FILED AUG 22, 2014
DOCUMENT NO. 04685-14
FPSC - COMMISSION CLERK

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 22, 2014

TO: Carlotta S. Stauffer, Commission Clerk, Office of Commission Clerk

FROM: Jenny X. Wu, Economic Analyst, Division of Economics

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

Please place the attached following correspondence in the above docket file.

07/23/2014 – Staff Report.
08/07/2014 – Florida City Gas's Responses to Staff Report with attached Excel files.
08/08/2014 – Florida City Gas's Revised Response to Staff Report.

Thank you.

JWu

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7/23/14
Staff Report

Florida City Gas Company
2014 Depreciation Study
Docket No. 140051-GU

Staff Report

This report represents staff's initial position. The report consists of four sections:

A. **Information** – includes information necessary to understand staff's proposals.

B. **Questions** – includes specific questions about Florida City Gas Company's (FCG or Company) depreciation study.

C. **Staff's Initial Proposals** – includes staff's proposals for which staff seeks FCG'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 FCG's proposed depreciation rates for each account shown in Attachment A "Comparison of Rates and Components" based on the Commission rounding convention. These recalculated rates are what staff considers as FCG's proposal. The rounding conventions are:

Remaining lives over 20 years:	rounded to the nearest whole year
Remaining lives less 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

General Statement

The only areas addressed in the staff report are those areas where staff disagrees with the Company proposals, or where there is a need for further clarification, information or input. In your response, please identify areas of concurrences and differences, and any additional input that FCG believes would be pertinent.

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. Please provide a list of Asset Management Balance and show the difference between the total asset balance per aged schedules and the total asset balance per general ledger at December 31, 2013, similar to what FCG's presentation at the end of its aged schedules in its last Depreciation Study (Docket No. 080182-GU).

3. Please explain in detail why FCG proposes to significantly decrease the average service life (ASL) of Account 391.1 Office Furniture from 19 years to 10 years which is far below the lower range of the industry norm.

4. Referring to the Attachment 4-03 A, Fleet Retirements and Salvage, and 4-04 A, Revised 2013 Net Salvage – Final, of FCG's response to Staff's 4th Data Request:

a. In 2011, the Company retired $1,724,433 in Account 392.0 Transportation Equipment and realized a net salvage of $58,326 or Net Salvage of 3.38%. Please explain why the net salvage in 2011 was much lower than the other years in the study period and the industry norm which is 10%.

b. Please explain why there were many vehicles which had high retirement amount in 2011 but realized zero salvage as shown in the following examples:

Table B-1 Account 392.0 Transportation Equip.				GL Account	
				100100	134800
Retirement Year	Asset ID	Description	In Service Date	Retirement	Salvage
2011	000000002564	veh# 200222; acqd 6/5/02	2003-09-30	(20,536.85)	0.00
	000000002565	veh# 200223; acqd 6/12/02	2003-09-30	(19,689.80)	0.00
	000000002559	veh# 20015; acqd 6/8/01	2003-09-30	(31,729.80)	0.00
	000000002561	veh# BRV20021; acqd 2/8/02	2003-09-30	(21,396.10)	0.00

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 service life for Account 376.1 Main-Other than Plastic). For each item listed below, please state whether or not FCG agrees with staff's proposal. If FCG does not agree with staff's proposal, please indicate why and provide a counter proposal.

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 since the last depreciation study. FCG has proposed new depreciation rates for various accounts resulting in a proposed change in the Company's annual depreciation expenses of $787,591.

A depreciation study provides an opportunity to review the present positing 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, 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, retirement and salvage practices, and other related activities.

FCG's filing in this depreciation study provided aged retirement data for the 2009 through 2013 study period. FCG provided the average age distribution of the surviving investments for each account. The Company also provided net salvage analysis 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 for the study period. 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 which takes the aforementioned components as the inputs.

Staff calculated the theoretical reserve based on its initial position. The actual reserve was less than the theoretical reserve for most of the accounts. Staff's proposal to reallocate the positive reserve imbalance is shown below.

Table C-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	1,707,823	1,957,349
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)	708,299	387,606	262,104
393.0	Stores Equipment	980	1,407		980
394.0	Tools, Shop, Garage Equipment	1,032,567	1,071,195	38,628	1,071,195
395.0	Laboratory Equipment	4,034	3,476	(558)	3,476
396.0	Power Operated Equip (new)	3,728	12,521		3,728
397.0	Communication Equipment	1,008,819	808,771	(200,048)	808,771
398.0	Misc. Equipment	370,853	428,000		370,853
Total		**147,800,719**	**157,989,487**	**0**	**147,800,719**

5. Account 376.1 Mains – Other than Plastic

FCG proposes to retain an S3 curve shape, average service life (ASL) of 40 years, and net salvage rate of negative 20%. Staff notes that, with the account's current age of 21.3 years (versus 18.4 years at the time of the last depreciation study), the proposed curve shape – ASL combination does not fit. As FCG reported in its filing, this account has experienced significant changes, with net plant investment increasing by approximately $11.2 million since the last depreciation study. Taken with the account's growth rate of 14.5% and retirement rate of 0.5%, an S3 curve shape with 45-year ASL would most closely depict the account activity. Staff also notes that the average net salvage rates of this account was negative 123% (due to cost of removal and zero gross salvage) for last five years and negative 138% for last 11 years. However, in order to promote a smooth rate transition, staff proposes an S3 curve shape with 42-year ASL, rather than 45-year ASL which represents the best fit, and decrease the net salvage from current negative 20% to negative 25% for this account. The resulting remaining life is 21 years, and the fallout depreciation rate, which includes the proposed reserve transfer, is 3.0%.

6. Account 378.0 M&R Station Equipment – General

Staff concurs with FCG's proposal of S3 curve shape, 30-year ASL, age of 2.5 years, net salvage rate of zero, and remaining life of 27.5 years (rounded to 28 years). The fallout depreciation rate, which includes the proposed reserve transfer, is 3.3%.

7. Account 379.0 M&R Equipment – City Gate

FCG proposes to retain an S3 curve shape, 30-year ASL, and net salvage rate of zero. Staff notes that with the current age of 16.8 years (versus 11.7 years at the time of the last depreciation study) and the retirement rate of 0%, the proposed curve shape – ASL combination does not fit. Staff proposes S4 curve shape and 30-year ASL combination to represent the best fit. The resulting remaining life is 13.3 years and the fallout depreciation rate (including the proposed reserve transfer) is 3.3%, which is the same as the Company's proposal.

8. Account 380.1 Services – Other than Plastic

FCG proposes to retain an S4 curve shape, 34-year ASL, and net salvage rate of negative 80%. Staff notes that, with the current average age of 28.4 years (versus 21.6 years at the time of the last depreciation study) and the retirement rate of 1.2%, the proposed curve shape – ASL combination does not fit. As indicated by the Company in its filing, this account has also experienced changes with net plant investment increased by approximately $1.9 million, which represents an 15% growth rate approximately, since the last depreciation study. The retirement rate of this account was 1.2% during the study period. Taken with the current average age and the retirement rate, staff believes that an S6 curve shape with a 35-year ASL more closely depicts the account activity and is within the industry norm. The resulting remaining life is 6.6 years, and the fallout depreciation rate is 6.5%.

9. Account 381.0 Meters

Staff concurs with FCG's proposal of S3 curve shape, 25-year ASL, age of 6.5 years, net salvage rate of negative 3%, and remaining life of 18.5 years. The fallout depreciation rate, which includes the proposed reserve transfer, is 4.8%.

10. Account 382.0 Meter Installations

Staff concurs with FCG's proposal of S3 curve shape, 34-year ASL, age of 12.7 years, and net salvage rate of zero. The resulting remaining life is 21 years, consistent with the Commission Rounding Convention detailed in Section A. The fallout depreciation rate is 4.5%.

11. Account 382.1 ERT Installations

Staff concurs with FCG's proposal of S3 curve shape, 15-year ASL, age of 4.5 years, net salvage rate of zero, and remaining life of 10.5 years. The fallout depreciation rate, which includes the proposed reserve transfer, is 6.7%.

