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Public Service Commission

January 30, 2013

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Debbie Stitt
St. Joe Natural Gas Company
P.O. Box 549
Port St. Joe, FL 32457

Re: Docket No. 120325-GU: St. Joe Natural Gas Company's Application for Approval of New Depreciation Rates

Dear Ms. Stitt:

Enclosed is the Staff Report regarding your depreciation study filed in the above referenced docket. Please provide your response to the attached report by February 26, 2013. In your response, please identify areas of concurrences or differences, and any additional explanation you believe is pertinent.

If there are any questions, please contact me at 850-413-6540 or sollila@psc.state.fl.us.

Sincerely,

A handwritten signature in cursive script that reads "Sue Ollila".

Sue Ollila
Economic Analyst

Attachment

cc: Division of Economics (Higgins, McNulty, Stallcup, Wu)
Division of Accounting and Finance (Cicchetti)
Office of General Counsel (Klancke)
Office of Commission Clerk
Office of Public Counsel
Charles A. Costin

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St. Joe Natural Gas Company
2012 Depreciation Study
Docket No. 120325-GU
Staff Report

Staff notes that this report represents its initial position. The report consists of four sections:

- A. **Information** – includes information necessary to understand staff’s proposals.
- B. **Questions** – includes specific questions about St. Joe Natural Gas Company’s (St. Joe or Company) depreciation study.
- C. **Staff’s Initial Proposals** – includes staff’s proposals for which staff seeks St. Joe’s concurrence or exceptions.
- D. **Summary Tables** – these tables provide staff’s initial position on inputs, rates, and resulting depreciation expense for all accounts.

A. Information

Commission Rounding Convention

Staff recalculated St. Joe’s proposed depreciation rates for each account (Exhibit A, “Proposed Depreciation” (page 2), Column H) based on the Commission rounding convention. These recalculated rates are what staff considers as St. Joe’s proposal. The rounding conventions are:

Remaining lives <u>over</u> 20 years:	rounded to the nearest whole year
Remaining lives <u>less</u> than 20 years:	rounded to one decimal place
Net salvage %:	rounded to the nearest whole number
Reserve %:	rounded to two decimal places
Depreciation rates:	rounded to one decimal place

Reserve Percentage Greater than 100 Percent

A reserve percentage greater than 100 is not necessarily a cause for concern. For example, Account 380.2, Steel Services has a reserve percentage of 105.59. This account’s current net salvage percentage is (25). Because cost of removal (a component of net salvage) is charged to the reserve, a reserve percentage less than 125 is not inappropriate.

B. Questions

Please respond to each question, adding any additional information that supports the response.

1. Is the company currently amortizing any investment tax credits or flowing back any excess deferred income taxes that will be affected by a change to depreciation rates?

2. Account 381 – Meters
 - a. Describe the types of meters which St. Joe currently installs on its system for its different customer classes and how such meters may differ functionally from meters installed in 2008.
 - b. What are the criteria St. Joe uses to retire its customer meters?
 - c. Please refer to Exhibit A of St. Joe’s petition. What is the method and/or resource the utility has relied upon to determine that the average service life of its customer meters is 25 years?
 - d. Please refer to Exhibit A of St. Joe’s petition. What are the salvage and removal costs associated with St. Joe’s meters, and how were such salvage and removal costs determined?
 - e. Please refer to Exhibit A of St. Joe’s petition. Why has the utility identified zero net salvage percentage for its customer meters?
 - f. How does St. Joe dispose of its retired meters?
3. Account 392 – Transportation Equipment
Please explain why St. Joe applied a 14.2% depreciation rate for Account 392, rather than the Commission ordered rate of 14.5% over the study period from 2008 through 2012.
4. Account 398 – Miscellaneous Equipment
Exhibit A did not include this account. St. Joe’s last depreciation study, Docket No. 070737-GU included this account, but there was no investment. Is St. Joe proposing to delete this account?

