

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: March 15, 2018

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

FROM: Devlin Higgins, Public Utility Analyst IV, Division of Economics

RE: Docket No. 20170265-GU, Application for approval of new depreciation rates effective January 1, 2018, by St. Joe Natural Gas Company, Inc.

Would you be so kind as to add the attached documents, titled "Questions and Responses to Staff's Initial Review of St. Joe's 2017 Depreciation Study" to the above referenced docket file. I appreciate it, thank you.

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DIVISION OF ECONOMICS
GREG SHAFER
DIRECTOR
(850) 413-6410

Public Service Commission

February 16, 2018

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

Re: Docket No. 20170265-GU - Application for approval of new depreciation rates by St. Joe Natural Gas Company.

Dear Ms. Stitt:

Staff has completed its initial review regarding St. Joe Natural Gas Company's current depreciation study and we have a few questions. Please provide your response to the attached data request by March 20, 2018.

Should you have any questions, or need further information, please do not hesitate to contact me at (850) 413-6433.

Sincerely,

Devlin Higgins
Public Utilities Analyst

Attachment
cc: Office of Public Counsel
Charles A. Costin

General Observation

Staff believes there may be some opportunities for altering the Average Service Life of certain accounts. Staff, in collaboration with the Company, will suggest possible account-specific Iowa Curve/life combinations for the purposes of refining cost recovery to the expected life patterns of St. Joe's plant investments.

Data Requests

1. Please refer to St. Joe Natural Gas Company's (St. Joe) 2017 Depreciation Study (petition or 2017 Study), Exhibit A, second page (un-numbered), titled "6(a), 6(b) PROPOSED DEPRECIATION" for the following question. Please explain how the Company calculated its proposed average remaining lives shown in column "(F)."
2. Please refer to EXHIBIT A "6(a), 6(b) ORIGINAL DEPRECIATION BEFORE CHANGES," fourth page of the petition (un-numbered on the document). Please explain the differences between column (G) "Current Approved Depr. Rate" and column (H) "Remaining Life Rate %."
3. Please refer to the Company's 2017 Study, EXHIBIT A "6(a), 6(b) PROPOSED DEPRECIATION," fifth page of the petition (un-numbered on the document), and "Filing Requirement 6 (f)," seventh through eighth pages of the petition (un-numbered on the document). Based on these two documents, it appears that column (H) "Remaining Life Rate %" represents the Company's proposed remaining life depreciation rate for its 2017 Depreciation Study. Is this assumption correct?
4. Assuming the Company's response to Request No. 3 is affirmative, please provide an explanation for each of the corresponding accounts listed below to which the Company has proposed a change in the remaining life depreciation rate:

Account 375 – Building & Improvements
Account 376.1 – Mains – Plastic
Account 378 – Measuring & Regulating Equipment (Distribution)
Account 390 – Structures & Improvements

Please refer to St. Joe's 2017 Study, Exhibit A, fourth page (un-numbered), titled "ST. JOE NATURAL GAS COMPANY INC. DEPRECIATION STUDY DECEMBER 27, 2017," "Filing Requirements 6 (f)," for the following questions.

5. For "Account 101-380-P-Services Plastic," the narrative reads:

Using a 40-year service life, the study indicated a remaining life of 23 years with a 3.6% remaining life rate while the approved rate is 3.4%. Random inspections of plastic service lines including the original lines installed in 1980 are performed on a regular basis and all lines continue to be found in acceptable condition with every indication of many years of service remaining, therefore we propose the rate to be changed to 3.6%.

Staff understands the implication of “all lines continue to be found in acceptable condition with every indication of many years of service remaining” to be a possible reason/support for lengthening the account’s currently-approved Average Service Life of 40 years.¹ However, in this instance, the Company’s proposal to increase the rate of depreciation is contrary to the notion of a longer service life. Please clarify if the Company is proposing to increase or decrease the Average Service Life of this account. Please also generally comment on the soundness of increasing the Average Service Life associated with these assets.

6. For “Account 101-380.2-Services-Steel,” please confirm that 0.0% listed under column (H) “Remaining Life Rate %” of EXHIBIT “A” 6(a), 6(b) PROPOSED DEPRECIATION is not what the Company proposed for its new rate. Rather, 4.4% discussed in “Filing Requirement 6 (f)” is the Company’s proposed rate for the 2017 Depreciation Study.
7. For “Account 101-380-S-Services Steel,” given this account is near being fully depreciated, please generally comment on the soundness of increasing the Average Service Life associated with these assets.
8. Please refer to the “Filing Requirement 6 (f),” seventh through eighth pages of the petition (un-numbered on the document). For “Account 101-383 – Regulators,” the narrative reads:

Using a 30-year service life, the study indicated a remaining life rate of 11 years with a 3.3% remaining life rate while the approved rate is 3.4%. We propose the rate to be changed to 4.2%.

Please explain why St. Joe proposed the depreciation rate be changed to 4.2%, while the Company’s own study indicated a 3.3% remaining life depreciation rate.