12. Account 384.0 Regulator Installations

FCG proposes to retain an S3 curve shape, 34-year ASL, and net salvage rate of zero. Staff notes that, with the current age of 18.9 years (versus 17.3 years at the time of the last depreciation study) and retirement rate of 0.1%, the proposed curve shape – ASL combination does not fit. Staff proposes an S4 curve shape with a 34-year ASL to more closely depict the account activity. The resulting remaining life is 15.2 years and the fallout depreciation rate is 3.1%, which is the same as the Company's proposal.

13. Account 385.0 Industrial M&R Station Equipment

Staff concurs with FCG's proposal to retain an R3 curve shape, 30-year ASL, age of 18.3 years, and net salvage rate of zero. Staff notes that using these components as the inputs, the calculated remaining life is 13.5 years rather than 11.7 years as FCG proposed. The fallout depreciation rate, which includes the proposed reserve transfer, is 3.3%.

14. Account 390.0 Structure & Improvements

FCG proposes to retain an R3 curve shape, 40-year ASL, and net salvage rate of zero. Staff notes that with the current age of 7.8 years versus 16.3 years at the time of the last depreciation study, the proposed curve shape – ASL combination does not fit. As indicated by the Company in its filing, this account has also 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 proposes R1, rather than R3 curve shape, with 40-year ASL to more closely depict the account activity. The resulting remaining life is 34.4 years (rounded to 34 years), and the fallout depreciation rate is 2.6%.

15. Account 391.1 Office Furniture

FCG proposes to retain an S2 curve shape but to reduce the ASL from 19 to 10 years. Staff notes that with the current age of 17.3 years, versus 17.7 years at the time of the last depreciation study, the proposed curve shape – ASL combination does not fit. 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%. Taken with the projected higher growth and higher retirement rates, staff believes that an S2 curve shape with 19-year ASL more closely depicts the account activity. The resulting remaining life is 5.5 years, and the fallout depreciation rate is 7.7%.

16. Account 391.2 Office Machines and Equipment

FCG proposes to retain an S2 curve shape, 12-year ASL, and net salvage rate of zero. Staff notes that with the current age of 6.3 years, versus 2.8 years at the time of the last depreciation study, the proposed curve shape – ASL combination does not fit. Noting the retirement rate is zero, staff proposes an S4 curve shape with 12-year ASL to more closely depict the account activity. The resulting remaining life is 5.7 years, which is the same as the Company's proposal. The fallout depreciation rate, which includes the proposed reserve transfer, is 8.3%.

17. Account 391.3 Enterprise Software

FCG proposes to retain an R4 curve shape, 10-year ASL, and net salvage rate of zero. Staff notes that with the current age of 5.8 years, versus 2.1 years at the time of the last depreciation study, the proposed curve shape – ASL combination does not fit. The Company reported that the net plant investment in this account increased by approximately $2.3 million since the last depreciation study. Taken with an near zero retirement and an 40.2% growth rate of this account, staff believes that an R4 curve shape with 11-year ASL more closely depicts the account activity. The resulting remaining life is 5.4 years, and the fallout depreciation rate including proposed reserve transfer is 9.1%.

18. Account 392.0 Transportation Equipment – Combined

Staff concurs with FCG's proposal to retain an L3 curve shape, 12-year ASL. With these inputs and age of 6.5 years, the calculated remaining life is 5.9 years. In its filing, FCG reported a net salvage rate of 5.18%, then revised it to 5.29% for the current study period. Staff notes that in FCG's last depreciation study the Company reported a net salvage of 13.3%, and the Commission approved net salvage rate was 10% which is consistent with the industry norm. Staff also notes that the average net salvage rate this account experienced during the last 10 years was 7.7% which is closer to the industrial norm and much higher than what FCG reported for this study period. Therefore, staff proposes a net salvage of 7.4% which is closer to what the Company experienced historically and closer to the industry norm as well. The fallout depreciation rate, which includes proposed reserve transfer, is 12.8%.

19. Account 393.0 Store Equipment

FCG proposes to retain an S4 curve shape, 25-year ASL. Given this account's 12.5-year age, retirement rate of 16.4% and growth rate of negative 60.6%, the proposed curve shape – ASL combination does not fit. Staff believes that an R2 curve shape with 21-year ASL more closely depicts the account activity. The resulting remaining life is 10.8 years and the fallout depreciation rate is 6.2%.

20. Account 394.0 Tools, Shop, Garage Equipment

FCG proposes to retain an S2 curve shape, 15-year ASL, and net salvage rate of zero. Staff notes that with the current 9.8-year age and the retirement rate of 0.1%, the proposed curve shape – ASL combination does not fit. Staff proposes an S5 curve shape with 15-year ASL to most closely depict the account activity. The resulting remaining life is 5.2 years, which is the same as the Company's proposal. The fallout depreciation rate, which includes the proposed reserve transfer, is 6.7%.

21. Account 395.0 Laboratory Equipment

This account has been fully depreciated, thus, the depreciation rate should be set to zero.

22. Account 397.0 Communication Equipment

This account has been fully depreciated, thus, the depreciation rate should be set to zero.

23. Account 398.0 Mic. Equipment

Staff concurs with FCG's proposal to retain an S3 curve shape, 15-year ASL, and net salvage rate of zero. With these inputs and age of 7.5 years, the calculated remaining life is 7.7 years. The fallout depreciation rate is 7.5%.

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 $299,007.

Attachment A

Comparison of Rates and Components									
		Current			Staff Recommended				
Account Number	Account Title	Average Remaining Life (yrs)	Future Net Salvage (%)	Remaining Life Rate (%)	Average Remaining Life (yrs)	Reserve (%)		Future Net Salvage (%)	Remaining Life Rate (%)
375	Structures & Improvements	25.6	0	2.5	27.0	27.34%		0	2.8
376.1	Mains - Other Than Plastic	20.7	(20)	3.0	21.0	62.00%	*	(25)	3.0
376.2	Mains - Plastic	29.1	(20)	3.0	27.0	36.60%		(20)	3.1
378	M&R Station Equip - General (new	0.0	0	0.0	28.0	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	23.1	(30)	3.9	22.0	40.12%		(30)	4.1
381	Meters	16.8	0	4.5	18.5	13.27%	*	(3)	4.8
382	Meter Installations	17.6	(25)	4.5	21.0	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	22.7	0	2.5	34.0	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	17.34%	*	7	12.8
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	65.16%	*	0	6.7
395	Laboratory Equipment	4.9	0	4.0	3.5	86.16%	*	0	0.0
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	2.4	80.17%	*	0	0.0
398	Misc. Equipment	10.0	0	6.7	7.7	41.95%		0	7.5

*Denotes a Reserve Transfer

Attachment B

Comparison of Expenses

		Current		**Staff Proposed**		
Account Number	Account Title	Depreciation Rate (%)	Annual Expense ($)	Depreciation Rate (%)	Annual Expense ($)	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	4.8	708,262	44,266
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	12.8	193,475	80,111
393	Stores Equipment	4.0	117	6.2	181	64
394	Tools, Shop, Garage Equipment	6.7	110,144	6.7	110,144	0
395	Laboratory Equipment	4.0	161		0	(161)
396	Power Operated Equip (new)	0.0	0	8.3	4,055	4,055
397	Communication Equipment	8.3	83,732		0	(83,732)
398	Misc. Equipment	6.7	59,236	7.5	66,309	7,073
			11,335,298		**11,634,305**	**299,007**

8/7/14
Responses

Florida City Gas Company
2014 Depreciation Study
Docket No. 140051-GU

Company's Concurrence or Exception to Initial Proposals
Staff Report

This report represents staff's initial position. The report consists of four sections:

A. **Information** – includes information necessary to understand staff's proposals.

B. **Questions** – includes specific questions about Florida City Gas Company's (FCG or Company) depreciation study.

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D. **Summary Tables** – these tables provide staff's initial position on inputs, rates, and resulting depreciation expense for all accounts.