C. Staff’s Initial Proposals

Staff’s proposals listed below are either general in nature (e.g., the theoretical reserve proposal) or specific to a particular account (e.g., a proposal to increase the average life for Steel Services). For each item listed below, please state whether or not St. Joe agrees with staff’s proposal. If St. Joe does not agree with staff’s proposal please indicate why, and provide a counter proposal.

5. St. Joe’s proposals to retain current rates and the inconsistency between proposals in the narrative and Exhibit A.

In the study’s account-by-account narrative, St. Joe proposes to retain the current depreciation rates even though St. Joe calculated new depreciation rates based on updated inputs. The new depreciation rates are displayed in Exhibit A, “Proposed Depreciation” (page 2), Column H. For example, for Account 382, Meter Installations, the narrative states, “Using a 40 year expected service life, the study indicated a remaining life of 10 years with a 5.3% remaining life rate while the approved rate is 3.3%. We propose no change in the approved rate.” The remaining life rate in Column H, page 2 of Exhibit A is 5.3%. The accounts where this discrepancy occurs are:

- Account 380.1 – Services Plastic
- Account 380.2 – Services Steel
- Account 382.0 – Meter Installations
- Account 384.0 – Regulator Installations
- Account 387.0 – Other Equipment
- Account 391.1 – Office Furniture
- Account 391.2 – Office Devices

Account 391.3 – Office Computers
 Account 392.0 – Transportation Equipment

The remaining life depreciation rate is a fallout of several inputs including the average service life, age, remaining life, reserve percentage, and net salvage. Every new depreciation study includes updated information, which inevitably results in a change to depreciation rates. In sum, when an input changes, the depreciation rate changes. Therefore, when changes to inputs result in a new depreciation rate, the new depreciation rate is the appropriate rate to be proposed even if the depreciation rate change may appear “minimal.”

It is staff’s understanding that St. Joe agrees that its proposed depreciation rates are the fallout rates listed in “Proposed Depreciation,” Column H, page 2 of Exhibit A.

6. Theoretical reserve

Staff calculated the theoretical reserve based on its initial position. The actual reserve was less than the theoretical reserve for all but three accounts: Office Computers (391.3), Transportation Equipment (392), and Power Operated Equipment (396). Staff’s proposal to reallocate the positive reserve imbalance is shown below.

Theoretical Reserve - St. Joe Company - DN 120325-GU: Staff's Initial Position							
DISTRIBUTION PLANT		Reserve	Theoretical	Theoretical	Reserve	Reserve	Restated
Account	Account Title	12/31/2012	Reserve	Reserve	Imbalance	Transfer	Reserve
		(\$)	(%)	(\$)	(\$)	(\$)	(\$)
375	Building & Improvements	15,955	75.36	16,123	(168)	0	15,955
376.1	Mains Plastic	573,849	57.40	585,939	(12,090)	0	573,849
376.2	Mains Steel	2,056,345	67.96	2,070,128	(13,783)	0	2,056,345
378	Meas. & Reg. Equip.(Distribution)	36,625	50.70	49,363	(12,738)	3,000	39,625
379	Meas. & Reg. Equip.(City Gate)	276,817	60.60	278,194	(1,377)	0	276,817
380.1	Services Plastic	205,052	47.60	264,325	(59,273)	14,703	219,755
380.2	Services Steel	125,353	108.94	129,326	(3,973)	0	125,353
381	Meters	241,302	77.60	245,567	(4,265)	0	241,302
382	Meter Installations	49,235	93.07	60,666	(11,431)	0	49,235
383	Regulators	90,355	54.79	92,610	(2,255)	0	90,355
384	Regulator Installations	16,808	78.75	22,797	(5,989)	1,500	18,308
385	Industrial Meas. & Reg. Equipment	6,065	39.55	7,241	(1,176)	0	6,065
387	Other Equipment	6,001	50.00	6,999	(998)	0	6,001
TOTAL DISTRIBUTION PLANT:		3,699,762					3,718,965
GENERAL PLANT							
Account	Account Title						
390	Structures & Improvements	86,135	58.00	90,833	(4,698)	0	86,135
391.1	Office Furniture	4,161	59.80	4,493	(332)	0	4,161
391.2	Office Devices	2,107	24.79	3,273	(1,166)	600	2,707
391.3	Office Computers	59,405	63.46	45,970	13,435	(13,435)	45,970
392	Transportation Equipment	132,831	71.94	130,942	1,889	(1,889)	130,942
394	Tools, Shop & Garage Equipment	9,223	76.00	9,497	(274)	0	9,223
396	Power Operated Equipment	100,566	65.39	96,087	4,479	(4,479)	96,087
397	Communication Equipment	1,978	62.65	1,978	0	0	1,978
TOTAL GENERAL PLANT:		396,406					377,203
TOTAL TRANSFERS (DISTRIBUTION & GENERAL)						0	

