

State of Florida



Public Service Commission

CAPITAL CIRCLE OFFICE CENTER • 2540 SHUMARD OAK BOULEVARD
TALLAHASSEE, FLORIDA 32399-0850

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

DATE: March 27, 2008

TO: Office of Commission Clerk (Cole)

FROM: Division of Economic Regulation (Gardner, Bulecza-Banks)
Office of the General Counsel (Brown)

RE: Docket No. 070737-GU – Application for approval of new depreciation rates, effective January 1, 2008, by St. Joe Natural Gas Company, Inc.

AGENDA: 04/08/08 – Regular Agenda – Proposed Agency Action - Interested Persons May Participate

COMMISSIONERS ASSIGNED: All Commissioners

PREHEARING OFFICER: Argenziano

CRITICAL DATES: None

SPECIAL INSTRUCTIONS: None

FILE NAME AND LOCATION: S:\PSC\ECR\WP\070737.RCM.DOC

Case Background

Rule 25-7.045, Florida Administrative Code (F.A.C), requires regulated natural gas companies to file a comprehensive depreciation study once every five years. On December 21, 2007, St Joe Natural Gas Company (SJNG or company) filed its regular depreciation study in accordance with this rule. SJNG's last comprehensive depreciation study was filed on January 22, 2003.

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

Discussion of Issues

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

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

Staff Analysis: SJNG's last comprehensive depreciation study was filed on January 22, 2003, with an effective date for revised depreciation rates of January 1, 2003. As discussed in subsequent issues, changes in activity and company planning since the last study indicates the need to revise currently prescribed depreciation rates.

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

Recommendation: Staff recommends approval of the company's proposed January 1, 2008, date of implementation for the new depreciation rates. (Gardner)

Staff Analysis: SJNG has proposed an implementation date for new depreciation rates of January 1, 2008. All data and related calculations that have been submitted support this date. Staff recommends approval of this date as being the earliest practicable date for utilizing the revised rates.

Issue 3: Should the Commission make any corrections to the reserve allocations between accounts?

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

Staff Analysis: As part of its review of the company's study, staff reviewed the reserve position for each account. When significant surpluses and deficits exist, corrective reserve transfers between accounts should be considered. The effect of prior depreciation rates, average service lives, and net salvage projections results in surpluses and deficits that should be addressed. Also, staff recognized during this review that the company overstated many of the plant accounts by continuing to depreciate the account beyond the recovery of the investment. In cases where early retirement of an asset is occurring, the company must request a review of the plant account. For these reasons, staff recommends transferring these related reserve surpluses to help correct the existing reserve deficiencies in the accounts, as shown on Attachment A.

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

Recommendation: The staff's recommended remaining lives, net salvage values, reserves, and resultant depreciation rates are shown on Attachment B. The rates, based upon actual investments as of December 31, 2007, would result in an increase in the annual depreciation expense of approximately \$3,989 as summarized on Attachment C. (Gardner)

Staff Analysis: Staff's recommendation is the result of a comprehensive review of SJNG's filed depreciation study. Attachment B shows a comparison of the current and proposed rate components (lives, salvages, and reserves) and the rate components staff is recommending for final approval. Investment and reserve positions, shown on Attachment C, reflect actual amounts as of December 31, 2007, with the reserve positions restated to reflect the staff's recommended corrective measures discussed in Issue 3.

A depreciation study provides an opportunity to review the present recovery position and determine whether any changes should be made to the existing pattern of recovery (depreciation rates). A prime concern of the depreciation study is life and salvage. As part of the review process, prudence of company planning (including additions and retirements), technological impacts, retirement and salvage practices, and other related activities are reviewed. Staff and the company agree on lives, net salvage values, and, the resultant depreciation rates for all accounts as a result of the review and analytical process.

