 91,055                       | 3.3                       | 3,005          | 1,215,398         | 3.6                     | 43,754           | (273)                   |
| 384.0 Regulator Installations                    | 554,817                      | 3.1                       | 17,199           | 51,930                       | 3.6                       | 1,869          | 606,747           | 3.1                     | 18,809           | 260                     |
| 385.0 Industrial M & R Station Equipment         | 90,675                       | 3.9                       | 3,536            | 10,599                       | 2.9                       | 307            | 101,274           | 3.8                     | 3,848            | (5)                     |
| 387.0 Other Equipment                            | 368,963                      | 3.9                       | 14,390           | 15,432                       | 2.7                       | 417            | 384,395           | 3.9                     | 14,991           | (185)                   |
| <b>Total Distribution Plant</b>                  | <b>54,396,184</b>            |                           | <b>1,652,039</b> | <b>4,000,146</b>             |                           | <b>146,599</b> | <b>58,396,330</b> |                         | <b>1,797,52</b>  | <b>1,108</b>            |
| <b>GENERAL PLANT</b>                             |                              |                           |                  |                              |                           |                |                   |                         |                  |                         |
| 390.0 Structures & Improvements                  | 428,589                      | 2.5                       | 10,715           | 19,567                       | 5.2                       | 1,017          | 448,156           | 2.6                     | 11,652           | 80                      |
| 391.1 Office Furniture                           | 38,946                       | 4.8                       | 1,869            | 13,126                       | 3.9                       | 512            | 52,072            | 4.6                     | 2,395            | (14)                    |
| 391.2 Office Machines & Equipment                | 47,510                       | 7.7                       | 3,658            | 2,268                        | 6.7                       | 152            | 49,778            | 7.7                     | 3,833            | (23)                    |
| 391.3 Computers                                  | 477,028                      | 8.1                       | 38,639           | 27,035                       | 20.2                      | 5,461          | 504,063           | 8.7                     | 43,853           | 247                     |
| 392.1 Transportation-Autos                       | 272,581                      | 11.3                      | 30,802           | N/A                          | N/A                       | N/A            | 272,581           | 11.3                    | 30,802           | 0                       |
| 392.2 Transportation-Light Trucks                | 1,895,989                    | 4.3                       | 81,528           | 71,884                       | 13.9                      | 9,992          | 1,967,873         | 4.7                     | 92,490           | (971)                   |
| 392.4 Transportation-Trailers                    | 28,856                       | 2.7                       | 779              | N/A                          | N/A                       | N/A            | 28,856            | 2.7                     | 779              | 0                       |
| 393 0 Stores Equipment                           | 12,997                       | 5.8                       | 754              | N/A                          | N/A                       | N/A            | 12,997            | 5.8                     | 754              | 0                       |
| 394.0 Tools, Shop, Garage Equipment              | 234,261                      | 6.7                       | 15,695           | 12,047                       | 1.8                       | 217            | 246,308           | 6.5                     | 16,010           | (98)                    |
| 395.0 Laboratory Equipment                       | 0                            | 0.0                       | 0                | 823                          | 2.2                       | 18             | 823               | 2.2                     | 18               | 0                       |
| 396 0 Power Operated Equipment                   | 235,272                      | 6.0                       | 14,116           | 42,397                       | 8.5                       | 3,604          | 277,669           | 6.4                     | 17,771           | (51)                    |
| 397 0 Communication Equipment                    | 153,907                      | 7.1                       | 10,927           | 2,803                        | 10.0                      | 280            | 156,710           | 7.2                     | 11,283           | (75)                    |
| 398 0 Miscellaneous Equipment                    | 24,915                       | 5.0                       | 1,246            | 5,156                        | 6.9                       | 356            | 30,071            | 5.3                     | 1,594            | 8                       |
| <b>Total General Plant</b>                       | <b>3,850,851</b>             |                           | <b>210,729</b>   | <b>197,106</b>               |                           | <b>21,609</b>  | <b>4,047,957</b>  |                         | <b>233,234</b>   | <b>(896)</b>            |
| <b>GRAND TOTAL ALL ACCOUNTS</b>                  | <b>58,247,035</b>            |                           | <b>1,862,767</b> | <b>4,197,252</b>             |                           | <b>168,208</b> | <b>62,444,287</b> |                         | <b>2,030,754</b> | <b>312</b>              |