

State of Florida



Public Service Commission  
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TALLAHASSEE, FLORIDA 32399-0850

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COMMISSIONER  
&  
CLERK

**DATE:** SEPTEMBER 4, 2003

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

**FROM:** DIVISION OF ECONOMIC REGULATION (GARDNER) *BB JS*  
DIVISION OF AUDITING & SAFETY (MILLS) *WJ*  
OFFICE OF THE GENERAL COUNSEL (VINING) *WJ AEV*

**RE:** DOCKET NO. 030065-GU - REQUEST FOR APPROVAL OF NEW  
DEPRECIATION RATES EFFECTIVE JANUARY 1, 2003, BY ST. JOE  
NATURAL GAS COMPANY, INC.

**AGENDA:** 09/16/03 - REGULAR AGENDA - PROPOSED AGENCY ACTION -  
INTERESTED PERSONS MAY PARTICIPATE

**CRITICAL DATES:** NONE

**SPECIAL INSTRUCTIONS:** NONE

**FILE NAME AND LOCATION:** S:\PSC\ECR\WP\030065.RCM

CASE BACKGROUND

Rule 25-7.045, Florida Administrative Code (F.A.C), requires natural gas companies to file a comprehensive depreciation study once every five years. On January 22, 2003, St. Joe Natural Gas Company (SJNG or company) filed its regular depreciation study in accordance with this rule. SJNG's last comprehensive depreciation study was filed on January 13, 1998.

Staff has completed its review of the depreciation study and presents its recommendation herein. The Commission has jurisdiction to consider this matter pursuant to Sections 366.04, 366.05, and 366.06, Florida Statutes.

DOCUMENT NUMBER-DATE

08236 SEP-4 03

FPSC-COMMISSION CLERK

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DISCUSSION OF ISSUES

ISSUE 1: Should the currently prescribed depreciation rates of St. Joe Natural Gas Company be changed?

RECOMMENDATION: Yes. A comprehensive review of St. Joe Natural Gas Company's planning and activity since the prior depreciation filing indicates a need for a revision in the currently prescribed depreciation rates. (GARDNER)

STAFF ANALYSIS: SJNG's last comprehensive depreciation study was filed on January 13, 1998, with an effective date for revised depreciation rates of January 1, 1998. Changes in activity and company planning since the last study indicate the need to revise currently prescribed depreciation rates.

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

RECOMMENDATION: Staff recommends approval of the company's proposed January 1, 2003, date of implementation for the new depreciation rates. (GARDNER)

STAFF ANALYSIS: SJNG has proposed an implementation date for new depreciation rates of January 1, 2003. All data and related calculations that have been submitted support this date. Staff recommends approval of this date as being the earliest practicable date for utilizing the revised rates.

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**ISSUE 3:** Should any corrective reserve allocations between accounts be made?

**RECOMMENDATION:** Yes. Staff recommends the reserve allocations shown on Attachment A. These allocations bring each account more in line with its theoretically correct reserve level. (GARDNER)

**STAFF ANALYSIS:** As part of staff's review of the company's study, a review of the reserve position for each account was also performed. When significant surpluses and deficits exist, corrective reserve transfers between accounts should be considered. Staff believes that such deficiencies should be recovered as fast as possible, unless such recovery prevents the company from earning a fair and reasonable return on its investments. The effect of prior depreciation rates, average service lives, and net salvage projections results in surpluses and deficits which should be addressed. For this reason, staff recommends transferring these related reserve surpluses to help correct the existing reserve deficiency in the accounts as shown on Attachment A.

**ISSUE 4:** What are the appropriate remaining lives, net salvage, reserve amounts, and resultant depreciation rates for SJNG?

