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State of Florida

Public Service Commission

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TALLAHASSEE, FLORIDA 32399-0850

-M-E-M-O-R-A-N-D-U-M-

DATE: August 21, 2014

TO: Office of Commission Clerk (Stauffer)

FROM: Division of Economics (Wu) Jw
Office of the General Counsel (Young)

RE: Docket No. 140051-GU – 2014 Depreciation Study by Florida City Gas.

AGENDA: 09/04/14 – Regular Agenda – Proposed Agency Action – Interested Persons May Participate

COMMISSIONERS ASSIGNED: All Commissioners

PREHEARING OFFICER: Balbis

CRITICAL DATES: None

SPECIAL INSTRUCTIONS: None

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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 March 11, 2014, Florida City Gas Company, Inc. (FCG or Company) filed its regular depreciation study in accordance with this rule. The Company last filed a depreciation study in March 2008, but thereafter refiled an updated version of the study in March 2009 at the request of Commission staff. The Company's current depreciation rates and its associated components were approved by the Commission with the effective date of January 1, 2009.[1] The Commission has jurisdiction pursuant to Sections 350.115 and 366.05, Florida Statutes (F.S.).

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[1] Order No. PSC-09-0835-PAA-GU, issued December 21, 2009, in Docket No. 080182-GU, In re: 2008 depreciation study by Florida City Gas.

Discussion of Issues

Issue 1: Should FCG's currently prescribed depreciation rates be revised?

Recommendation: Yes. A review of FCG's account activity and current capital recovery position indicates a need for a revision to the currently prescribed depreciation rates. (Wu)

Staff Analysis: FCG's last depreciation study was filed in 2008 and revised in 2009. By Order No. PSC-09-0835-PAA-GU, the Commission approved revised depreciation rates and components, effective January 1, 2009. The Company has filed this current study in accordance with Rule 25-7.045, F.A.C., which requires natural gas companies to file a comprehensive depreciation study at least once every five years. A review of FCG's activity data indicates the need to revise the depreciation rates.

Some of the notable changes to FCG's plants include significant expansion of the Company's service within its service territory. In 2011, FCG acquired and activated a natural gas Jet Fuel Line which represented 25 miles of 6-inch high pressure steel main that runs from Miami International Airport to Homestead Air Force Base. The Company also installed 3.5 miles of 8-inch steel main to serve an industrial customer in the Miami area as well as 2 miles of 6-inch steel to serve an industrial customer in Belle Glade. In 2012, FCG installed nearly 30 miles of 6-inch underground transmission pipeline from Palm Beach to Hendry County to serve two industrial anchor customers and the city of Clewiston. In 2013, FCG installed 3.5 miles of 6-inch and 1 mile of 4-inch plastic main to service several industrial and commercial customers in the Town of Fellsmere. In addition, FCG installed 2 miles of 4-inch plastic to serve Cape Canaveral Air Force Station as well as 7 miles of 2-inch plastic to various residential developments in the Brevard area. The Company also operated three projects in Miami which consist of 6-inch and 2-inch plastic installed to serve the Homestead Housing Authority, 3.5 miles of 6-inch plastic extended to serve Florida International University, and 2 miles of 6-inch plastic installed along Miramar Parkway to serve the commercial corridor.

In 2013, FCG replaced its PeopleSoft Asset Management System with the PowerPlant Asset Management System. This new system is used primarily to manage capital projects, create and retire assets and calculate depreciation along with other activities. FCG also purchased an office in Doral, Florida that will become the new headquarters for the Company. This office will replace the current office located in Hialeah, Florida. Renovations are expected to be completed by 2014.

The total plant investment in FCG's depreciable plant accounts was $295,708,550 at the end of this study period, which has been increased by $64,722,992, or 28%, since the last depreciation study.

In summary, the development discussed above, as well as other changes in account activity and the Company's planning indicate the need to revise currently prescribed depreciation rates.

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

Recommendation: Staff recommends approval of FCG's proposed January 1, 2014, date of implementation for revised depreciation rates. (Wu)

Staff Analysis: Rule 25-7.045(6)(b), F.A.C., requires that the data submitted in a depreciation study, including plant and reserve balances or company estimates, "should be brought to the effective date of the proposed rates." The supporting data and calculations provided by FCG match an implementation date of January 1, 2014. Based upon staff's analysis, staff recommends approval of this date as being the earliest practicable date for utilizing the revised depreciation rates.