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

Distribution Plant

Mains and Services (Accounts 376 and 380)

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

The Steel Services account is a declining account, showing no additions since 1985, and increasing retirements through 2007. The company continues to upgrade cathodic protection as maintenance dictates. The upgrade consists of inserting plastic pipe in the existing steel service and then retiring the steel pipe. The company continues to perform inspections of steel service lines on a regular basis and has found that all lines are in acceptable condition with many years of service remaining. The service life of this account was increased from 35 to 47 years which reflects the company's expected outcome over previous study estimates. Based upon the data provided to staff, we recommend an increase in service life to 47 years. We also recommend a continuation of the currently approved negative net salvage of 25 percent.

Mains and Services lines are generally abandoned in place upon retirement. This involves travel time for the crew, digging down to the main or service, cutting and capping, refilling the hole, and restoring the roadway. Restoring the roadway can become significant if the lines are under pavement. Surface restoration normally occurs at the service riser, at the property line, or at the connection to the main. The galvanic action of dissimilar metals such as a galvanized steel service line running off a cast iron main requires that the line be cut at the main rather than the property line. Under these circumstances, paving restoration is required.

Meter and Regulator Installations (Accounts 382 and 384)

When a meter or regulator is placed in a location that has never before had service, or when an additional meter or regulator is added to an old location (increasing the number at the location), the installation costs are capitalized. Generally, meter and regulator installations are retired only when the meter or regulator is removed from the location and no new one is installed, or when service through the meter or regulator is cut. In other words, the life of these installations should be very similar to the life of services. The company proposes to increase the service life for both accounts from 35 to 40 years to accurately reflect the accounts' expected outcomes. Based upon the analysis of the data provided by the company, staff accepts the company's proposal as being reasonable and in line with the current activities of the plant accounts.

There were 514 installations completed for both the Meter and Regulator Installation accounts from January 1, 2003, through December 31, 2007. This high activity increased the average cost of removal to a negative 49 percent and 115 percent of the original cost. Although for the past five years, the company's cost of removal has increased substantially, the company proposes to increase net salvage for meter installations from a negative 5 percent to a negative 30 percent. But for regulator installations, the company proposes a change from a negative 5 percent to a negative 50 percent. The cost of removal for labor intensive accounts will continue to increase and has been the experience of the other regulated companies. The reserve position of these plant accounts will be monitored by staff annually when the company files its annual status report. Staff accepts the company's proposal as reasonable and recommends the changes in life and salvage parameters on a going forward basis.

Other Equipment (Account 387)

Currently, this account has an average service life of 15 years. In 2004, the majority of the items in this account became obsolete and were retired. The company replaced the items at a cost of \$10,858. Based upon the company's experience with this account, a 15-year service life is too long and an 8-year service life is more appropriate. Based upon the data presented, staff accepts the company's request as reasonable and recommends the 8-year service life on a going forward basis.

General Plant Accounts

Office Furniture (Account 391.01)

This account has experienced a 97 percent retirement rate since the last filing. These retirements created a reserve deficiency which has been corrected through reserve transfers, allowing the account to become more in line with its theoretical correct reserve position. Also, the company states that the current 20-year service life was too long and that a 15-year life is more appropriate for this account. Based upon the data presented, staff recommends the use of a 15-year average service life.

Office Computers (Account 391.03)

This subaccount includes the company's billing software which has been in use since 1996 and represents 35 percent of the account investment. The company expects the life expectancy for this equipment to go beyond the current 8-year to a 10-year service life. Recognizing the current age of the surviving investment is 7.3 years, staff accepts the proposal and recommends the use of a 10-year service life.

Transportation Equipment (Account 392)

The investment in this account consists of 3 trailers that makeup 4 percent of the investment, and approximately 10 vehicles that make up the remaining 96 percent of the investment. The company believes that an 8-year service life is too long and a 7-year life is more appropriate for this account. Based on the company's historical experience of 16 vehicles, the average service life is 7 years. Staff recommends the change from 8 to 7 year service life, with a 4-year average remaining life, and 10 percent net salvage.

Communication Equipment (Account 397)

The remaining plant investment for this account is the company's office telephone equipment which has a 12-year service life. Currently this account has a 15-year service life. Recognizing the current age of the surviving investment is only 2.5 years, and no near-term plans for retirement, staff recommends the use of a 12-year service life.