**RECOMMENDATION:** The staff's recommended remaining lives, net salvage values, reserves, and resultant rates are shown on Attachment B. The rates, based upon actual investments as of December 31, 2002, would result in a decrease in annual expenses of about \$10,000 as summarized on Attachment C. (GARDNER)

**STAFF ANALYSIS:** Staff's recommendation is the result of a comprehensive review of SJNG's filed depreciation study. Attachment B shows a comparison of the current and proposed rate components (lives, salvages, and reserves) and the rate components staff is recommending for final approval. Investment and reserve positions shown on Attachment C, reflect actual amounts as of December 31, 2002, with reserve positions restated to reflect the staff recommended corrective measures discussed in Issue 3.

The purpose of depreciation is to systematically spread the recovery of prudently invested capital over the period the plant assets represented by the capital are providing service. Ideally, the timing of depreciation expenses matches the timing of the active period of service of the related assets.

A depreciation study provides an opportunity to review the present recovery position and determine any need for changing the existing pattern of recovery (depreciation rates). A prime concern of the depreciation study is life and salvage. As part of the review process, prudence of company planning (including additions and retirements), technological impact, retirement and salvage practices, and other related activities are reviewed.

The average service life refers to the overall period the account is expected to serve the public and is projected based on experience or estimates. The average remaining life is the remaining period of service which can be expected from the equipment under study. This period is measured from the time of implementation of the depreciation rates being designed to the expected ultimate retirement of the embedded investment in the equipment under discussion. The average remaining life is determined by applying the average of the surviving investment to an expected pattern of retirements (curve shape, retirement dispersion, or mortality dispersion). In selecting a curve shape, staff works with averages, modifying the average as necessary for

any peculiarities of the given company. A basic premise is that a similar plant type, used in a similiar fashion, will have the same curve shape.

Certain patterns of activity will change the curve shape. High retirements and/or high growth tend to increase early retirements (infant mortality). A stagnant situation has the opposite effect. Plant subject to theft, damage, or public requirements can be expected to have a greater incident of infant mortality than similar plant in a rural or small town setting.

The company's filing provided aged retirement data for the 1999-2002 period and average age distributions of the December 31, 2002 surviving investments for each account. Staff then 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 salvage values, and resultant depreciation rates for all accounts.

The recommended changes in depreciation rates can be attributed mainly to: 1) activity since the last depreciation study, and 2) the correction of reserve positions by transfers to appropriate accounts. A brief discussion of salient matters is set forth below.

#### Distribution Plant

##### Mains and Services (Accounts 376 and 380)

Mains and Services comprise about 79% of the investment in the distribution plant function. SJNG is still in the process of upgrading its system from steel to plastic services.

The Steel Services account is a declining account, showing no additions since 1985 and increasing retirements through 2002. The company continues to upgrade cathodic protection, as maintenance dictates. The upgrade consists of inserting plastic pipe in the existing steel service and then retiring the steel pipe. The retirement rate averaged 2.4% during the 1998-2002 period with 1993-1997 averaging 3.5%. This activity is consistent with an S3 curve and 35-year average service life. Using an account average age of 32.1 years results in a recommended average remaining life of 8.1 years.

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 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. Staff recommends continuing the currently approved negative net salvages of 25% and 21% for steel and plastic, respectively, as being in line with labor and material estimates required to abandon and replace a typical service line.

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. Staff, therefore, recommends an average service life of 35 years for meter and regulator installations.

M&R Equipment - Industrial (Account 385)

This account serves large industrial customers and includes the cost of special and expensive installations of measuring and regulating (M&R) station equipment, located on the distribution system. The largest retirement in the industrial M&R equipment account occurred in 2000 with the closing of Florida Coast Paper Company (FCPC). When FCPC closed operations, the related \$29,154 M&R equipment retired. The reserve for the account was insufficient for the retirement, resulting in a negative reserve balance. Corrective reserve measures recommended in Issue 3 should bring the account reserve in line with its theoretically correct position.

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General Plant Accounts

Structures and Improvements (Account 390)

The investment in this account is comprised of a single building purchased in 1984, with major interior remodeling work performed during 1990. At the time of the last study, the remodeling investment was expected to experience a shorter life span than the building itself. However, in conversation with the company, the remodeling consisted of structural changes that are more than likely to experience a much longer life. Staff recommends a 40 year average service life and a zero net salvage, which is in line with the expectations of other companies with similiar investments. The resulting remaining life of 25 years is based on a current average age of 15.8 years and a R3 mortality dispersion.



