**FLORIDA PUBLIC SERVICE COMMISSION**

 **Fletcher Building, 101 East Gaines Street**

 **Tallahassee, Florida 32399-0850**

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

 **September 22, 1994**

**TO: DIRECTOR, DIVISION OF RECORDS AND REPORTING (BAYO)**

**FROM: DIVISION OF AUDITING & FINANCIAL ANALYSIS (LEE, BINGHAM, C. ROMIG, SLEMKEWICZ)**

 **DIVISION OF ELECTRIC & GAS (MILLS, BULECZA-BANKS)**

 **DIVISION OF LEGAL SERVICES (ERSTLING)**

**RE: DOCKET NO. 940161-GU - CITY GAS COMPANY OF FLORIDA - 1994 DEPRECIATION STUDY OF CITY GAS COMPANY OF FLORIDA**

**AGENDA: 10/04/94 - REGULAR AGENDA - PROPOSED AGENCY ACTION - INTERESTED PERSONS MAY PARTICIPATE**

**CRITICAL DATES: 11/29/94 - RATE CASE HEARING, DOCKET NO. 940276-GU**

**SPECIAL INSTRUCTIONS: I:\PSC\AFA\WP\940161.RCM**

 **R:CGCOFA.1 ATTACMENT A & B**

 DISCUSSION OF ISSUES

**ISSUE :** Should the current depreciation rates of City Gas Company of Florida (City or Company) be changed?

**RECOMMENDATION:** Yes. A review of the Company's current capital recovery position indicates the need to revise depreciation rates. (LEE)

**STAFF ANALYSIS:** The last comprehensive depreciation represcription for City was made in 1989. On February 19, 1991, City acquired all the distribution assets of Miller Gas Company and subsequently submitted a consolidated depreciation study addressing those combined assets. That study was not an overall review of life, salvage, and reserve parameters but merely represented a composite of the currently prescribed life and salvage parameters for each company and the consolidated reserves.

 This current study is in keeping with Rule 25-7.045, Florida Administrative Code, which requires gas companies to file a comprehensive depreciation study at least once every five years from the submission date of the previous filed study. A review of the Company's activity data indicates the need for revising depreciation rates.

**ISSUE 2:** What should be the implementation date for new rates?

**RECOMMENDATION:** Staff recommends approval of the Company's requested January 1, 1994 implementation date for new rates. (LEE)

**STAFF ANALYSIS:** City has proposed an implementation date for new depreciation rates of January 1, 1994. All supportive data and calculations have been submitted abutting this date. Staff recommends approval of this date as being the earliest practicable date for utilizing the revised rates.

**ISSUE 3:** What are the appropriate depreciation rates?

**RECOMMENDATION:** Staff recommended depreciation rates are shown on Attachment A, page 8. Resultant estimated expenses for 1994 are shown on Attachment B, pages 9 and 10. As summarized on page 10, the recommended rates result in an increase in annual expenses of about $41,000. (LEE, BINGHAM)

**STAFF ANALYSIS:** Staff recommendations are the result of a comprehensive review of the Company's submitted study. The Company Proposed remaining lives represent an update of age and accounting activity for each account since the last overall review. The investments and reserves shown on Attachment B, pages 9 and 10/, reflect actual amounts as of January 1, 1994 rather than estimates as originally submitted by the Company. In addition, during the course of our review, it was found that some computer equipment had been inadvertently booked to Office Machines and Equipment, Account 391.2, rather than to Computers, Account 391.3. Attachment B reflects the corrected investments and reserves for these accounts.

 The majority of differences between the positions of the Company and the Staff are due to rounding and estimates of future net salvage. Our practice is to round remaining lives that are less than 20 years to the nearest tenth year; lives of more than 20 years are rounded to the nearest year.

 City Gas's net salvage proposals for each account are based solely on the last five years experience. For many accounts, the retirement activity has been very minimal (less than 1%), lending little credence to the resulting projections using this type data. In such cases, Staff's approach has been to rely on current industry salvage estimates as seen from other gas companies in this State for the given plant type.