7. Account 380.2 - Steel Services

- a. St. Joe proposes to retain its average service life of 47 years, which results in a remaining life of 5.1 years. St. Joe states in its narrative that there is “every indication of many years of

service remaining.” Staff believes an increase in life to 50 years is appropriate; the remaining life will increase to 8.1 years under staff’s proposal.

- b. Since the last study, the cost of removal has averaged 48% (there is no gross salvage). The current net salvage is (25)%. Staff believes a decrease in net salvage to (30)% is appropriate.

Staff notes that the fallout depreciation rate from staff’s proposal is 3.0%, resulting in a decrease in expense of \$356.

8. Account 382 – Meter Installations

For this account, St. Joe is proposing depreciation parameters that result in a remaining life rate equal to 5.3%. Staff is proposing to increase this account’s net salvage rate from (30) to (25).

Staff notes that this change has the effect of reducing the remaining life rate from 5.3% to 4.8%, or reducing annual expenses from \$3,455 to \$3,129.

9. Account 384 – Regulator Installations

For this account, St. Joe is proposing depreciation parameters that result in a remaining life rate equal to 5.2%. Staff is proposing to increase this account’s net salvage rate from (50) to (40). The statewide industry average for Local Distribution Companies (LDCs) is well above (50), ranging from (20) to (3). This change has the effect of reducing the remaining life rate from 5.2% to 4.7%, or reducing expenses from \$1,534 to \$1,361. However, staff is also proposing a positive reserve transfer of \$1,500 which would further reduce this account’s remaining life rate to 4.4%. Thus corresponding expenses are \$1,274.

10. Account 387 – Other Equipment

For this account, St. Joe is proposing to increase the average service life from 8 to 10 years. Staff agrees with this change. However, when life extension is incorporated into the remaining life rate calculation, the result is equal to 11.4%. The Company is proposing holding the remaining life rate at 12.5%. Staff proposes that the remaining life rate for this account be set at 11.4%.

11. Account 391.03 – Office Computers

St. Joe proposes an increase in the average service life from 10 to 12 years, resulting in a remaining life of 1.8 years. The majority of assets in this account are long-lived and St. Joe expects to have “many remaining service years.” Staff believes an increase to 16 years, resulting in a remaining life of 5.8 years, is appropriate.

Staff notes that an increase in life results in a proposed remaining life rate of 6.3% with a decrease in expense of \$2,680.

12. Account 392 – Transportation Equipment

For this account, St. Joe is proposing a remaining life depreciation rate of 14.2%. However, the company is concurrently proposing depreciation parameters that result in a remaining life depreciation rate equal to 12.2%. Staff proposes that the remaining life rate for this account be set at 12.2%. Staff is also proposing a negative reserve transfer of \$1,889 which increases this account’s remaining life depreciation rate from 12.2% to 12.9%.

13. Account 394 – Tools, Shop & Garage Equipment

Please explain the purpose of the (\$609) adjustment to this account’s reserve in 2011.

D. Summary Tables

Summary tables for staff's proposed inputs, rates, and resulting expense follow. Overall, staff's initial position results in an increase to expense of \$1,940.

