

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

In re: Application for approval
of new depreciation rates by
Tampa Electric Company d/b/a
Peoples Gas System.

DOCKET NO. 010383-GU
ORDER NO. PSC-02-1492-PAA-GU
ISSUED: October 31, 2002

The following Commissioners participated in the disposition of this matter:

LILA A. JABER, Chairman
J. TERRY DEASON
BRAULIO L. BAEZ
MICHAEL A. PALECKI
RUDOLPH "RUDY" BRADLEY

NOTICE OF PROPOSED AGENCY ACTION
ORDER APPROVING NEW DEPRECIATION RATES

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.

Rule 25-7.045, Florida Administrative Code, requires natural gas companies to file a comprehensive depreciation study once every five years. On April 3, 2001, Tampa Electric Company d/b/a Peoples Gas System filed its regular depreciation study in accordance with this rule. Peoples' last comprehensive depreciation study was filed on April 1, 1996.

On January 1, 1997, Peoples was acquired by Tampa Electric Company. On June 30, 1997, Peoples acquired the distribution assets of West Florida Natural Gas Company (WFNG).

The main emphasis of the current study is to establish depreciation rates for the combined assets of Peoples and WFNG and to recognize the effects of procedural changes brought about by the acquisition by Tampa Electric Company.

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We have jurisdiction in this matter pursuant to Sections 366.04, 366.05, and 366.06, Florida Statutes.

I. CHANGES TO CURRENTLY PRESCRIBED DEPRECIATION RATES

A comprehensive review of Peoples' planning and activity since its prior depreciation filing indicates a need for a revision in the currently prescribed depreciation rates. Because Peoples is now a division of Tampa Electric Company, its planning and activities have been brought in line with the policies and procedures of Tampa Electric Company. This has included reducing the motor vehicle fleet. Peoples notes that since the merger with Tampa Electric Company, it has doubled its annual investment in building new infrastructure and is moving toward doubling its customer growth.

Regarding the acquisition of WFNG by Peoples, separate depreciation rates have been maintained for the investments of each company since the acquisition. The depreciation rates currently applied to the WFNG investments are those approved by Order No. PSC-96-0470-FOF-EU, issued April 4, 1996, in Docket No. 959776-GU; those applied to the Peoples' investments were approved by Order No. PSC-96-1368-FOF-GU, issued November 18, 1996, in Docket No. 960404-GU. This current study affords the opportunity to address the appropriate lives, salvage values, reserves, and resulting remaining life depreciation rates for the combined company.

In summary, we find that the resulting effects of the merger activities occurring since the last comprehensive depreciation review as well as changes in account activity and company planning indicate that currently prescribed depreciation rates should be revised.

Peoples originally proposed an implementation date for new depreciation rates of January 1, 2002. Subsequent to the depreciation study filing, the company filed for an increase in revenue rates in Docket No. 020384-GU. As a result, the company revised its proposed implementation date for new depreciation rates to January 1, 2003, to more closely match the increase in depreciation rates to new revenue rates. Peoples updated supportive data and calculations match a January 1, 2003 date.

Accordingly, we find that January 1, 2003, is the appropriate implementation date for the new depreciation rates.

II. CORRECTIVE RESERVE ALLOCATIONS BETWEEN ACCOUNTS

This is the first overall review of Peoples' combined investments and reserves since the acquisition by Tampa Electric Company and the merger with WFNG. Reserve imbalances are primarily a matter of differences in current and past projections. Such deficiencies should be recovered as fast as possible, unless such recovery prevents Peoples from earning a fair and reasonable return on its investments. The combined effect of prior rates and allocations results in surpluses and deficits which should be addressed.

The computer account has experienced large retirements unforeseen at the time of Peoples' last study. For the most part, the retirements were the result of equipment hardware upgrades from 1997-2000. Moreover, the computer account is now being separated between customized software and typical computer equipment, such as personal computers and servers. Prior to the acquisition by Tampa Electric Company, Peoples did not have customized software, but used either off-the-shelf software packages or a manual method. Peoples expects benefits from its customized software to be realized over a 15 year period. As a result, the apparent surplus existing in customized software shall be transferred to the computer account to help correct its calculated deficiency.