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Issue 5: Should this docket be closed?

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

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

ST. JOE NATURAL GAS COMPANY

ATTACHMENT A

RESERVE ALLOCATIONS				
Account	1/1/2008 Actual Reserve	Theoretical Reserves	Reserve Transfers	Restated 2008 Reserves
	\$	\$	\$	\$
Distribution Plant				
375.0 Structures & Improvements	13,593	13,174	(419)	13,174
376.1 Mains-Steel	1,597,611	1,565,003	(32,608)	1,565,003
376.2 Mains-Plastic	401,584	419,636	18,052	419,636
378.0 M&R Equipment General	42,452	40,884	(1,568)	40,884
379.0 M&R City Gate	210,461	207,957	(2,504)	207,957
380.1 Services -Steel	151,521	131,531	(19,990)	131,531
380.2 Services-Plastic	183,053	226,461	16,913	199,966
381.0 Meters	218,528	204,742	(13,786)	204,743
382.0 Meter Installations	39,066	51,504	12,438	51,504
383.0 Regulators	66,792	66,740	(52)	66,740
384.0 Regulators Installations	6,842	19,271	12,429	19,271
385.0 M & R Equipment	10,049	11,305	1,256	11,305
387.0 Other Equipment	(4,238)	5,601	9,839	5,601
Total Distribution Plant	\$2,937,314	\$2,963,809	0	\$2,937,314
General Plant				
390 Structures & Improvements	81,714	66,559	(15,155)	66,559
391.1 Office Furniture	(4,001)	2,218	6,219	2,218
391.2 Office Machines	16,224	10,816	(5,408)	10,816
391.3 Computers	66,007	56,695	(9,312)	56,695
392.1 Transportation Equip-Cars & Trucks	42,356	71,063	17,576	59,932
394.0 Tools, Shop, & Garage Equipment	5,943	6,153	210	6,153
396.0 Power Operated Equipment	64,715	61,174	(-3541)	61,174
397.0 Communication Equipment	(8,743)	668	9,411	668
Total General Plant	\$264,215	\$275,0346	0	\$264,215

ST. JOE NATURAL GAS COMPANY
2008 DEPRECIATION STUDY
COMPARISON OF RATES AND COMPONENTS

ATTACHMENT B

ACCOUNT	CURRENT			STAFF SUGGESTED			
	AVERAGE REMAINING LIFE (YRS.)	NET SALVAGE (%)	REMAINING LIFE RATE (%)	AVERAGE REMAINING LIFE (YRS.)	NET SALVAGE (%)	RESERVE (%)	REMAINING LIFE RATE (%)
GAS DISTRIBUTION							
375.0 Structures & Improvements	22.0	-5.0	2.4	16.7	-5.0	61.58	2.6
376.0 Mains - Steel	28.0	-30.0	3.3	23.0	-30.0	54.10	3.3
376.0 Mains - Plastic	28.0	-30.0	3.3	24.0	-30.0	50.80	3.3
378.0 M&R Equipment - General	26.0	-5.0	3.1	22.0	-5.0	39.00	3.0
379.0 M&R Equipment - City Gate	24.0	-5.0	3.0	19.9	-5.0	45.30	3.0
380.0 Services - Steel	8.1	-25.0	3.1	10.0	-25.0	98.00	2.7
380.0 Services - Plastic	25.0	-21.0	3.5	26.0	-22.0	36.56	3.3
381.0 Meters	9.2	0.0	4.1	7.3	0.0	70.80	4.0
382.0 Meter Installations	15.1	-5.0	3.2	17.0	-30.0	73.90	3.3
383.0 Regulators	19.0	0.0	3.4	16.4	0.0	45.88	3.3
384.0 Regulators Installation	18.8	-5.0	3.8	22.0	-50.0	66.40	3.8
385.0 M&R Equipment - Industrial	18.6	-5.0	3.5	13.1	-5.0	59.15	3.5
387.0 Other Equipment	3.6	0.0	8.4	3.0	0.0	62.50	12.5
GENERAL PLANT							
390.0 Structures & Improvements	25.0	0.0	2.1	23.0	0.0	42.50	2.5
391.1 Office Furniture	8.7	0.0	4.4	6.8	0.0	54.44	6.7
391.2 Office Machines	4.5	5.0	10.2	3.9	5.0	48.59	11.9
391.3 Computers	3.3	0.0	12.8	3.4	0.0	66.00	10.0
392.0 Transportation Equip.-Cars & Trucks	3.3	10.0	10.3	4.3	10.0	29.12	14.5
394.0 Tools, Shop, & Garage Equipment	6.4	0.0	5.8	8.6	0.0	57.00	5.0
396.0 Power Operated Equipment	6.0	0.0	6.7	6.6	5.0	53.42	6.3
397.0 Communication Equipment	5.7	0.0	6.3	9.5	0.0	21.16	8.3
398.0 Misc. Equipment	20.0	0.0	5.0	20.0	0.0	0.00	5.0