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ISSUE 5: Should this docket be closed?

RECOMMENDATION: If no person whose substantial interests are affected by the proposed agency action files a protest within 21 days of the issuance of the order, this docket should be closed upon the issuance of a consummating order. (VINING)

STAFF ANALYSIS: If no person whose substantial interests are affected by the proposed agency action files a protest within 21 days of the issuance of the order, this docket should be closed upon the issuance of a consummating order.

ATTACHMENT A

RESERVE ALLOCATIONS					
Account		Actual 01/01/2003 Reserve	Theoretical Reserve	Recommended Allocations	Restated 01/01/2003 Reserve
		(\$)	(\$)	(\$)	(\$)
376.0	Mains-Plastic	309,066	276,328	(32,738)	276,328
380.0	Services-Steel	160,237	143,044	(11,000)	149,237
380.0	Services-Plastic	164,508	181,220	11,000	175,508
381.0	Meters	161,347	171,817	8,237	169,584
385.0	M&R Equipment- Industrial	(16,167)	8,334	24,501	8,334
390.0	Structures & Improvements	60,510	45,482	(4,153)	56,357
396.0	Power Operated Equipment	54,782	58,935	4,153	58,935
Total		894,283	885,160	0	894,283

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ST. JOE NATURAL GAS COMPANY  
 2003 STUDY

Attachment B

COMPARISON OF RATES AND COMPONENTS

ACCOUNT	CURRENT			STAFF/COMPANY RECOMMENDED			
	AVERAGE	NET	REMAINING	AVERAGE	NET	RESERVE	REMAINING
	REMAINING	SALVAGE	LIFE	REMAINING	SALVAGE		LIFE
LIFE	(%)	RATE	LIFE	(%)	(%)	RATE	(%)
(YRS.)	(%)	(%)	(YRS.)	(%)	(%)	(%)	(%)
<b>GAS DISTRIBUTION</b>							
375.0 Structures & Improvements	26.0	(5.0)	2.5	22.0	(5.0)	51.54	2.4
376.0 Mains - Steel	33.0	(30.0)	3.2	28.0	(30.0)	38.73	3.3
376.0 Mains - Plastic	29.0	(30.0)	3.3	28.0	(30.0)	37.60 **	3.3
378.0 M&R Equipment - General	30.0	(5.0)	3.0	26.0	(5.0)	25.00	3.1
379.0 M&R Equipment - City Gate	29.0	(5.0)	3.0	24.0	(5.0)	32.26	3.0
380.0 Services - Steel	8.8	(25.0)	4.0	8.1	(25.0)	99.99 **	3.1
380.0 Services - Plastic	22.0	(21.0)	4.4	25.0	(21.0)	32.44 **	3.5
381.0 Meters	12.8	0.0	4.0	9.2	0.0	62.38 **	4.1
382.0 Meter Installations	13.4	(5.0)	3.8	15.1	(5.0)	56.03	3.2
383.0 Regulators	22.0	0.0	3.5	19.0	0.0	36.12	3.4
384.0 Regulators Installation	15.5	(5.0)	4.4	18.8	(5.0)	33.41	3.8
385.0 M&R Equipment - Industrial	24.0	(5.0)	3.6	18.6	(5.0)	39.90 **	3.5
387.0 Other Equipment	8.9	0.0	6.6	3.6	0.0	69.67	8.4
<b>GENERAL PLANT</b>							
390.0 Structures & Improvements	16.1	(5.0)	4.9	25.0	0.0	46.47 **	2.1
391.1 Office Furniture	11.8	0.0	4.6	8.7	0.0	61.87	4.4
391.2 Office Machines	5.3	5.0	11.8	4.5	5.0	49.24	10.2
391.3 Computers	6.0	0.0	13.6	3.3	0.0	57.68	12.8
392.0 Transportation Equip.-Cars & Trucks	4.2	10.0	11.5	3.3	10.0	56.15	10.3
394.0 Tools, Shop, & Garage Equipment	8.7	0.0	5.1	6.4	0.0	63.11	5.8
396.0 Power Operated Equipment	10.8	0.0	7.4	6.0	0.0	59.93 **	6.7
397.0 Communication Equipment	8.3	0.0	6.5	5.7	0.0	64.11	6.3
398.0 Misc. Equipment	20.0	0.0	5.0 *	20.0	0.0	0.00	5.0

\*Denotes whole life rate.