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Commission Rounding Convention

Staff recalculated FCG's proposed depreciation rates for each account shown in Attachment A "Comparison of Rates and Components" based on the Commission rounding convention. These recalculated rates are what staff considers as FCG's proposal. The rounding conventions are:

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

General Statement

The only areas addressed in the staff report are those areas where staff disagrees with the Company proposals, or where there is a need for further clarification, information or input. In your response, please identify areas of concurrences and differences, and any additional input that FCG believes would be pertinent.

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?**

   Company's Response:

   The Company is amortizing a regulatory tax liability of $2,528 and the related regulatory tax liability of $1,589 that was set up to amortize over the book lives of the related property. These amounts will be fully amortized by the end of 2015 and any change resulting from a change in depreciation rates would not be material.

   The Company's liability for excess deferred income taxes has been fully amortized.

2. **Please provide a list of Asset Management Balance and show the difference between the total asset balance per aged schedules and the total asset balance per general ledger at December 31, 2013, similar to what FCG's presentation at the end of its aged schedules in its last Depreciation Study (Docket No. 080182-GU).**

   Company's Response:

   Please refer to SRQ-1-02.A FCG Asset Balances as of December 2013 for the asset balances used in the study with a tie out to the general ledger.

3. **Please explain in detail why FCG proposes to significantly decrease the average service life (ASL) of Account 391.1 Office Furniture from 19 years to 10 years which is far below the lower range of the industry norm.**

   Company's Response:

   The Company initially estimated that it would replace its office furniture using a 10-year average service life based on the expected life of the furniture, which was based upon an estimated life provided by the Company's facilities management department. While the Company believes that 19 years is probably at the upper end of the range that furniture would actually last and remain in service, the Company is willing to accept the longer projected life as reasonable for this study.

4. Referring to the Attachment 4-03 A, Fleet Retirements and Salvage, and 4-04 A, Revised 2013 Net Salvage – Final, of FCG's response to Staff's 4th Data Request:

a. In 2011, the Company retired $1,724,433 in Account 392.0 Transportation Equipment and realized a net salvage of $58,326 or Net Salvage of 3.38%. Please explain why the net salvage in 2011 was much lower than the other years in the study period and the industry norm which is 10%.

b. Please explain why there were many vehicles which had high retirement amount in 2011 but realized zero salvage as shown in the following examples:

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	000000002561	veh# BRV20021; acqd 2/8/02	2003-09-30	(21,396.10)	0.00

Company's Response:

a. In 2011, the Company retired a backlog of Transportation Equipment that consisted of capital leases. The Company has, however, further reviewed this Account, and has determined that the salvage amounts related to the "catch up" in retirements were not properly credited to the depreciation reserve. Instead, there amounts were inadvertently credited to an operations expense account and a capital lease liability account.

Please refer to Attachment SRQ-01-04, which provides a summary of the catch up in retirements made in 2011 for prior years and the proceeds related to the sales made to each year. The attachment also provides a calculation of the salvage percentage incorporating the salvage amounts related to prior year retirements. The salvage percentage is 12.41%.

The Company is still researching the details necessary to make the correction to the depreciation reserve and will make the correction in 2014, if necessary.

b. Please see response provided in 'a' above.

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 service life for Account 376.1 Main-Other than Plastic). For each item listed below, please state whether or not FCG agrees with staff's proposal. If FCG does not agree with staff's proposal, please indicate why and provide a counter proposal.

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 since the last depreciation study. FCG has proposed new depreciation rates for various accounts resulting in a proposed change in the Company's annual depreciation expenses of $787,591.

A depreciation study provides an opportunity to review the present positing 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, 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, retirement and salvage practices, and other related activities.

FCG's filing in this depreciation study provided aged retirement data for the 2009 through 2013 study period. FCG provided the average age distribution of the surviving investments for each account. The Company also provided net salvage analysis 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 for the study period. 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 which takes the aforementioned components as the inputs.

Staff calculated the theoretical reserve based on its initial position. The actual reserve was less than the theoretical reserve for most of the accounts. Staff's proposal to reallocate the positive reserve imbalance is shown below.

Table C-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	1,707,823	1,957,349
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)	708,299	387,606	262,104
393.0	Stores Equipment	980	1,407		980
394.0	Tools, Shop, Garage Equipment	1,032,567	1,071,195	38,628	1,071,195
395.0	Laboratory Equipment	4,034	3,476	(558)	3,476
396.0	Power Operated Equip (new)	3,728	12,521		3,728
397.0	Communication Equipment	1,008,819	808,771	(200,048)	808,771
398.0	Misc. Equipment	370,853	428,000		370,853
Total		**147,800,719**	**157,989,487**	**0**	**147,800,719**

Company's Response to Initial Proposal

The Company concurs with all of the Staff's proposals with two exceptions.

First, the Company recommends that the Staff consider increasing the transportation salvage percentage to 12.41%, the average rate over the last 5 years, from the Staff's recommendation of 7.4% which was based on 10 year salvage data previously provided by the Company. This recommendation is based on information gathered in response to a data request in the Staff's report.

Second, the Company recommends that the imbalance adjustment for Account 397 Communication Equipment of ($200,048) included in the Staff's recommendation not be made. This recommendation is based on the fact that the account has been fully depreciated. Decreasing the reserve would result in additional depreciation taken on the assets in the account which have already been fully recovered. This adjustment could be offset against an account to which the Staff made a positive adjustment, Account 381 Meters.

Additionally, the Company would request that depreciation rates be established for two accounts that have been fully depreciated. The Company recommends that a depreciation rate be established for Account 395 Laboratory Equipment and Account 397 Communication Equipment even though the assets in these accounts have been fully depreciated. The Company would like to have a rate available to use in the event laboratory equipment is added and it is very likely that communication equipment will be added before the next depreciation study. For Account 395-Laboratory Equipment, the Company proposes to use a rate of 4.0% based on an average service life of 25 years, the life currently approved. For Account 397-Communication Equipment, the Company proposes to use a rate of 8.3% based on an average service life of 12 years, the life currently approved.

Listed below are the Company's specific responses to each proposal made by the Staff in its report. The Company agrees is whole with all of the Staff's initial proposals with the exception of the transportation account net salvage percentage and the transfer of the reserve for communication equipment, as well as the establishment of the rates for the two accounts that are fully depreciated.

5. Account 376.1 Mains – Other than Plastic

FCG proposes to retain an S3 curve shape, average service life (ASL) of 40 years, and net salvage rate of negative 20%. Staff notes that, with the account's current age of 21.3 years (versus 18.4 years at the time of the last depreciation study), the proposed curve shape – ASL combination does not fit. As FCG reported in its filing, this account has experienced significant changes, with net plant investment increasing by approximately $11.2 million since the last depreciation study. Taken with the account's growth rate of 14.5% and retirement rate of 0.5%, an S3 curve shape with 45-year ASL would most closely depict the account activity. Staff also notes that the average net salvage rates of this account was negative 123% (due to cost of removal and zero gross salvage) for last five years and negative 138% for last 11 years. However, in order to promote a smooth rate transition, staff proposes an S3 curve shape with 42-year ASL, rather than 45-year ASL which represents the best fit, and decrease the net salvage from current negative 20% to negative 25% for this account. The resulting remaining life is 21 years, and the fallout depreciation rate, which includes the proposed reserve transfer, is 3.0%.

Company Response:

The Company accepts the Staff's recommendations in whole for Account 376.1 Mains – Other than Plastic.

6. Account 378.0 M&R Station Equipment – General

Staff concurs with FCG's proposal of S3 curve shape, 30-year ASL, age of 2.5 years, net salvage rate of zero, and remaining life of 27.5 years (rounded to 28 years). The fallout depreciation rate, which includes the proposed reserve transfer, is 3.3%.

Company Response:

The Company accepts the Staff's recommendations in whole for Account 378.0 M&R Station Equipment – General.