 There is also a difference noted between positions regarding the Computers account and the Transportation account. There are currently two categories for each of these accounts - new and embedded for which a separate depreciation rate has been prescribed. While the Company has proposed to maintain these separate categories, Staff's recommendation reflects combining the categories to an account level. The service lives and net salvage factors for each of the computer categories are the same with no Company plans for near-term retirement of any equipment. There is therefore little reason to maintain separate categories of new and embedded equipment. The Staff recommended remaining life for the combined account represents a composite of the remaining lives proposed by the Company for each sub-account.

 Nearly 90% of the investment in the Transportation account, whether new or embedded, is associated with Compressed Natural Gas cylinders and other conversion equipment that is installed on the Company's leased light trucks. It is our understanding that if the conversion equipment is in good working condition, it is not retired with the associated vehicle. Rather, the equipment is simply transferred to a new leased vehicle upon expiration of the existing lease. In other words, this conversion equipment is moved from vehicle to vehicle and not retired on the books until it is ready to be junked.

 Since both transportation sub-accounts are essentially the same in content, expected average service life and salvage, Staff is recommending a combined transportation account. The Company proposed remaining life for each sub-account is based on a 7 year service life which is typical of the life expectancy for light trucks and passenger cars. Current industry estimates for the life expectancy of natural gas conversion equipment range from 7 years to 10 years. For some companies, this equipment is retired at the same time as the associated vehicle in which case the equipment would be expected to experience a life in the low end of the industry range. However, as discussed above, this is not the case for City Gas. Further, recognizing the current age for the combined categories is 7.2 years and the fact that there are no near-term plans for retiring any of this equipment, Staff's recommendation is to use a 10 year service life with a resultant 4.7 year remaining life. A zero net salvage rather than a 16% net salvage is also recommended with the view only junk will be realized upon retirement of this equipment.

Reserve Deficit Amortization At the time of the last study, the "Historic" portion of the reserve deficit had concluded. Retention of the associated expense of $47,934 was approved to continue and be applied to the "Prospective" portion of the reserve deficit. The total amount of annual amortization expense currently being applied to the write-off of this deficit is $76,100. This amortization will be completed by January 1, 1996. As a reminder of the meaning of the terms "Historic" and "Prospective" reserve deficits, implementation of the remaining life depreciation formula was the first occasion of the consistent use of the depreciation reserve status in the depreciation rate. At that point, Staff analyzed the then-existent reserve position. Any deficit in the booked reserve measured against what it should have been under the then-current Whole Life rate was referred to as a "Historic" reserve deficit. Any remaining deficit between that resulting adjusted reserve and the reserve theoretically correct under the then-new Remaining Life rates was termed a "Prospective" reserve deficit. This measuring and correction of the reserve imbalance by amortization was a one-time mechanism intended as a reaction to the introduction of reserve-sensitivity into the depreciation process.

**ISSUE 4:** Should this docket be closed?

**RECOMMENDATION:** Yes. If no substantially affected person timely files a protest to the Commission's notice of proposed agency action, this docket should be closed. (LEE)

**STAFF ANALYSIS:** If no substantially affected person files a timely request for a Section 120.57, Florida Statutes, hearing within twenty-one days, no further action will be required and this docket should be closed.

 CITY GAS COMPANY OF FLORIDA

 1994 DEPRECIATION STUDY

 COMPARISON OF RATES AND COMPONENTS

 CURRENT COMPANY PROPOSAL STAFF RECOMMENDATION

 AVERAGE REMAINING AVERAGE REMAINING AVERAGE REMAINING

 REMAINING NET LIFE REMAINING NET LIFE REMAINING NET LIFE

ACCOUNT LIFE SALVAGE RATE LIFE SALVAGE RESERVE RATE LIFE SALVAGE RESERVE RATE

 (YRS.) (%) (%) (YRS.) (%) (%) (%) (YRS.) (%) (%) (%)