\*\*Denotes restated reserve after corrective transfers.

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ST. JOE NATURAL GAS COMPANY  
 2003 STUDY  
 COMPARISON OF EXPENSES

Attachment C

ACCOUNT	1/1/03 INVESTMENT (\$)	1/1/03 RESERVE (\$)	CURRENT		STAFF/COMPANY RECOMMENDED		
			RATE (%)	EXPENSES (\$)	RATE (%)	EXPENSES (\$)	CHANGE IN EXPENSES (\$)
<b>GAS DISTRIBUTION</b>							
375.0 Structures & Improvements	21,394	11,026	2.5	535	2.4	513	(22)
376.0 Mains - Steel	2,892,797	1,120,300	3.2	92,570	3.3	95,462	2,892
376.0 Mains - Plastic	734,914	276,328 *	3.3	24,252	3.3	24,252	0
378.0 M&R Equipment - General	104,830	26,203	3.0	3,145	3.1	3,250	105
379.0 M&R Equipment - City Gate	452,423	145,936	3.0	13,573	3.0	13,573	0
380.0 Services - Steel	149,252	149,237 *	4.0	5,970	3.1	4,627	(1,343)
380.0 Services - Plastic	540,956	175,508 *	4.4	23,802	3.5	18,933	(4,869)
381.0 Meters	271,862	169,584 *	4.0	10,874	4.1	11,146	272
382.0 Meter Installations	76,164	42,678	3.8	2,894	3.2	2,437	(457)
383.0 Regulators	125,276	45,256	3.5	4,385	3.4	4,259	(126)
384.0 Regulator Installation	29,053	9,708	4.4	1,278	3.8	1,104	(174)
385.0 M&R Equipment - Industrial	20,888	8,334 *	3.6	752	3.5	731	(21)
387.0 Other Equipment	55,337	38,554	6.6	3,652	8.4	4,648	996
<b>TOTAL</b>	<b>5,475,146</b>	<b>2,218,651</b>		<b>187,682</b>		<b>184,935</b>	<b>(2,747)</b>
<b>GENERAL PLANT</b>							
390.0 Structures & Improvements	121,285	56,357 *	4.9	5,943	2.1	2,547	(3,396)
391.1 Office Furniture	41,919	25,936	4.6	1,928	4.4	1,844	(84)
391.2 Office Machines	28,644	14,105	11.8	3,380	10.2	2,922	(458)
391.3 Computers	97,530	56,258	13.6	13,264	12.8	12,484	(780)
392.0 Transportation Equip.-Cars & Trucks	168,212	94,455	11.5	19,344	10.3	17,326	(2,018)
394.0 Tools, Shop, & Garage Equipment	16,441	10,376	5.1	838	5.8	954	116
396.0 Power Operated Equipment	98,334	58,935 *	7.4	7,277	6.7	6,588	(689)
397.0 Communication Equipment	36,033	23,101	6.5	2,342	6.3	2,270	(72)
398.0 Misc. Equipment	0	0	5.0	0 *	5.0	0 *	0
<b>TOTAL</b>	<b>608,397</b>	<b>339,523</b>		<b>54,316</b>		<b>46,935</b>	<b>(7,381)</b>
<b>TOTAL ACCOUNTS</b>	<b>6,083,543</b>	<b>2,558,175</b>		<b>241,998</b>		<b>231,870</b>	<b>(10,128)</b>

\* Denotes whole life rate.

\*\*Denotes restated reserve after corrective transfers.