7. Account 379.0 M&R Equipment – City Gate

FCG proposes to retain an S3 curve shape, 30-year ASL, and net salvage rate of zero. Staff notes that with the current age of 16.8 years (versus 11.7 years at the time of the last depreciation study) and the retirement rate of 0%, the proposed curve shape – ASL combination does not fit. Staff proposes S4 curve shape and 30-year ASL combination to represent the best fit. The resulting remaining life is 13.3 years and the fallout depreciation rate (including the proposed reserve transfer) is 3.3%, which is the same as the Company's proposal.

Company Response:

The Company accepts the Staff's recommendations in whole for Account 379.0 M&R Equipment – City Gate.

8. Account 380.1 Services – Other than Plastic

FCG proposes to retain an S4 curve shape, 34-year ASL, and net salvage rate of negative 80%. Staff notes that, with the current average age of 28.4 years (versus 21.6 years at the time of the last depreciation study) and the retirement rate of 1.2%, the proposed curve shape – ASL combination does not fit. As indicated by the Company in its filing, this account has also experienced changes with net plant investment increased by approximately $1.9 million, which represents an 15% growth rate approximately, since the last depreciation study. The retirement rate of this account was 1.2% during the study period. Taken with the current average age and the retirement rate, staff believes that an S6 curve shape with a 35-year ASL more closely depicts the account activity and is within the industry norm. The resulting remaining life is 6.6 years, and the fallout depreciation rate is 6.5%.

Company Response:

> The Company accepts the Staff's recommendations in whole for Account 380.1 Services – Other than Plastic.

9. Account 381.0 Meters

Staff concurs with FCG's proposal of S3 curve shape, 25-year ASL, age of 6.5 years, net salvage rate of negative 3%, and remaining life of 18.5 years. The fallout depreciation rate, which includes the proposed reserve transfer, is 4.8%.

Company Response:

> The Company accepts the Staff's recommendations for Account 381.0 Meters except that the Company would recommend that the depreciation reserve reduction of ($200,048) proposed by the Staff for Account 397 Communication Equipment be excluded from Account 397 since the account has been fully depreciated and offset against Staff's proposal to increase the reserve for Account 381 by $1,**707,823.** If the Staff accepts this recommendation that would of course affect the resulting depreciation rate.

10. Account 382.0 Meter Installations

Staff concurs with FCG's proposal of S3 curve shape, 34-year ASL, age of 12.7 years, and net salvage rate of zero. The resulting remaining life is 21 years, consistent with the Commission Rounding Convention detailed in Section A. The fallout depreciation rate is 4.5%.

Company Response:

> The Company accepts the Staff's recommendations in whole for Account 382.0 Meters Installations.

11. Account 382.1 ERT Installations

Staff concurs with FCG's proposal of S3 curve shape, 15-year ASL, age of 4.5 years, net salvage rate of zero, and remaining life of 10.5 years. The fallout depreciation rate, which includes the proposed reserve transfer, is 6.7%.

Company Response:

> The Company accepts the Staff's recommendations in whole for Account 382.0 ERT Installations.

12. Account 384.0 Regulator Installations

FCG proposes to retain an S3 curve shape, 34-year ASL, and net salvage rate of zero. Staff notes that, with the current age of 18.9 years (versus 17.3 years at the time of the last depreciation study) and retirement rate of 0.1%, the proposed curve shape – ASL combination does not fit. Staff proposes an S4 curve shape with a 34-year ASL to more closely depict the account activity. The resulting remaining life is 15.2 years and the fallout depreciation rate is 3.1%, which is the same as the Company's proposal.

Company Response:

The Company accepts the Staff's recommendations in whole for Account 384.0 Regulator Installations.

13. Account 385.0 Industrial M&R Station Equipment

Staff concurs with FCG's proposal to retain an R3 curve shape, 30-year ASL, age of 18.3 years, and net salvage rate of zero. Staff notes that using these components as the inputs, the calculated remaining life is 13.5 years rather than 11.7 years as FCG proposed. The fallout depreciation rate, which includes the proposed reserve transfer, is 3.3%.

Company Response:

The Company accepts the Staff's recommendations in whole for Account 385.0 Industrial M&R Station Equipment.

14. Account 390.0 Structure & Improvements

FCG proposes to retain an R3 curve shape, 40-year ASL, and net salvage rate of zero. Staff notes that with the current age of 7.8 years versus 16.3 years at the time of the last depreciation study, the proposed curve shape – ASL combination does not fit. As indicated by the Company in its filing, this account has also 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 proposes R1, rather than R3 curve shape, with 40-year ASL to more closely depict the account activity. The resulting remaining life is 34.4 years (rounded to 34 years), and the fallout depreciation rate is 2.6%.

Company Response:

The Company accepts the Staff's recommendations in whole for The Company accepts the following for Account 390.0 Structure & Improvements.

15. Account 391.1 Office Furniture

FCG proposes to retain an S2 curve shape but to reduce the ASL from 19 to 10 years. Staff notes that with the current age of 17.3 years, versus 17.7 years at the time of the last depreciation study, the proposed curve shape – ASL combination does not fit. 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%. Taken with the projected higher growth and higher retirement rates, staff believes that an S2 curve shape with 19-year ASL more closely depicts the account activity. The resulting remaining life is 5.5 years, and the fallout depreciation rate is 7.7%.

Company Response:

> The Company accepts the Staff's recommendations in whole for Account 390.0 Structure & Improvements.

16. **Account 391.2 Office Machines and Equipment**

FCG proposes to retain an S2 curve shape, 12-year ASL, and net salvage rate of zero. Staff notes that with the current age of 6.3 years, versus 2.8 years at the time of the last depreciation study, the proposed curve shape – ASL combination does not fit. Noting the retirement rate is zero, staff proposes an S4 curve shape with 12-year ASL to more closely depict the account activity. The resulting remaining life is 5.7 years, which is the same as the Company's proposal. The fallout depreciation rate, which includes the proposed reserve transfer, is 8.3%.

Company Response:

> The Company accepts the Staff's recommendations in whole for Account 391.2 Office Machines and Equipment.

17. **Account 391.3 Enterprise Software**

FCG proposes to retain an R4 curve shape, 10-year ASL, and net salvage rate of zero. Staff notes that with the current age of 5.8 years, versus 2.1 years at the time of the last depreciation study, the proposed curve shape – ASL combination does not fit. The Company reported that the net plant investment in this account increased by approximately $2.3 million since the last depreciation study. Taken with an near zero retirement and an 40.2% growth rate of this account, staff believes that an R4 curve shape with 11-year ASL more closely depicts the account activity. The resulting remaining life is 5.4 years, and the fallout depreciation rate including proposed reserve transfer is 9.1%.

Company Response:

> The Company accepts the Staff's recommendations in whole for Account 391.3 Enterprise Software.

18. Account 392.0 Transportation Equipment – Combined

Staff concurs with FCG's proposal to retain an L3 curve shape, 12-year ASL. With these inputs and age of 6.5 years, the calculated remaining life is 5.9 years. In its filing, FCG reported a net salvage rate of 5.18%, then revised it to 5.29% for the current study period. Staff notes that in FCG's last depreciation study the Company reported a net salvage of 13.3%, and the Commission approved net salvage rate was 10% which is consistent with the industry norm. Staff also notes that the average net salvage rate this account experienced during the last 10 years was 7.7% which is closer to the industrial norm and much higher than what FCG reported for this study period. Therefore, staff proposes a net salvage of 7.4% which is closer to what the Company experienced historically and closer to the industry norm as well. The fallout depreciation rate, which includes proposed reserve transfer, is 12.8%.

Company Response:

> The Company accepts the Staff's recommendations for Account 381.0 Meters except that the Company would recommend the Staff consider using a net salvage rate of 12.41% based upon the fact that that the salvage information provided in the response to question 4 in this report indicates that the salvage rate for all retirements processed in the last 5 years is 12.41%. If the Staff accepts this recommendation that would of course affect the resulting depreciation rate.