The vehicles and laboratory accounts have undergone retirements due to the acquisition by Tampa Electric Company and the merger with WFNG. At the time of the last study, the vehicle account included all automobiles and trucks regardless of size. In the current study, Peoples is establishing an additional vehicle account for Autos & Trucks 3/4 ton to 1 ton. Additionally, since the acquisition by Tampa Electric Company, Peoples implemented a new vehicle policy to reduce the vehicle fleet size, thereby, reducing costs. As a result, surplus vehicles were retired prior to their anticipated service life. The apparent reserve surpluses existing in Account 392.2 and 392.5 as well as the apparent surplus existing in the airplane account (Account 392.3) shall be transferred to help correct the calculated reserve deficiency existing in the vehicle account up to 3/4 ton (Account 392.1).

There is currently a negative reserve existing in laboratory equipment (Account 395). The reserve position is the result of three provers being retired after being in service for two and a half years. The retirements were due to Peoples closing its meter shops and outsourcing meter repairs. The calculated reserve surplus existing in tools, shop, and garage equipment (Account 394) shall be used to correct the reserve deficiency in laboratory equipment, with the remaining surplus to be transferred to the vehicle account, Account 392.1, to help correct its calculated deficiency.

The last account for which a reserve transfer is needed is the stores equipment account (Account 393). This account is currently over accrued by \$3,862. Recognizing that little cost of removal should be incurred from the retirement of this equipment, the reserve surplus shall be transferred to the vehicle account, Account 392.1, to help correct its deficiency.

These approved reserve allocations are shown on Attachment A. These allocations bring each account more in line with its theoretically correct reserve level.

III. REMAINING LIVES, NET SALVAGE, RESERVE AMOUNTS, AND RESULTANT DEPRECIATION RATES

The approved remaining lives, net salvage value, reserves, and resultant rates are shown on Attachment B. The reserve position reflects the reserve allocations discussed above and shown in Attachment A.

It should be noted that the company's proposed depreciation rates reflected a reserve position as of January 1, 2002, as this was the original proposed implementation date for new depreciation rates. While the company updated the requisite data to reflect a January 1, 2003, implementation date, its proposed rates were inadvertently not revised.

Additionally, the company's proposed depreciation rates for some accounts were not the arithmetic calculation resulting from the lives, salvage values, and reserve position indicated in the study, but reflected holding the current depreciation rate position. We find that depreciation rates shall not be held

constant for the sake of maintaining a desired level of expenses. Depreciation rates shall be the result of the appropriate life and salvage estimates along with the current reserve position as of the given point in time the analysis is performed.

The company provided aged retirement data and average age distributions of the surviving investments for each account. Investments, reserves, and activity were estimated through December 31, 2002. As a result of the review and analytical process, we agree with Peoples on lives, net salvage values, and resultant depreciation rates for all accounts.

The approved depreciation rates reflect changes attributed mainly to: (1) activity since the last depreciation study; (2) the merger with Tampa Electric Company and the acquisition of WFNG through the combining of accounts and investments; and, (3) the correction of reserves by transfers to appropriate accounts. A brief discussion of salient matters is set forth below.

A. Distribution Plant

1. Mains and Services

Mains and services comprise about 84 percent of the investment in the distribution plant function. Peoples is still in the process of completing a program of system upgrades to relieve water infiltration and to increase system pressures.

Mains and service lines are generally abandoned in place upon retirement. This involves travel time for the crew, digging down to the main or service, cutting and capping, refilling the hole, and restoring the roadway. Restoring the roadway can become significant if the lines are under pavement. Surface restoration normally occurs at two locations for each service line retired; one at the point of the service riser, and the other at the property line or at the connection to the main. The galvanic action of dissimilar metals such as a galvanized steel service line running off a cast iron main requires that the line be cut at the main rather than the property line. Under these circumstances, paving restoration is required.

The new remaining lives for these accounts simply reflect an update of each account's age to reflect the merger of WFNG and activity since the last depreciation review. We find that a slight increase in the future removal cost for plastic mains is appropriate. While retirement activity has averaged less than 1 percent during the last five years, removal costs have generally averaged more than 50 percent. The lack of retirement activity necessitates reliance on expectations from other gas companies in the state. Generally, negative net salvage projections range from negative 6 percent to negative 30 percent for other gas companies. A negative 10 percent net salvage factor brings Peoples more in the range of these expectations.