*Denotes whole life rate

**Denotes restated reserve after corrective transfers.

ST. JOE NATURAL GAS COMPANY
2008 DEPRECIATION STUDY
COMPARISON OF EXPENSES

ATTACHMENT C

ACCOUNT	1/1/2008		CURRENT		STAFF SUGGESTED			CHANGE IN EXPENSES (\$)
	INVESTMENT (\$)	RESERVE (\$)	RATE (%)	EXPENSES (\$)	RATE (%)	EXPENSES (\$)	EXPENSES (\$)	
GAS DISTRIBUTION								
375 Structures & Improvements	21,394	13,174	2.4	513	2.6 **		-513	
376 Mains - Steel	2,892,797	1,565,003	3.3	95,462	3.3 **	95,462	0	
376 Mains - Plastic	826,055	419,636	3.3	27,260	3.3 **	27,260	0	
378 M&R Equipment - General	104,830	40,884	3.1	3,250	3.0 **	3,145	-105	
379 M&R Equipment - City Gate	459,066	207,957	3.0	13,772	3.0 **	13,772	0	
380 Services - Steel	134,215	131,531	3.1	4,161	2.7 **	3,624	-537	
380 Services - Plastic	547,007	199,966	3.5	19,145	3.3 **	18,051	-1,094	
381 Meters	289,183	204,742	4.1	11,857	4.0 **	11,567	-290	
382 Meter Installations	69,694	51,504	3.2	2,230	3.3 **	2,300	70	
383 Regulators	145,466	66,740	3.4	4,946	3.3 **	4,800	-146	
384 Regulator Installation	29,022	19,271	3.8	1,103	3.8 **	1,103	0	
385 M&R Equipment - Industrial	19,112	11,305	3.5	669	3.5 **	669	0	
387 Other Equipment	8,961	5,601	8.4	753	12.5 **	1,120	367	
TOTAL	5,546,802	2,937,314		185,121		182,873	-2,248	
GENERAL PLANT								
390 Structures & Improvements	156,609	66,559	2.1	3,289	2.5 **	3,915	626	
391.1 Office Furniture	4,074	2,218	4.4	179	6.7 **	273	94	
391.2 Office Machines	22,260	10,816	10.2	2,271	11.9 **	2,649	378	
391.3 Computers	85,902	56,695	12.8	10,995	10.0 **	8,590	-2,405	
392.03 Transportation Equip.-Cars & Trucks	205,802	59,932	10.3	21,198	14.2 **	29,224	8,026	
394 Tools, Shop, & Garage Equipment	10,794	6,153	5.8	626	5.0 **	540	-86	
396 Power Operated Equipment	114,515	61,174	6.7	7,673	6.3 **	7,214	0	
397 Communication Equipment	3,157	668	6.3	199	8.3 **	262	63	
398 Misc. Equipment	0	0	5.0 *	0	5.0 *	0	0	
TOTAL	603,113	264,215		46,430		52,667	6,237	
TOTAL ACCOUNTS	6,149,915	3,201,529		231,551		235,540	3,989	

* Denotes whole life rate

** Denotes restated reserve after corrective transfers.