19. Account 393.0 Store Equipment

FCG proposes to retain an S4 curve shape, 25-year ASL. Given this account's 12.5-year age, retirement rate of 16.4% and growth rate of negative 60.6%, the proposed curve shape – ASL combination does not fit. Staff believes that an R2 curve shape with 21-year ASL more closely depicts the account activity. The resulting remaining life is 10.8 years and the fallout depreciation rate is 6.2%.

Company Response:

> The Company accepts the Staff's recommendations in whole for Account 393.0 Store Equipment.

20. Account 394.0 Tools, Shop, Garage Equipment

FCG proposes to retain an S2 curve shape, 15-year ASL, and net salvage rate of zero. Staff notes that with the current 9.8-year age and the retirement rate of 0.1%, the proposed curve shape – ASL combination does not fit. Staff proposes an S5 curve shape with 15-year ASL to most closely depict the account activity. The resulting remaining life is 5.2 years, which is the same as the Company's proposal. The fallout depreciation rate, which includes the proposed reserve transfer, is 6.7%.

Company Response:

> The Company accepts the Staff's recommendations in whole for Account 394.0 Tools, Shop, Garage Equipment.

21. Account 395.0 Laboratory Equipment

This account has been fully depreciated, thus, the depreciation rate should be set to zero.

Company Response:

The Company agrees with the Staff that the depreciation rate for this account should be set to zero for this account but that a rate should be established in the event laboratory equipment is added. The Company has reviewed this account and it has been determined these assets should be retired. The Company plans to retire by the end of year. If new investment is added, the Company proposes using the approved rate of 4.0% for the new additions based on an average service life of 25 years.

22. Account 397.0 Communication Equipment

This account has been fully depreciated, thus, the depreciation rate should be set to zero.

Company Response:

The Company agrees with the Staff that the depreciation rate for this account should be set to zero for this account but that a rate should be established due to the fact that it is likely that communication equipment will be added. If new investment is added, the Company proposes using the approved rate of 8.3% for the new additions based on an average service life of 12 years.

In additional, based on the fact that this account is fully depreciated the Company recommends that the imbalance of ($200,048) be offset against an account which was allocated a positive amount - Account 381.0 Meters.

23. Account 398.0 Misc. Equipment

Staff concurs with FCG's proposal to retain an S3 curve shape, 15-year ASL, and net salvage rate of zero. With these inputs and age of 7.5 years, the calculated remaining life is 7.7 years. The fallout depreciation rate is 7.5%.

Company Response:

The Company accepts the Staff's recommendations in whole for Account 398.0 Misc. Equipment.

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 $299,007.

Attachment A

Comparison of Rates and Components

		Current			**Staff Recommended**				
Account Number	Account Title	Average Remaining Life (yrs)	Future Net Salvage (%)	Remaining Life Rate (%)	Average Remaining Life (yrs)	Reserve (%)		Future Net Salvage (%)	Remaining Life Rate (%)
375	Structures & Improvements	25.6	0	2.5	27.0	27.34%		0	2.8
376.1	Mains - Other Than Plastic	20.7	(20)	3.0	21.0	62.00%	*	(25)	3.0
376.2	Mains - Plastic	29.1	(20)	3.0	27.0	36.60%		(20)	3.1
378	M&R Station Equip - General (new	0.0	0	0.0	28.0	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	23.1	(30)	3.9	22.0	40.12%		(30)	4.1
381	Meters	16.8	0	4.5	18.5	13.27%	*	(3)	4.8
382	Meter Installations	17.6	(25)	4.5	21.0	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	22.7	0	2.5	34.0	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	17.34%	*	7	12.8
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	65.16%	*	0	6.7
395	Laboratory Equipment	4.9	0	4.0	3.5	86.16%	*	0	0.0
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	2.4	80.17%	*	0	0.0
398	Misc. Equipment	10.0	0	6.7	7.7	41.95%		0	7.5

*Denotes a Reserve Transfer

Attachment B

		Comparison of Expenses				
		Current		Staff Proposed		
Account Number	Account Title	Depreciation Rate (%)	Annual Expense ($)	Depreciation Rate (%)	Annual Expense ($)	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	4.8	708,262	44,266
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	12.8	193,475	80,111
393	Stores Equipment	4.0	117	6.2	181	64
394	Tools, Shop, Garage Equipment	6.7	110,144	6.7	110,144	0
395	Laboratory Equipment	4.0	161		0	(161)
396	Power Operated Equip (new)	0.0	0	8.3	4,055	4,055
397	Communication Equipment	8.3	83,732		0	(83,732)
398	Misc. Equipment	6.7	59,236	7.5	66,309	7,073
			11,335,298		**11,634,305**	**299,007**

SRQ-1-02.A Asset Balances as of December 2013

Florida City Gas Regulated Asset Balances PowerPlant

FERC Account	Ref.	Type	December 2013 per General Ledger balance	2013 Study Exclusions	Pro Forma Adj Included in 2014 GL and PowerPlant (2)	December 2013 per Aged Schedules (Study)
302G - Franchises and consents	(1)	Intangible Plant	325,164	(325,164)		-
303G - Misc intangible plant	(1)	Intangible Plant	25,522	(25,522)		-
367 - Mains	(2)	Transmission Plant	4,685,577	(4,685,577)		-
374 - Land and land rights	(1)	Distribution Plant	353,577	(353,577)		-
375 - Structures and Improvements		Distribution Plant	607,824			607,824
376.1 - Mains Other than Plastic		Distribution Plant	87,273,578		6,371,758	93,645,336
376.2 - Mains - Plastic		Distribution Plant	76,531,571			76,531,571
378 - Meas. and reg. stat. eq.-Gen		Distribution Plant	158,524			158,524
379 - Meas. and reg. stat. eq.-City		Distribution Plant	6,326,025			6,326,025
380.1 - Services Other than Plastic		Distribution Plant	14,834,212			14,834,212
380.2 - Services Plastic		Distribution Plant	44,052,779			44,052,779
381 - Meters		Distribution Plant	14,487,565		267,899	14,755,464
382 - Meter installations		Distribution Plant	6,256,932			6,256,932
382.1 - ERTs Installations		Distribution Plant	6,722,529			6,722,529
383 - House regulators		Distribution Plant	3,940,190			3,940,190
384 - House regulator installations		Distribution Plant	1,627,102			1,627,102
385 - Ind. measuring and regulating		Distribution Plant	3,047,920			3,047,920
387 - Other equipment		Distribution Plant	703,879			703,879
389G - Land and land rights	(1)	General Plant	385,501	(385,501)		-
390G - Structures and improvements		General Plant	4,454,307			4,454,307
391.1 - Office Furniture		General Plant	376,614		(8,000)	368,614
391.2 - Office Machines and Equipment		General Plant	2,337,839			2,337,839
391.3 - Enterprise Software		General Plant	10,225,289			10,225,289
392G - Transportation equipment combined		General Plant	1,511,522			1,511,522
393G - Stores equipment		General Plant	2,922			2,922
394G - Tools, shop and garage equip		General Plant	1,643,946			1,643,946
395G - Laboratory equipment		General Plant	4,034			4,034
396G - Power operated equipment		General Plant	48,854			48,854
397G - Communication equipment		General Plant	1,008,819			1,008,819
398G - Miscellaneous equipment		General Plant	884,116			884,116
Total Regulated Assets			**294,844,235**	**(5,775,341)**	**6,631,657**	**295,700,551**
Balance per GL			**294,844,235**			
Difference			*(0)*			

Notes:

(1) Not included in Depreciation Study - non depreciable plant

(2) Included in Proforma adjustments support provided in the initial filing, this was classified in Distribution Plant Mains.