2. Measuring and Regulating Station Equipment-General and City Gate (Accounts 378 and 379)

These accounts contain similar types of equipment and therefore should be expected to have similar life and salvage characteristics. Account 378 consists of regulators and other equipment used to maintain the correct operating pressure throughout the distribution system. Account 379 is comprised of regulators and other equipment used to tie the distribution system to the transmission pipeline. The new lives and salvage values are in line with the expected activity for each account.

3. Meters and Regulators (Accounts 381 and 383)

Meters are used to measure gas consumption at the customer's premise; regulators are used to regulate the gas pressure at the customer's premise. Under Rule 25-7.0461(6), Florida Administrative Code, the accounting treatment for this equipment is cradle-to-grave. At the time a meter or regulator is purchased, the cost is capitalized. A retirement does not occur until final disposition. All costs associated with change-outs and refurbishment are expensed.

The meters account is comprised of three different types of meters: diaphragm, rotary, and turbine. Diaphragm meters comprise about 84 percent of the meter account investment and about 99 percent of the total number of meters. As of June 1999, Peoples ceased the repair of diaphragm meters and closed all meter shops. Diaphragm meter services are now outsourced to the North American

Services Group (NASG). The group provides meter services under the standard interest or junk programs approved by our safety engineers. When a diaphragm meter is removed, it is sold to NASG where the meter is either refurbished and resold or junked.

The rotary and turbine meter investment assumes status quo. These meters are not being outsourced due to size and cost; they are tested on-site with portable field provers.

In light of the meter outsourcing, the life of the diaphragm meters is more of a location life rather than a cradle-to-grave life. Cradle-to-grave measures the life from the time the meter is purchased to the time it is junked. The movement from one location to another or from the field to the meter shop for refurbishment does not constitute a retirement.

According to Peoples, meters are now retired at the time they are sold to NASG, regardless if NASG refurbishes them or not. Although the impact of the outsourcing program on the life of the diaphragm meters cannot be fully quantified at this time, we find that the program will have the effect of shortening the life for these meters while, at the same time, increasing the likelihood of salvage being realized at retirement. For this reason, a reduction in life expectancy with an increase in potential salvage shall be recognized. At this time, we approve a 23 year average service life with a 5 percent net salvage until the full effect of the new program can be determined.

The new meter program does not include regulators. The company found it would be just as costly to transport and test used regulators as to install a new regulator. There has been an increase in the retirement of regulators while changing out the failed families of meters since more new regulators are installed when installing new meters.

4. Meter and Regulator Installations (Accounts 382 and 384)

When a meter or regulator is placed in a location which has never before had service, or when an additional meter or regulator is added to an old location (increasing the number at the location), the installation costs are capitalized. Generally, meter and regulator installations are retired only when the meter

or regulator is removed from the location and no new one is installed, or when service through the meter or regulator is cut. In other words, the life of these installations should be very similar to the life of services.

However, Peoples developed a tracking system that allows the company to track meter and regulator installations on a detailed basis. With this software, a monthly report is generated which lists all meters that have been removed for inactivity, customer loss, etc. Since the vintage when the meter was originally installed on a specific premise is included on the report, meter and regulator installations of the same vintage are retired from the corresponding plant account.

Notwithstanding this, Peoples discovered that implementing the outsourcing program resulted in account coding errors where new and retiring meter installations were inadvertently charged to the meters account rather than the installation account. According to the company, this problem has now been corrected with a revision to the internal labor tracking system.

We find that an average service life of 27 years for meter and regulator installations is appropriate. The life is predicated on actions permitted under Rule 25-12.045, Florida Administrative Code, Inactive Service Lines. When a service line has been inactive for two years, a company has the option of disconnecting and physically abandoning the service line, locking a valve and plugging the service line to prevent the flow of gas, or removing the meter and plugging the service line. After five years of inactivity, the service line is physically retired. A 27 year average service life recognizes that installations could conceivably live five years less than the life of the service, but not be less than the service life of the meter. Installations are rarely retired prior to the date the service ends or the meter is removed due to inactivity. Peoples' policy is to retire the meter and regulator installations at the time the service ends, regardless of the prospect for reuse.