Issue 3: What are the appropriate depreciation rates?

Recommendation: Staff's recommended remaining lives, net salvages, reserve amounts, and the resultant depreciation rates are contained in Attachment A. Attachment B shows an increase in annual expenses of $386,226 based on December 31, 2013, investment. (Wu)

Staff Analysis: Staff's recommendations are the result of a comprehensive review of FCG's depreciation study, including the Company's responses to four sets of staff-issued data requests; a noticed informal meeting between the Company, Commission staff, and interested persons to the docket; and responses to a staff report. As a result of staff's review and the Company's responses to staff's questions, staff believes the proposed lives, net salvage percentages, and the resulting depreciation rates for all accounts, contained in Attachment A, are appropriate. Attachment B contains a comparison of current and proposed depreciation expense. The Company proposed a set of depreciation rates in its originally filing which would result in an increase to depreciation expense of $787,591. Staff's recommended depreciation rates result in an increase to depreciation expense of $386,226, an increase of about 3.4 percent. The Company agrees with staff's recommendations, including the resulting depreciation rates.

A depreciation study provides an opportunity to review the present position of the investment recovery and determine whether any changes should be made to the existing pattern of recovery (depreciation rates). The remaining life depreciation rate is a fallout of several inputs including the average service life (ASL), age, remaining life, reserve percentage, and net salvage. 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 or the plant asset under study. As part of the review process, staff considered the prudence of company planning, including additions and retirements, technological impacts, salvage practices, and other related activities.

FCG's filing in this depreciation study provided aged retirement data and average age distribution of the surviving investments for each account for the study period 2009 through 2013. The Company also provided each study year's net salvage for each account and a narrative explanation for each category of depreciable plant. Using these data together with individual account's plant activities and reserve activities provided by the Company, staff calculated the account-specific growth rates, retirement rates and net salvage rates. Based on these, staff verified the appropriateness of the combination of depreciation components (i.e. age, average service life and curve shape) proposed by the Company, and calculated the remaining life to determine the fallout depreciation rate for each account.

The staff-recommended changes to depreciation rates can be attributed mainly to two factors: (1) updated account age to reflect activity since the last represcription, such as new investment and retirement, and (2) changes in the associated reserve position. The accounts with substantial changes are discussed below.

Account 376.1 Mains – Other than Plastic

This account has experienced significant changes, with net plant investment increasing by approximately $11.2 million. Taken with the account's growth rate of 14.5% and retirement rate of 0.5%, an S3 curve shape[2] with a 45-year ASL would most closely depict the account activity. Staff notes that the average net salvage rates of this account was negative 123% (due to cost of removal and zero gross salvage) for the last five years, and negative 138% for the last eleven years. However, in order to promote a smooth rate transition, staff recommends an S3 curve shape with a 42-year ASL, rather than a 45-year ASL which represents the best fit, and decreases the net salvage from negative 20% currently to negative 25% for this account to closely depict the account activity. The resulting remaining life is 21 years, and the fallout depreciation rate, which includes a recommended reserve transfer, is 3.0%. FCG has agreed to staff's recommendation.

Account 378 – M&R Equipment - General

This is a new account from the last depreciation study. As part of the Company's various expansion projects, three new regulator stations were installed in the Town of Fellsmere and in the City of Vero Beach, two new stations were installed in Hendry County, one station was placed at the Southern Gardens Citrus Plant, one was placed in the City of Clewiston, and six were added in Miami. Account 378 was established to record the general measuring and regulating equipment resulting from these expansion projects. Since the new account includes measuring and regulating equipment, as does Account 379 M&R Equipment – City Gate, staff concurs with the Company's use of a 30-year ASL and S3 curve, which the Commission prescribed for Account 379 in the last depreciation study, as the parameters of Account 378. Taken with the current average age of 2.5 years, the resulting remaining life for the account is 28 years, and the fallout depreciation rate, which includes a recommended reserve transfer, is 3.3%. FCG has agreed to staff's recommendation.