Staff's Initial Position: Attachment A

Staff's Initial Position: Comparison of Rates and Components								
Account Number	Account Title	Current			Staff Recommended			
		Average Remaining Life (yrs)	Future Net Salvage (%)	Remaining Life Rate (%)	Average Remaining Life (yrs)	Reserve (%)	Future Net Salvage (%)	Remaining Life Rate (%)
375	Building & Improvements	16.7	(5)	2.6	11.4	74.58%	(5)	2.7
376.1	Mains Plastic	24.0	(30)	3.3	22.0	56.22%	(30)	3.4
376.2	Mains Steel	23.0	(30)	3.3	18.8	67.51%	(30)	3.3
378	Meas. & Reg. Equip.(Distribution)	22.0	(5)	3.0	18.1	40.70%	*	(5)
379	Meas. & Reg. Equip.(City Gate)	19.9	(5)	3.0	14.8	60.30%	(5)	3.0
380.1	Services Plastic	26.0	(22)	2.7	24.0	39.57%	*	(22)
380.2	Services Steel	10.0	(25)	3.3	8.1	105.59%	(30)	3.0
381	Meters	7.3	0	4.0	5.6	76.25%	0	4.2
382	Meter Installations	17.0	(30)	3.3	10.3	75.53%	(25)	4.8
383	Regulators	16.4	0	3.3	13.7	53.46%	0	3.4
384	Regulator Installations	22.0	(50)	3.8	17.5	63.24%	*	(40)
385	Industrial Meas. & Reg. Equipment	13.1	(5)	3.5	18.7	33.13%	(5)	3.8
387	Other Equipment	3.0	0	12.5	5.0	42.87%	0	11.4
390	Structures & Improvements	23.0	0	2.5	16.8	55.00%	0	2.7
391.1	Office Furniture	6.8	0	6.7	6.0	55.38%	0	7.4
391.2	Office Devices	3.9	5	11.9	5.9	20.51%	*	5
391.3	Office Computers	3.4	0	10.0	5.8	63.46%	*	0
392	Transportation Equipment	4.3	10	14.5	1.4	71.94%	*	10
394	Tools, Shop & Garage Equipment	8.6	0	5.0	4.8	73.81%	0	5.5
396	Power Operated Equipment	6.6	5	6.3	4.7	65.39%	*	5
397	Communication Equipment	9.5	0	8.3	4.5	62.65%	0	8.3

*Denotes a Reserve Transfer

Staff's Initial Position: Comparison of Expenses						
Account Number	Account Title	Current		Staff Proposed		Change In Expense (\$)
		Depreciation Rate (%)	Annual Expense (\$)	Depreciation Rate (%)	Annual Expense (\$)	
375	Building & Improvements	2.6	556	2.7	578	21
376.1	Mains Plastic	3.3	33,686	3.4	34,707	1,021
376.2	Mains Steel	3.3	100,521	3.3	100,521	0
378	Meas. & Reg. Equip.(Distribution)	3.0	2,921	3.6	3,505	584
379	Meas. & Reg. Equip.(City Gate)	3.0	13,772	3	13,772	0
380.1	Services Plastic	2.7	14,993	3.4	18,880	3,887
380.2	Services Steel	3.3	3,918	3	3,561	(356)
381	Meters	4.0	12,658	4.2	13,291	633
382	Meter Installations	3.3	2,151	4.8	3,129	978
383	Regulators	3.3	5,578	3.4	5,747	169
384	Regulator Installations	3.8	1,100	4.4	1,274	174
385	Industrial Meas. & Reg. Equipment	3.5	641	3.8	696	55
387	Other Equipment	12.5	1,750	11.4	1,596	(154)
390	Structures & Improvements	2.5	3,915	2.7	4,228	313
391.1	Office Furniture	6.7	503	7.4	556	53
391.2	Office Devices	11.9	1,571	12.6	1,663	92
391.3	Office Computers	10.0	7,244	6.3	4,564	(2,680)
392	Transportation Equipment	14.5	26,392	12.9	23,480	(2,912)
394	Tools, Shop & Garage Equipment	5.0	625	5.5	687	62
396	Power Operated Equipment	6.3	9,258	6.3	9,258	0
397	Communication Equipment	8.3	262	8.3	262	0
Grand Total			244,015		245,955	1,940