9. Please refer to EXHIBIT “A” 6(a), 6(b) PROPOSED DEPRECIATION BEFORE CHANGES, fourth page of the petition (un-numbered on the document), and the Excel file “2017 Depreciation Study as filed.xls” St. Joe provided to Commission staff. For Account 384 – Regulator Installations, the Company proposed to retain the net salvage (NS) level of negative 40 percent, which is significantly higher than the approved average NS levels of other Florida natural gas utilities. Staff observes, from the Excel file provided, that this account experienced high levels of removal costs each year, ranging from 71 percent to 419 percent, with an average of 163 percent (and a zero gross salvage) during the study period.
 - a. Please explain what activities are commonly involved during a regulator removal.
 - b. Please explain what activities are commonly involved during a regulator installation.

¹ Order No. PSC-13-0174-PAA-GU, Issued April 26, 2013, in Docket No. 120325-GU, *In re: Application for approval of new depreciation rates, effective January 1, 2013, by St. Joe Natural Gas Company.*

- c. Please explain what cost components associated with the aforementioned activities are booked to this account as removal costs.
 - d. Please explain why St. Joe incurred higher removal costs as compared to other Florida gas utilities which normally report zero-to-low removal costs for this account.
10. For “Account 101-387-Other Equipment,” the Company has requested the depreciation rate for this account to be set at zero, as the assets are fully depreciated. However, if Company plans to/anticipates adding investment to this account at a later date, staff would recommend maintaining a non-zero rate of depreciation. This depreciation rate would apply to any new investment. Please comment on staff’s suggestion, as well as the soundness of increasing the Average Service Life associated with the existing assets.
11. For Accounts “101-391-01 Office Furniture,” “101-391-02 Office Devises [sic],” and “101-391-03 Office Computers,” please generally comment on St. Joe’s service life experience with the equipment in these accounts (i.e. living longer/shorter than expected). Please also comment on soundness the Average Service Lives of the assets in these accounts.
12. Please confirm that, for “Account 101-392 Transportation Equipment,” St. Joe proposes to keep the approved Average Service Life of seven years for these assets.
13. For “Account 101-396 Power Operated Equipment,” staff observes that there has been limited retirement activity over the study period of 2013-2017, with the only annually recorded retirement occurring in 2016. Please comment on the soundness of increasing the Average Service Life associated with this account.
14. For “Account 101-397 Communication Equipment,” staff observes that there has been no retirement activity over the study period of 2013-2017. Please comment on the soundness of increasing the Average Service Life associated with this account.



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March 13, 2018

Mr. Devlin Higgins
Fl Public Service Commission
2540 Shumard Oak Boulevard
Tallahassee, Fl 32399-0850

Re: Docket No 20170265-GU – New Depreciation Rates

Data Requests:

1. Explain how the Company calculated its proposed average remaining lives shown in column "(F)".
 - A. Service life (B) less Average Age (E)

2. Explain the difference between column (G) and Column (H) on Exhibit A
 - A. Column (G) is the approved rate by the PSC
Column (H) is a formula of: $1 - \text{Book Reserve (D)} - \text{Net Salvage (C)} / \text{Remaining Life years (F)}$.

3. Column (H) represents the Company's proposed remaining life depreciation rate for 2017 Study?
 - A. Yes

4. Explain change in the remaining life depreciation rate for several accts?
 - A. Because the formula calculated the new rate on the schedule

5. Explain proposal to change rate for 101-380-P from 3.4% to 3.6%
 - A. Proposed the new rate because that is what the formula calculated with the Remaining life years.

6. Explain proposed new rate for 101-380.2 Steel Services?
 - A. Not understanding how the company can keep depreciating this account when the reserve is already so much more than the balance on the account.

7. Comment on the soundness of increasing the Average Service Life associated with 101-380S Services.
 - A. The fact that the account is almost fully depreciated but the remaining steel service lines remain in service indicated the rate of depreciation has been somewhat overstated.

8. Explain rate for Acct 101-383 - Regulators?
 - A. Should have been 3.3%

9.
 - A. Explain what activities are commonly involved during a regulator removal.
 - A. No cost of removal is recorded for 101-383 - Regulator.
 - B. Explain what activities are commonly involved during a regulator installation.
 - A. Employees travel from the office to the job site to install a new service line which always includes the service line, meter and regulator.
 - C. Explain what cost components associated with the aforementioned activities are booked to the account as removal costs.
 - A. Labor and material
 - D. Explain why St. Joe incurred high removal costs.
 - A. Current employee labor costs are significantly higher today than many years ago to the extent the labor cost can far exceed the original cost of the retired asset, especially the regulator.

10. Setting a depreciation rate for Account 101-387 Other Equipment.
 - A. Yes, set a rate that would apply to any new investment.

11. Comment on St. Joe's service life experience with the equipment in 101-391-01, 02, and 03. Also, on the soundness the Average Service Lives of the assets in these accounts.

A. The service life for Accounts 391-01, 02, & 03 reflect actual conditions.

12. Does St. Joe propose to keep the approved Average Service Life for Account 101-392 of seven years?

A. Yes.

13. Comment on the soundness of increasing the Average Service Life associated with this account.

A. Current service life is appropriate. Two vehicles have already been replaced in 2018 and we believe the current service life is representative of the average activity in this account.

14. Comment on the soundness of increasing the Average Service Life associated with this account.

A. This account includes primarily a single land line phone system that could fail at any time. The service technicians no longer have the manuals on our equipment and we are on borrowed time now. This system will be replaced in the near future.

Should you have any questions, or need further information, please do not hesitate to contact me at (850) 229-8216 x205.

Sincerely,



Debbie Stitt

Bookkeeper