Account 380.1 Services – Other than Plastic

This account has experienced changes with net plant investment increased by approximately $1.9 million, which represents a growth rate since the last depreciation study of approximately 15%. The retirement rate of this account was 1.2% during the study period. Taken with the current average age and the retirement rate, staff recommends an S6 curve shape with a 35-year ASL, which are within the industry norm, to more closely depict the account activity. The resulting remaining life is 6.6 years, and the fallout depreciation rate is 6.5%. FCG has agreed to staff's recommendation.

Account 390.0 Structure & Improvements

This account has experienced an increase in net plant investment of approximately $2.1 million. Taking into consideration the account's 89.2% growth rate and 4.9% retirement rate, staff recommends an R1, rather than the current R3, curve shape, with a 40-year ASL to more closely depict the account activity. The resulting remaining life is 34 years, and the fallout depreciation rate is 2.6%. FCG has agreed to staff's recommendation.

[2] Developed in a study at the University of Iowa in the 1950s, Iowa curves are comprised of a set of standardized patterns, or curve shapes, of asset retirement dispersion organized into four broad classes: "S," "R," "L," and "O" curves. The same type pf plant, living in the same environments, generally experiencing the same external factors, will continue to follow the same mortality pattern/curve shape throughout its history, or until some of those factor change. The asset retirements are distributed in accord with certain mortality curve shape which is the key to the life indication of the activity during the period being studied.

Account 391.1 Office Furniture

The net plant investment in this account decreased by approximately $0.7 million since the last depreciation study. However, FCG indicated that, in 2014, the Company plans to have significant expenditures due to the relocation of its headquarters, which will result in increased activities of addition and retirement in this account. The retirement rate of this account was 24.3% during the study period. Taken with the projected higher growth and higher retirement rates, staff recommends an S2 curve shape with a 19-year ASL to more closely depict the account activity. The resulting remaining life is 5.5 years, and the fallout depreciation rate is 7.7%. FCG has agreed to staff's recommendation.

Account 391.3 Enterprise Software

The Company reported that the net plant investment in this account increased by approximately $2.3 million since the last depreciation study. Taken with a near zero retirement rate and a 40.2% growth rate of the account, staff recommends an R4 curve shape with an 11-year ASL to more closely depict the account activity. The resulting remaining life is 5.4 years, and the fallout depreciation rate including proposed reserve transfer is 9.1%. FCG has agreed to staff's recommendation.

Account 392.0 Transportation Equipment – Combined

The current net salvage rate of this account is 10%. In its response to staff report, FCG stated that the actual net salvage rate of the account was 12.4% for the study period, rather than 5.18% as the Company reported in its depreciation study. Staff notes that during the last depreciation study period the actual net salvage rate of the account was 13.3%, and over the last ten years the average net salvage rate of the account was 12.8%. Recognizing the trend of the account, staff recommends a net salvage of 12%, which is also within the industry norm, to more closely depict the account activity. The fallout depreciation rate, which includes a recommended reserve transfer, is 11.5%. FCG has agreed to staff's recommendation.

Account 395.0 Laboratory Equipment

This account has been fully depreciated. Staff recommends that the depreciation rate should be set to zero before the account experiences any new additions. Staff also recommends that if new investment is added to the account before the next depreciation study, the current Commission-approved depreciation rate of 4.0% with a 25-year ASL and S4 curve should be used. FCG has agreed to staff's recommendation.

Account 396.0 Power Operated Equipment

This is a new account from the last depreciation study. The net plant investment of the account increased by approximately $0.05 million due to acquiring new equipment and reclassifying equipment. Since the new account contains similar equipment as does Account 398 Miscellaneous Equipment, staff concurs with the Company to use a 15-year ASL and S3 curve, which the Commission prescribed for Account 398 in the last depreciation study, as the parameters of the new account. Taken with the age of 3.9 years, staff recommends the remaining life of 11.1 years, and a depreciation rate of 8.3%. FCG has agreed to staff's recommendation.

Account 397.0 Communication Equipment

This account has been fully depreciated. Staff recommends that the depreciation rate should be set to zero before the account experiences any new additions. Staff also recommends that if new investment is added to the account before the next depreciation study, the current Commission-approved depreciation rate of 8.3% with a 12-year ASL and R2 curve should be used. FCG has agreed to staff's recommendation.