DISTRIBUTION ASSETS

 375 Structures & Improvements 34.0 10.0 2.2 34.5 (37.1) 26.76 3.2 35.0 0.0 25.53 2.1

 376 Mains‑Other Than Plastic 26.0 (11.0) 2.6 22.5 (41.7) 47.69 4.2 23.0 (15.0) 47.75 2.9

 376.1 Mains‑Plastic 35.0 (10.0) 2.8 36.2 0.0 11.48 2.4 36.0 (15.0) 11.52 2.9

 379 Meas. & Reg. Sta. Equip.‑City Gate 14.0 (5.0) 3.1 23.0 (50.2) 21.82 5.6 23.0 (5.0) 21.50 3.6

 380 Services‑Other Than Plastic 21.0 (35.0) 4.0 17.1 (61.4) 59.01 6.0 17.1 (35.0) 58.81 4.5

 380.1 Services‑Plastic 29.0 (35.0) 4.1 29.9 0.0 16.73 2.8 30.0 (30.0) 16.75 3.8

 381 Meters 14.7 0.0 4.1 13.4 1.8 41.26 4.3 13.4 0.0 41.38 4.4

 382 Meter Installations 14.7 (5.0) 4.4 20.7 (122.1) 42.34 8.7 21.0 (5.0) 42.04 3.0

 383 House Regulators 16.7 0.0 3.7 16.3 0.1 40.15 3.7 16.3 0.0 40.15 3.7

 384 Regulator Installations 16.7 (5.0) 4.1 21.2 0.0 34.63 3.1 21.0 (5.0) 34.63 3.4

 385 Indust. Meas. & Reg. Station Equip. 18.5 (5.0) 4.0 28.5 (0.1) 23.16 2.7 19.5 0.0 23.16 3.9

 386.5 Water Heaters 7.2 0.0 7.9 7.7 4.8 38.15 7.4 7.7 0.0 38.15 8.0

 386.6 Dryers 9.6 0.0 8.3 8.0 (8.2) 34.14 9.3 8.0 0.0 34.15 8.2

 386.7 Ranges 10.6 0.0 8.4 11.3 3.2 1.06 8.5 11.3 0.0 1.07 8.8

 387 Other Equipment 9.1 0.0 5.6 6.6 0.0 72.92 4.1 6.6 0.0 72.92 4.1

GENERAL SUPPORT ASSETS

 390 Stuctures & Improvements 22.0 0.0 3.2 35.5 0.0 30.48 2.0 36.0 0.0 30.48 1.9

 391.1 Office Furniture 13.2 2.0 6.9 13.5 0.0 25.69 5.5 13.5 0.0 25.69 5.5

 391.2 Ofc. Mach. & Equip. 8.0 2.0 11.0 5.2 11.2 55.26 6.5 5.2 2.0 54.94 8.3

 391.3 Computers‑Combined n/a n/a n/a n/a n/a n/a n/a 3.6 5.0 39.36 15.5

 391.3 Computers‑Embedded 3.4 5.0 16.9 0.5 0.0 106.10 (12.2) n/a n/a n/a n/a

 391.3 Computers‑New 6.0 5.0 15.8 \*\* 4.9 0.0 16.58 17.0 n/a n/a n/a n/a

 392 Transportation‑Combined n/a n/a n/a n/a n/a n/a n/a 4.7 0.0 78.94 4.5

 392 Transportation‑Embedded 2.9 16.0 18.4 1.5 16.0 114.16 (20.1) n/a n/a n/a n/a

 392 Transportation‑New 7.0 16.0 12.0 \*\* 4.7 0.0 10.40 19.1 n/a n/a n/a n/a

 393 Stores Equipment 10.8 0.0 5.5 10.4 0.0 51.06 4.7 10.4 0.0 51.06 4.7

 394 Small Tools 8.9 5.0 6.2 6.7 0.0 58.06 6.3 6.7 0.0 58.06 6.3

 395 Laboratory Equipment 14.9 0.0 4.8 10.7 0.0 50.66 4.6 10.7 0.0 50.66 4.6

 397 Communication Equip. 6.2 5.0 7.5 6.5 10.2 51.04 6.0 6.5 5.0 51.08 6.8

 398 Miscellaneous Equip. 5.6 0.0 8.5 5.9 11.7 62.34 4.4 5.9 0.0 62.34 6.4