B. General Plant Accounts

1. Computer Equipment (Account 391.1)

This account is comprised of desktop and laptop computers and computer servers. The company established a separate account for customized software in 1999, applying the depreciation rate approved for computer equipment until a more appropriate recovery period is approved.

During our review, it was determined that the computer account included \$9,905,374 in investment with \$7,024,477 in accumulated reserve associated with customized software. We find that this investment and associated reserve shall be transferred to the customized software account.

The life expectancy of computer equipment is technology driven. While Peoples does not expect its computers to change-out as fast as Tampa Electric Company's, a life shorter than the currently prescribe 8 year service life is in order. We therefore find that a 6 year service life, 1.6 year remaining life, and zero percent salvage are reasonable for this type of equipment.

2. Autos & Trucks up to 3/4 Ton and 3/4 to 1 Ton (Accounts 392.1 and 392.2)

Initially, Account 392.1-Vehicles, included all autos and trucks regardless of size. The two changes affecting this account are the implementation of a new vehicle policy by Tampa Electric Company and the close of Peoples' Sales and Service line of business in 1998.

The new vehicle policy reflects a restructuring effort to reduce costs. Greater restrictions are now placed on the issuance of a company owned vehicle resulting in only a select number of supervisory level positions being assigned a company vehicle. The new policy has eliminated the need for a large fleet of vehicles and excess vehicles have been sold. The total Peoples' vehicle fleet has decreased from 599 vehicles in 1996 to 389 vehicles currently.

Additionally, Peoples' Tax Department requested the separation of trucks based on weight in order to facilitate the calculation of

taxes. This new requirement has created an account for trucks from 3/4 ton up to 1 ton (Account 392.2).

3. Airplanes (Account 392.3)

The last depreciation review reflected the cost of a single airplane which was purchased in 1985. The aircraft was retired in October 2000. A new airplane was purchased on December 27, 2000, to serve on an interim basis until Peoples received an ordered Cessna airplane in September 2001. The salvage realized from the retirement of the 1985 airplane and the interim airplane amounted to 71 percent of the combined original costs. A 15 year service life and a 75 percent salvage value for the current investment for the new Cessna aircraft are approved because they are in line with past experience, as well as the information Peoples received from the aircraft vendor.

4. Communication Equipment (Account 397.0)

The investment in this account is comprised mainly of telemetering equipment. A 12 year service life, 7.8 year remaining life, and zero salvage are approved because they are in line with the expected activity of the equipment.

5. Customized Software (Account 303.1)

As discussed earlier, customized software has historically been recorded in the computer account. The current applied rate is based on an 8 year service life. The investment is comprised of software such as billing systems, customer information systems, and SCADA equipment customized specifically for Peoples. Customized software is generally amortized over a period of time in which the benefits are expected to be realized. According to Peoples, this type of software should be expected to provide benefits for 15 years. Recognizing the investment average age of about 7 years, an 8 year remaining amortization shall be used.

IV. AMORTIZATION OF INVESTMENT TAX CREDITS AND FLOWBACK OF EXCESS DEFERRED INCOME TAXES

The current amortization of investment tax credits (ITCs) and the flowback of excess deferred income taxes (EDIT) shall be revised to match the actual recovery periods for the related property. The utility 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, 2003.

In earlier issues, we approved revisions to the company's remaining lives to be effective January 1, 2003. Revising a utility's book depreciation lives generally results in a change in the ITC amortization rate, 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. Because we find that a change in remaining lives is needed, 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.

In addition to our review, the Internal Revenue Service, and independent outside auditors look at 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

ORDER NO. PSC-02-1492-PAA-GU
DOCKET NO. 010383-GU
PAGE 12

that the current amortization of ITCs and the flowback of EDIT shall be revised to reflect the approved remaining lives. In order for there to be a clear audit trail, Peoples' shall revise ITCs and EDIT amortization and produce work papers to show how the revisions were made.

Based on the foregoing, it is

ORDERED by the Florida Public Service Commission that the depreciation rates of Tampa Electric Company d/b/a Peoples Gas System shall be approved in accordance with this Order. 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 the Commission Clerk and Administrative Services, 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.

ORDER NO. PSC-02-1492-PAA-GU
DOCKET NO. 010383-GU
PAGE 13

By ORDER of the Florida Public Service Commission this 31st
Day of October, 2002.