Reserve Transfers

Staff reviewed the reserve position for each account. Based on staff's recommended lives and salvage inputs for this study, staff determined FCG's theoretical reserve. The difference between an account's actual and theoretical reserve may be described as a positive or negative imbalance, or as a surplus or deficiency. When significant imbalances occur, corrective transfers among accounts should be made unless this action prevents the Company from earning a fair and reasonable return on its investments.

Overall, FCG's actual reserve is less than its theoretical reserve. Staff recommends approval of the reserve transfers listed in Table 3-1 in order to help mitigate certain imbalances. FCG has agreed to staff's reserve transfer recommendation. Table 3-1 displays the actual and theoretical reserves for each account, staff's recommended transfers, and the resulting restated reserves.

Table 3-1: Recommended Reserve Allocation - Staff's Initial Position					
Account	Account Title	Reserve 12/31/2013 ($)	Theoretical Reserve ($)	Recommended Reserve Transfer ($)	Restated Reserve ($)
375.0	Structures & Improvements	166,185	197,543		166,185
376.1	Mains - Other Than Plastic	58,376,553	58,060,108	(316,445)	58,060,108
376.2	Mains - Plastic	28,006,786	29,847,313		28,006,786
378.0	M&R Station Equip - General (new)	30,320	12,048	(18,272)	12,048
379.0	M&R Equipment - City Gate	3,550,679	3,549,532	(1,147)	3,549,532
380.1	Services - Other Than Plastic	20,314,340	21,708,386		20,314,340
380.2	Services - Plastic	17,674,278	20,440,489		17,674,278
381.0	Meters	249,527	3,991,353	1,507,823	1,757,349
382.0	Meter Installations	1,940,778	2,959,529		1,940,778
382.1	ERT Installations	2,488,463	1,985,163	(503,300)	1,985,163
383.0	House Regulators	1,558,856	1,948,030		1,558,856
384.0	Regulator Installations	857,263	909,875		857,263
385.0	Industrial M&R Station Equipment	1,831,827	1,690,986	(140,841)	1,690,986
387.0	Other Equipment	294,298	288,097	(6,201)	288,097
390.0	Structures & Improvements	568,460	668,146		568,460
391.1	Office Furniture	216,993	266,831		216,993
391.2	Office Machines & Equipment	1,457,435	1,231,807	(225,628)	1,231,807
391.3	Enterprise Software	5,922,199	5,200,582	(721,617)	5,200,582
392.0	Transportation Equip. - Combined	(125,502)	677,464	425,628	300,126
393.0	Stores Equipment	980	1,407		980
394.0	Tools, Shop, Garage Equipment	1,032,567	1,071,195	0	1,032,567
395.0	Laboratory Equipment	4,034	4,034	0	4,034
396.0	Power Operated Equip (new)	3,728	12,521		3,728
397.0	Communication Equipment	1,008,819	1,008,819	0	1,008,819
398.0	Misc. Equipment	370,853	428,000		370,853
Total		**147,800,719**	**158,159,258**	**(0)**	**147,800,719**

Issue 4: Should this docket be closed?

Recommendation: Yes. If no person whose substantial interests are affected by the Commission's 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. (Young)

Staff Analysis: If no person whose substantial interests are affect files a timely request for a hearing with 21 days, no further action will be required and this docket should be closed upon the issuance of a consummating order.