Balance Sheet PP&E

Property, Plant & Equipment

Gl Account	Description	12/31/2013 GL Balance
100100	Utility Plant in Service	293,126,893.03
100110	Completed Constr Not Clssfd	1,717,341.64
	Regulated Assets	294,844,234.67

Attachment SRQ-01-04
Florida City Gas

	2011					
	Vehicles Sold Current Year	**Retirement Catch Up for Prior Years**	**Total 2011**	**Retirements Processed in 2011 Related to 2011 Retirements**	**Salvage for Retirements Processed in 2011 for Vehicle Retirements in Prior Year (1)**	**Total Salvage Related to Retirements Processed in 2011**
2005		(79,793)	(79,793)		21,065	21,065
2007		(196,527)	(196,527)		21,774	21,774
2008		(471,520)	(471,520)		45,821	45,821
2009		(396,489)	(396,489)		42,802	42,802
2010		(241,933)	(241,933)		51,661	51,661
2011	(337,671)		(337,671)	58,326		58,326
Misc.		(500)	(500)			
Total	(337,671)	(1,386,762)	(1,724,433)	58,326	183,123	241,449

(1) Per preliminary research from the Fleet Management system.

City Gas Company of Florida
Transportation
Account 392

Year	**Retirements**	**Salvage From Retirements**	**Percent Salvage**	**Cost of Removal**	**Percent COR**	**Net Salvage**	**Percent Net Salvage**
2009	179,584	8,000	4.45%	-	0.00%	8,000	**4.45%**
2010	308,039	27,070	8.79%	-	0.00%	27,070	**8.79%**
2011	1,724,433	241,449	14.00%	-	0.00%	241,449	**14.00%**
2012	221,831	35,785	16.13%	-	0.00%	35,785	**16.13%**
2013	136,569	6,804	0.00%	-	0.00%	6,804	**4.98%**
Total	**2,570,456**	**319,108**	**12.41%**	**$0**	**0.00%**	**$319,108**	**12.41%**

8/8/14
Revised Responses

Florida City Gas Company
2014 Depreciation Study
Docket No. 140051-GU

Company's Concurrence or Exception to Initial Proposals
Staff Report

This report represents staff's initial position. The report consists of four sections:

A. **Information** – includes information necessary to understand staff's proposals.

B. **Questions** – includes specific questions about Florida City Gas Company's (FCG or Company) depreciation study.

C. **Staff's Initial Proposals** – includes staff's proposals for which staff seeks FCG'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 FCG's proposed depreciation rates for each account shown in Attachment A "Comparison of Rates and Components" based on the Commission rounding convention. These recalculated rates are what staff considers as FCG's proposal. The rounding conventions are:

Remaining lives over 20 years:	rounded to the nearest whole year
Remaining lives less 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

General Statement

The only areas addressed in the staff report are those areas where staff disagrees with the Company proposals, or where there is a need for further clarification, information or input. In your response, please identify areas of concurrences and differences, and any additional input that FCG believes would be pertinent.

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?**

   Company's Response:

   The Company is amortizing a regulatory tax liability of $2,528 and the related regulatory tax liability of $1,589 that was set up to amortize over the book lives of the related property. These amounts will be fully amortized by the end of 2015 and any change resulting from a change in depreciation rates would not be material.

   The Company's liability for excess deferred income taxes has been fully amortized.

2. **Please provide a list of Asset Management Balance and show the difference between the total asset balance per aged schedules and the total asset balance per general ledger at December 31, 2013, similar to what FCG's presentation at the end of its aged schedules in its last Depreciation Study (Docket No. 080182-GU).**

   Company's Response:

   Please refer to SRQ-1-02.A FCG Asset Balances as of December 2013 for the asset balances used in the study with a tie out to the general ledger.

3. **Please explain in detail why FCG proposes to significantly decrease the average service life (ASL) of Account 391.1 Office Furniture from 19 years to 10 years which is far below the lower range of the industry norm.**

   Company's Response:

   The Company initially estimated that it would replace its office furniture using a 10-year average service life based on the expected life of the furniture, which was based upon an estimated life provided by the Company's facilities management department. While the Company believes that 19 years is probably at the upper end of the range that furniture would actually last and remain in service, the Company is willing to accept the longer projected life as reasonable for this study.

4. Referring to the Attachment 4-03 A, Fleet Retirements and Salvage, and 4-04 A, Revised 2013 Net Salvage – Final, of FCG's response to Staff's 4th Data Request:

a. In 2011, the Company retired $1,724,433 in Account 392.0 Transportation Equipment and realized a net salvage of $58,326 or Net Salvage of 3.38%. Please explain why the net salvage in 2011 was much lower than the other years in the study period and the industry norm which is 10%.

b. Please explain why there were many vehicles which had high retirement amount in 2011 but realized zero salvage as shown in the following examples:

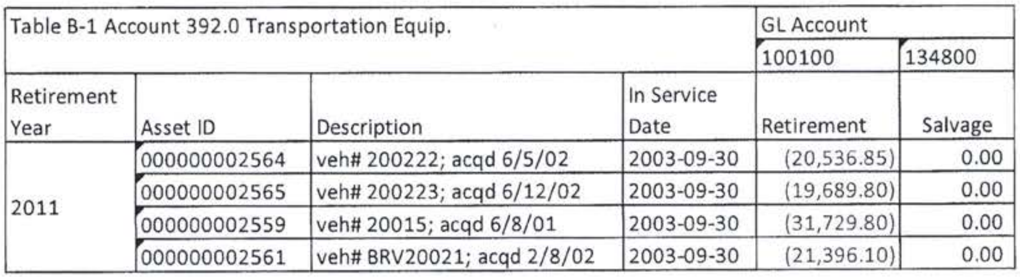

Table B-1 Account 392.0 Transportation Equip.				GL Account	
				100100	134800
Retirement Year	Asset ID	Description	In Service Date	Retirement	Salvage
2011	000000002564	veh# 200222; acqd 6/5/02	2003-09-30	(20,536.85)	0.00
	000000002565	veh# 200223; acqd 6/12/02	2003-09-30	(19,689.80)	0.00
	000000002559	veh# 20015; acqd 6/8/01	2003-09-30	(31,729.80)	0.00
	000000002561	veh# BRV20021; acqd 2/8/02	2003-09-30	(21,396.10)	0.00

Company's Response:

a. In 2011, the Company retired a backlog of Transportation Equipment that consisted of capital leases. The Company has, however, further reviewed this Account, and has determined that the salvage amounts related to the "catch up" in retirements were not properly credited to the depreciation reserve. Instead, there amounts were inadvertently credited to an operations expense account and a capital lease liability account.

Please refer to Attachment SRQ-01-04, which provides a summary of the catch up in retirements made in 2011 for prior years and the proceeds related to the sales made to each year. The attachment also provides a calculation of the salvage percentage incorporating the salvage amounts related to prior year retirements. The salvage percentage is 12.41%.

The Company is still researching the details necessary to make the correction to the depreciation reserve and will make the correction in 2014, if necessary.

b. Please see response provided in 'a' above.

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 service life for Account 376.1 Main-Other than Plastic). For each item listed below, please state whether or not FCG agrees with staff's proposal. If FCG does not agree with staff's proposal, please indicate why and provide a counter proposal.

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 since the last depreciation study. FCG has proposed new depreciation rates for various accounts resulting in a proposed change in the Company's annual depreciation expenses of $787,591.

A depreciation study provides an opportunity to review the present positing 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, 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, retirement and salvage practices, and other related activities.

FCG's filing in this depreciation study provided aged retirement data for the 2009 through 2013 study period. FCG provided the average age distribution of the surviving investments for each account. The Company also provided net salvage analysis 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 for the study period. 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 which takes the aforementioned components as the inputs.

Staff calculated the theoretical reserve based on its initial position. The actual reserve was less than the theoretical reserve for most of the accounts. Staff's proposal to reallocate the positive reserve imbalance is shown below.

Table C-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	1,707,823	1,957,349
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)	708,299	387,606	262,104
393.0	Stores Equipment	980	1,407		980
394.0	Tools, Shop, Garage Equipment	1,032,567	1,071,195	38,628	1,071,195
395.0	Laboratory Equipment	4,034	3,476	(558)	3,476
396.0	Power Operated Equip (new)	3,728	12,521		3,728
397.0	Communication Equipment	1,008,819	808,771	(200,048)	808,771
398.0	Misc. Equipment	370,853	428,000		370,853
Total		**147,800,719**	**157,989,487**	**0**	**147,800,719**

Company's Response to Initial Proposal

The Company concurs with all of the Staff's proposals with two exceptions.