BLANCA S. BAYÓ, Director
Division of the Commission Clerk
and Administrative Services

(S E A L)

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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

ORDER NO. PSC-02-1492-PAA-GU

DOCKET NO. 010383-GU

PAGE 14

Code. This petition must be received by the Director, Division of the Commission Clerk and Administrative Services, 2540 Shumard Oak Boulevard, Tallahassee, Florida 32399-0850, by the close of business on November 21, 2002.

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/these docket(s) before the issuance date of this order is considered abandoned unless it satisfies the foregoing conditions and is renewed within the specified protest period.

Attachment A

Reserve Allocations					
Account		Estimated 01/01/2003 Reserve	Theoretical Reserve	Approved Allocations	Restated 01/01/2003 Reserve
		(\$)	(\$)	(\$)	(\$)
391.1	Computer Equip.	4,767,562	7,591,659	2,313,504	7,081,066
392.1	Autos & Trucks up to 3/4 Ton	1,728,758	3,943,050	1,033,659	2,762,417
392.2	Autos & Trucks 3/4 Ton to 1 Ton	474,614	187,166	(287,448)	187,166
392.3	Airplanes	533,549	21,104	(512,445)	21,104
392.5	Trucks over 1 Ton	637,891	528,077	(109,814)	528,077
393.0	Stores Equip.	60,665	56,803	(3,862)	56,803
394.0	Tools, Shop, Garage Equip.	2,026,851	1,757,000	(269,851)	1,757,000
395.0	Laboratory Equip.	(120,606)	29,155	149,761	29,155
303.1	Customized Software	8,445,857	6,132,353	(2,313,504)	6,132,353
Total		13,787,579	20,246,367	0	18,555,141

Attachment B

PEOPLES GAS SYSTEM 2001 STUDY					
ACCOUNT	COMMISSION APPROVED				
	AVERAGE REMAINING LIFE	NET SALVAGE	ESTIMATED 01/01/2003 RESERVE	REMAINING LIFE RATE	
	(YRS.)	(%)	(%)	(%)	
DISTRIBUTION ASSETS					
375.0	Structures & Improvements	30.0	0.0	17.66	2.7
376.0	Mains - Other Than Plastic	28.0	(45.0)	41.41	3.7
376.2	Mains - Plastic	32.0	(10.0)	21.22	2.8
378.0	M&R Equipment - General	22.0	(5.0)	19.78	3.9
379.0	M&R Equipment - City Gate	24.0	(5.0)	32.69	3.0
380.0	Services - Other Than Plastic	14.6	(80.0)	83.13	6.6
380.2	Services - Plastic	24.0	(35.0)	30.40	4.4
381.0	Meters	13.2	5.0	23.69	5.4
382.0	Meter Installations	18.0	(18.0)	40.01	4.3
383.0	House Regulators	14.1	0.0	35.83	4.6
384.0	Regulator Installations	18.4	(18.0)	36.24	4.4
385.0	Industrial M&R Station	22.0	0.0	34.35	3.0
387.0	Other Equipment	9.3	0.0	26.29	7.9
GENERAL PLANT					
390.0	Structures & Improvements	31.0	0.0	16.83	2.7
391.0	Office Furniture	9.5	0.0	8.31	9.7
391.1	Computer Equipment	1.6	0.0	68.35	19.8
391.2	Office Machines	7.6	0.0	49.56	6.6
392.1	Autos & Trucks up to 3/4 Ton	4.2	10.0	29.80	14.3
392.2	Autos & Trucks 3/4 to 1 Ton	7.1	10.0	9.77	11.3
392.3	Airplanes	14.5	75.0	0.35	1.7
392.4	Other Transportation	10.8	14.0	43.81	3.9
392.5	Trucks over 1 Ton	5.1	12.0	50.77	7.3
393.0	Stores Equipment				NA
394.0	Tools, Shop, Garage Equipment	8.0	0.0	46.40	6.7
395.0	Laboratory Equipment	15.5	0.0	22.50	5.0
396.0	Power Operated Equipment	6.8	5.0	51.83	6.3
397.0	Communication Equipment	7.8	0.0	24.06	9.7
398.0	Miscellaneous Equipment	11.1	0.0	65.00	3.2
303.1	Customized Software	8 Year Remaining Amortization			