Attachment A

Account Number	Account Title	Comparison of Rates and Components: Current: Average Remaining Life (yrs)	Current: Future Net Salvage (%)	Current: Remaining Life Rate (%)	Staff Recommended: Average Remaining Life (yrs)	Staff Recommended: Reserve (%)		Staff Recommended: Future Net Salvage (%)	Staff Recommended: Remaining Life Rate (%)
375	Structures & Improvements	26	0	2.5	27	27.34%		0	2.8
376.1	Mains - Other Than Plastic	21	(20)	3.0	21	62.00%	*	(25)	3.0
376.2	Mains - Plastic	29	(20)	3.0	27	36.60%		(20)	3.1
378	M&R Station Equip - General (new	0.0	0	0.0	28	7.60%	*	0	3.3
379	M&R Equipment - City Gate	17.3	0	3.3	13.3	56.11%	*	0	3.3
380.1	Services - Other Than Plastic	7.6	(80)	7.0	6.6	136.94%		(80)	6.5
380.2	Services - Plastic	23	(30)	3.9	22	40.12%		(30)	4.1
381	Meters	16.8	0	4.5	18.5	11.91%	*	(3)	4.9
382	Meter Installations	17.6	(25)	4.5	21	31.02%		(25)	4.5
382.1	ERT Installations	15.0	0	6.7	10.5	29.53%	*	0	6.7
383	House Regulators	10.9	0	5.0	13.1	39.56%		(3)	4.9
384	Regulator Installations	16.4	0	3.2	15.2	52.69%		0	3.1
385	Industrial M&R Station Equipment	16.8	0	3.4	13.5	55.48%	*	0	3.3
387	Other Equipment	14.8	0	4.5	17.9	40.93%	*	0	3.3
390	Structures & Improvements	23	0	2.5	34	12.76%		0	2.6
391.1	Office Furniture	3.6	0	5.3	5.5	57.62%		0	7.7
391.2	Office Machines & Equipment	8.2	0	8.3	5.7	52.69%	*	0	8.3
391.3	Enterprise Software	7.1	0	7.6	5.4	50.86%	*	0	9.1
392	Transportation Equip. - Combined	6.3	10	7.5	5.9	19.86%	*	12	11.5
393	Stores Equipment	12.0	0	4.0	10.8	33.53%		0	6.2
394	Tools, Shop, Garage Equipment	6.0	0	6.7	5.2	62.81%		0	7.2
395	Laboratory Equipment	4.9	0	4.0		100.00%			4.0
396	Power Operated Equip (new)	0.0	0	0.0	11.1	7.63%		0	8.3
397	Communication Equipment	1.0	0	8.3		100.00%			8.3
398	Misc. Equipment	10.0	0	6.7	7.7	41.95%		0	7.5

*Denotes a Reserve Transfer

Attachment B

Account Number	Account Title	Comparison of Expenses: Current Depreciation Rate (%)	Current Annual Expense ($)	Staff Recommended Depreciation Rate (%)	Staff Recommended Annual Expense ($)	Staff Recommended Change In Expense ($)
375	Structures & Improvements	2.5	15,196	2.8	17,019	1,823
376.1	Mains - Other Than Plastic	3.0	2,809,360	3.0	2,809,360	0
376.2	Mains - Plastic	3.0	2,295,947	3.1	2,372,479	76,532
378	M&R Station Equip - General (new)	0.0	0	3.3	5,231	5,231
379	M&R Equipment - City Gate	3.3	208,759	3.3	208,759	0
380.1	Services - Other Than Plastic	7.0	1,038,395	6.5	964,224	(74,171)
380.2	Services - Plastic	3.9	1,718,058	4.1	1,806,164	88,106
381	Meters	4.5	663,996	4.9	723,018	59,022
382	Meter Installations	4.5	281,562	4.5	281,562	0
382.1	ERT Installations	6.7	450,409	6.7	450,409	0
383	House Regulators	5.0	197,010	4.9	193,069	(3,940)
384	Regulator Installations	3.2	52,067	3.1	50,440	(1,627)
385	Industrial M&R Station Equipment	3.4	103,629	3.3	100,581	(3,048)
387	Other Equipment	4.5	31,675	3.3	23,228	(8,447)
390	GENERAL PLANT	2.5	111,358	2.6	115,812	4,454
391.1	Office Furniture	5.3	19,961	7.7	28,999	9,039
391.2	Office Machines & Equipment	8.3	194,041	8.3	194,041	0
391.3	Enterprise Software	7.6	777,122	9.1	930,501	153,379
392	Transportation Equip. - Combined	7.5	113,364	11.5	173,825	60,461
393	Stores Equipment	4.0	117	6.2	181	64
394	Tools, Shop, Garage Equipment	6.7	110,144	7.2	118,364	8,220
395	Laboratory Equipment	4.0	161	4.0		
396	Power Operated Equip (new)	0.0	0	8.3	4,055	4,055
397	Communication Equipment	8.3	83,732	8.3		
398	Misc. Equipment	6.7	59,236	7.5	66,309	7,073
			11,335,298		**11,637,631**	**386,226**