First, the Company recommends that the Staff consider increasing the transportation salvage percentage to 12.41%, the average rate over the last 5 years, from the Staff's recommendation of 7.4% which was based on 10 year salvage data previously provided by the Company. This recommendation is based on information gathered in response to a data request in the Staff's report.

Second, the Company recommends that the imbalance adjustment for Account 397 Communication Equipment of ($200,048) included in the Staff's recommendation not be made. This recommendation is based on the fact that the account has been fully depreciated. Decreasing the reserve would result in additional depreciation taken on the assets in the account which have already been fully recovered. This adjustment could be offset against an account to which the Staff made a positive adjustment, Account 381 Meters.

Additionally, the Company would request that depreciation rates be established for two accounts that have been fully depreciated. The Company recommends that a depreciation rate be established for Account 395 Laboratory Equipment and Account 397 Communication Equipment even though the assets in these accounts have been fully depreciated. The Company would like to have a rate available to use in the event laboratory equipment is added and it is very likely that communication equipment will be added before the next depreciation study. For Account 395-Laboratory Equipment, the Company proposes to use a rate of 4.0% based on an average service life of 25 years, the life currently approved. For Account 397-Communication Equipment, the Company proposes to use a rate of 8.3% based on an average service life of 12 years, the life currently approved.

Listed below are the Company's specific responses to each proposal made by the Staff in its report. The Company agrees is whole with all of the Staff's initial proposals with the exception of the transportation account net salvage percentage and the transfer of the reserve for communication equipment, as well as the establishment of the rates for the two accounts that are fully depreciated.

5. Account 376.1 Mains – Other than Plastic

FCG proposes to retain an S3 curve shape, average service life (ASL) of 40 years, and net salvage rate of negative 20%. Staff notes that, with the account's current age of 21.3 years (versus 18.4 years at the time of the last depreciation study), the proposed curve shape – ASL combination does not fit. As FCG reported in its filing, this account has experienced significant changes, with net plant investment increasing by approximately $11.2 million since the last depreciation study. Taken with the account's growth rate of 14.5% and retirement rate of 0.5%, an S3 curve shape with 45-year ASL would most closely depict the account activity. Staff also notes that the average net salvage rates of this account was negative 123% (due to cost of removal and zero gross salvage) for last five years and negative 138% for last 11 years. However, in order to promote a smooth rate transition, staff proposes an S3 curve shape with 42-year ASL, rather than 45-year ASL which represents the best fit, and decrease the net salvage from current negative 20% to negative 25% for this account. The resulting remaining life is 21 years, and the fallout depreciation rate, which includes the proposed reserve transfer, is 3.0%.

Company Response:

The Company accepts the Staff's recommendations in whole for Account 376.1 Mains – Other than Plastic.

6. Account 378.0 M&R Station Equipment – General

Staff concurs with FCG's proposal of S3 curve shape, 30-year ASL, age of 2.5 years, net salvage rate of zero, and remaining life of 27.5 years (rounded to 28 years). The fallout depreciation rate, which includes the proposed reserve transfer, is 3.3%.

Company Response:

The Company accepts the Staff's recommendations in whole for Account 378.0 M&R Station Equipment – General.

7. Account 379.0 M&R Equipment – City Gate

FCG proposes to retain an S3 curve shape, 30-year ASL, and net salvage rate of zero. Staff notes that with the current age of 16.8 years (versus 11.7 years at the time of the last depreciation study) and the retirement rate of 0%, the proposed curve shape – ASL combination does not fit. Staff proposes S4 curve shape and 30-year ASL combination to represent the best fit. The resulting remaining life is 13.3 years and the fallout depreciation rate (including the proposed reserve transfer) is 3.3%, which is the same as the Company's proposal.

Company Response:

The Company accepts the Staff's recommendations in whole for Account 379.0 M&R Equipment – City Gate.

8. Account 380.1 Services – Other than Plastic

FCG proposes to retain an S4 curve shape, 34-year ASL, and net salvage rate of negative 80%. Staff notes that, with the current average age of 28.4 years (versus 21.6 years at the time of the last depreciation study) and the retirement rate of 1.2%, the proposed curve shape – ASL combination does not fit. As indicated by the Company in its filing, this account has also experienced changes with net plant investment increased by approximately $1.9 million, which represents an 15% growth rate approximately, since the last depreciation study. The retirement rate of this account was 1.2% during the study period. Taken with the current average age and the retirement rate, staff believes that an S6 curve shape with a 35-year ASL more closely depicts the account activity and is within the industry norm. The resulting remaining life is 6.6 years, and the fallout depreciation rate is 6.5%.

Company Response:

> The Company accepts the Staff's recommendations in whole for Account 380.1 Services – Other than Plastic.

9. **Account 381.0 Meters**

Staff concurs with FCG's proposal of S3 curve shape, 25-year ASL, age of 6.5 years, net salvage rate of negative 3%, and remaining life of 18.5 years. The fallout depreciation rate, which includes the proposed reserve transfer, is 4.8%.

Company Response:

> The Company accepts the Staff's recommendations for Account 381.0 Meters except that the Company would recommend that the depreciation reserve reduction of ($200,048) proposed by the Staff for Account 397 Communication Equipment be excluded from Account 397 since the account has been fully depreciated and offset against Staff's proposal to increase the reserve for Account 381 by **$1,707,823.** If the Staff accepts this recommendation that would of course affect the resulting depreciation rate.

10. **Account 382.0 Meter Installations**

Staff concurs with FCG's proposal of S3 curve shape, 34-year ASL, age of 12.7 years, and net salvage rate of zero. The resulting remaining life is 21 years, consistent with the Commission Rounding Convention detailed in Section A. The fallout depreciation rate is 4.5%.

Company Response:

> The Company accepts the Staff's recommendations in whole for Account 382.0 Meters Installations.

11. **Account 382.1 ERT Installations**

Staff concurs with FCG's proposal of S3 curve shape, 15-year ASL, age of 4.5 years, net salvage rate of zero, and remaining life of 10.5 years. The fallout depreciation rate, which includes the proposed reserve transfer, is 6.7%.

Company Response:

> The Company accepts the Staff's recommendations in whole for Account 382.1 ERT Installations.

12. Account 384.0 Regulator Installations

FCG proposes to retain an S3 curve shape, 34-year ASL, and net salvage rate of zero. Staff notes that, with the current age of 18.9 years (versus 17.3 years at the time of the last depreciation study) and retirement rate of 0.1%, the proposed curve shape – ASL combination does not fit. Staff proposes an S4 curve shape with a 34-year ASL to more closely depict the account activity. The resulting remaining life is 15.2 years and the fallout depreciation rate is 3.1%, which is the same as the Company's proposal.

Company Response:

The Company accepts the Staff's recommendations in whole for Account 384.0 Regulator Installations.

13. Account 385.0 Industrial M&R Station Equipment

Staff concurs with FCG's proposal to retain an R3 curve shape, 30-year ASL, age of 18.3 years, and net salvage rate of zero. Staff notes that using these components as the inputs, the calculated remaining life is 13.5 years rather than 11.7 years as FCG proposed. The fallout depreciation rate, which includes the proposed reserve transfer, is 3.3%.

Company Response:

The Company accepts the Staff's recommendations in whole for Account 385.0 Industrial M&R Station Equipment.

14. Account 390.0 Structure & Improvements

FCG proposes to retain an R3 curve shape, 40-year ASL, and net salvage rate of zero. Staff notes that with the current age of 7.8 years versus 16.3 years at the time of the last depreciation study, the proposed curve shape – ASL combination does not fit. As indicated by the Company in its filing, this account has also 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 proposes R1, rather than R3 curve shape, with 40-year ASL to more closely depict the account activity. The resulting remaining life is 34.4 years (rounded to 34 years), and the fallout depreciation rate is 2.6%.

Company Response:

The Company accepts the Staff's recommendations in whole for The Company accepts the following for Account 390.0 Structure & Improvements.

15. Account 391.1 Office Furniture

FCG proposes to retain an S2 curve shape but to reduce the ASL from 19 to 10 years. Staff notes that with the current age of 17.3 years, versus 17.7 years at the time of the last depreciation study, the proposed curve shape – ASL combination does not fit. 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%. Taken with the projected higher growth and higher retirement rates, staff believes that an S2 curve shape with 19-year ASL more closely depicts the account activity. The resulting remaining life is 5.5 years, and the fallout depreciation rate is 7.7%.

Company Response:

> The Company accepts the Staff's recommendations in whole for Account 391.1 Office Furniture.

16. Account 391.2 Office Machines and Equipment

FCG proposes to retain an S2 curve shape, 12-year ASL, and net salvage rate of zero. Staff notes that with the current age of 6.3 years, versus 2.8 years at the time of the last depreciation study, the proposed curve shape – ASL combination does not fit. Noting the retirement rate is zero, staff proposes an S4 curve shape with 12-year ASL to more closely depict the account activity. The resulting remaining life is 5.7 years, which is the same as the Company's proposal. The fallout depreciation rate, which includes the proposed reserve transfer, is 8.3%.

Company Response:

> The Company accepts the Staff's recommendations in whole for Account 391.2 Office Machines and Equipment.

17. Account 391.3 Enterprise Software

FCG proposes to retain an R4 curve shape, 10-year ASL, and net salvage rate of zero. Staff notes that with the current age of 5.8 years, versus 2.1 years at the time of the last depreciation study, the proposed curve shape – ASL combination does not fit. The Company reported that the net plant investment in this account increased by approximately $2.3 million since the last depreciation study. Taken with an near zero retirement and an 40.2% growth rate of this account, staff believes that an R4 curve shape with 11-year ASL more closely depicts the account activity. The resulting remaining life is 5.4 years, and the fallout depreciation rate including proposed reserve transfer is 9.1%.

Company Response:

> The Company accepts the Staff's recommendations in whole for Account 391.3 Enterprise Software.

18. Account 392.0 Transportation Equipment – Combined

Staff concurs with FCG's proposal to retain an L3 curve shape, 12-year ASL. With these inputs and age of 6.5 years, the calculated remaining life is 5.9 years. In its filing, FCG reported a net salvage rate of 5.18%, then revised it to 5.29% for the current study period. Staff notes that in FCG's last depreciation study the Company reported a net salvage of 13.3%, and the Commission approved net salvage rate was 10% which is consistent with the industry norm. Staff also notes that the average net salvage rate this account experienced during the last 10 years was 7.7% which is closer to the industrial norm and much higher than what FCG reported for this study period. Therefore, staff proposes a net salvage of 7.4% which is closer to what the Company experienced historically and closer to the industry norm as well. The fallout depreciation rate, which includes proposed reserve transfer, is 12.8%.

Company Response:

> The Company accepts the Staff's recommendations for Account 392.0 Transportation Equipment - Combined except that the Company would recommend the Staff consider using a net salvage rate of 12.41% based upon the fact that that the salvage information provided in the response to question 4 in this report indicates that the salvage rate for all retirements processed in the last 5 years is 12.41%. If the Staff accepts this recommendation that would of course affect the resulting depreciation rate.

19. Account 393.0 Store Equipment

FCG proposes to retain an S4 curve shape, 25-year ASL. Given this account's 12.5-year age, retirement rate of 16.4% and growth rate of negative 60.6%, the proposed curve shape – ASL combination does not fit. Staff believes that an R2 curve shape with 21-year ASL more closely depicts the account activity. The resulting remaining life is 10.8 years and the fallout depreciation rate is 6.2%.

Company Response:

> The Company accepts the Staff's recommendations in whole for Account 393.0 Store Equipment.

20. Account 394.0 Tools, Shop, Garage Equipment

FCG proposes to retain an S2 curve shape, 15-year ASL, and net salvage rate of zero. Staff notes that with the current 9.8-year age and the retirement rate of 0.1%, the proposed curve shape – ASL combination does not fit. Staff proposes an S5 curve shape with 15-year ASL to most closely depict the account activity. The resulting remaining life is 5.2 years, which is the same as the Company's proposal. The fallout depreciation rate, which includes the proposed reserve transfer, is 6.7%.

Company Response:

The Company accepts the Staff's recommendations in whole for Account 394.0 Tools, Shop, Garage Equipment.

21. Account 395.0 Laboratory Equipment

This account has been fully depreciated, thus, the depreciation rate should be set to zero.

Company Response:

The Company agrees with the Staff that the depreciation rate for this account should be set to zero for this account but that a rate should be established in the event laboratory equipment is added. The Company has reviewed this account and it has been determined these assets should be retired. The Company plans to retire by the end of year. If new investment is added, the Company proposes using the approved rate of 4.0% for the new additions based on an average service life of 25 years.

22. Account 397.0 Communication Equipment

This account has been fully depreciated, thus, the depreciation rate should be set to zero.

Company Response:

The Company agrees with the Staff that the depreciation rate for this account should be set to zero for this account but that a rate should be established due to the fact that it is likely that communication equipment will be added. If new investment is added, the Company proposes using the approved rate of 8.3% for the new additions based on an average service life of 12 years.

In additional, based on the fact that this account is fully depreciated the Company recommends that the imbalance of ($200,048) be offset against an account which was allocated a positive amount - Account 381.0 Meters.

23. Account 398.0 Misc. Equipment

Staff concurs with FCG's proposal to retain an S3 curve shape, 15-year ASL, and net salvage rate of zero. With these inputs and age of 7.5 years, the calculated remaining life is 7.7 years. The fallout depreciation rate is 7.5%.

Company Response:

The Company accepts the Staff's recommendations in whole for Account 398.0 Misc. Equipment.

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 $299,007.

Attachment A

		Comparison of Rates and Components							
		Current				Staff Recommended			
Account Number	Account Title	Average Remaining Life (yrs)	Future Net Salvage (%)	Remaining Life Rate (%)	Average Remaining Life (yrs)	Reserve (%)		Future Net Salvage (%)	Remaining Life Rate (%)
375	Structures & Improvements	25.6	0	2.5	27.0	27.34%		0	2.8
376.1	Mains - Other Than Plastic	20.7	(20)	3.0	21.0	62.00%	*	(25)	3.0
376.2	Mains - Plastic	29.1	(20)	3.0	27.0	36.60%		(20)	3.1
378	M&R Station Equip - General (new	0.0	0	0.0	28.0	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	23.1	(30)	3.9	22.0	40.12%		(30)	4.1
381	Meters	16.8	0	4.5	18.5	13.27%	*	(3)	4.8
382	Meter Installations	17.6	(25)	4.5	21.0	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	22.7	0	2.5	34.0	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	17.34%	*	7	12.8
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	65.16%	*	0	6.7
395	Laboratory Equipment	4.9	0	4.0	3.5	86.16%	*	0	0.0
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	2.4	80.17%	*	0	0.0
398	Misc. Equipment	10.0	0	6.7	7.7	41.95%		0	7.5

*Denotes a Reserve Transfer

Attachment B

		Comparison of Expenses				
		Current		Staff Proposed		
Account Number	Account Title	Depreciation Rate (%)	Annual Expense ($)	Depreciation Rate (%)	Annual Expense ($)	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	4.8	708,262	44,266
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	12.8	193,475	80,111
393	Stores Equipment	4.0	117	6.2	181	64
394	Tools, Shop, Garage Equipment	6.7	110,144	6.7	110,144	0
395	Laboratory Equipment	4.0	161		0	(161)
396	Power Operated Equip (new)	0.0	0	8.3	4,055	4,055
397	Communication Equipment	8.3	83,732		0	(83,732)
398	Misc. Equipment	6.7	59,236	7.5	66,309	7,073
			11,335,298		**11,634,305**	**299,007**