 \*\* Denotes Whole Life Rate

CITY GAS COMPANY OF FLORIDA

1994 DEPRECIATION STUDY

COMPARISON OF EXPENSES

 CURRENT COMPANY PROPOSAL STAFF RECOMMENDATION

 CHANGE CHANGE

 1/1/94 1/1/94 IN IN

ACCOUNT INVESTMENT RESERVE RATE EXPENSES RATE EXPENSES EXPENSES RATE EXPENSES EXPENSES

 ($) ($) (%) ($) (%) ($) ($) (%) ($) ($)

DISTRIBUTION ASSETS

 375 Structures & Improvements 1,429,389 364,879 2.2 31,447 3.2 45,740 14,293 2.1 30,017 (1,430)

 376 Mains‑Other Than Plastic 40,649,427 19,409,637 2.6 1,056,885 4.2 1,707,276 650,391 2.9 1,178,833 121,948

 376.1 Mains‑Plastic 18,849,281 2,171,439 2.8 527,780 2.4 452,383 (75,397) 2.9 546,629 18,849

 379 Meas. & Reg. Sta. Equip.‑City Gate 1,365,633 293,549 3.1 42,335 5.6 76,475 34,140 3.6 49,163 6,828

 380 Services‑Other Than Plastic 13,325,138 7,836,704 4.0 533,006 6.0 799,508 266,502 4.5 599,631 66,625

 380.1 Services‑Plastic 10,389,738 1,739,952 4.1 425,979 2.8 290,913 (135,066) 3.8 394,810 (31,169)

 381 Meters 5,133,077 2,123,872 4.1 210,456 4.3 220,722 10,266 4.4 225,855 15,399

 382 Meter Installations 2,273,934 956,065 4.4 100,053 8.7 197,832 97,779 3.0 68,218 (31,835)

 383 House Regulators 1,693,998 680,086 3.7 62,678 3.7 62,678 0 3.7 62,678 0

 384 Regulator Installations 887,284 307,273 4.1 36,379 3.1 27,506 (8,873) 3.4 30,168 (6,211)

 385 Indust. Meas. & Reg. Station Equip. 1,236,172 286,278 4.0 49,447 2.7 33,377 (16,070) 3.9 48,211 (1,236)

 386.5 Water Heaters 7,741,224 2,953,191 7.9 611,557 7.4 572,851 (38,706) 8.0 619,298 7,741

 386.6 Dryers 10,371,767 3,542,131 8.3 860,857 9.3 964,574 103,717 8.2 850,485 (10,372)

 386.7 Ranges 1,301,988 13,929 8.4 109,367 8.5 110,669 1,302 8.8 114,575 5,208

 387 Other Equipment 156,176 113,882 5.6 8,746 4.1 6,403 (2,343) 4.1 6,403 (2,343)

 Total Distribution 116,804,226 42,792,867 4,666,972 5,568,907 901,935 4,824,974 158,002

CITY GAS COMPANY OF FLORIDA

1994 DEPRECIATION STUDY

COMPARISON OF EXPENSES

 CURRENT COMPANY PROPOSAL STAFF RECOMMENDATION

 CHANGE CHANGE

 1/1/94 1/1/94 IN IN

ACCOUNT INVESTMENT RESERVE RATE EXPENSES RATE EXPENSES EXPENSES RATE EXPENSES EXPENSES

 ($) ($) (%) ($) (%) ($) ($) (%) ($) ($)

GENERAL SUPPORT ASSETS

 390 Stuctures & Improvements 1,517,191 462,451 3.2 48,550 2.0 30,344 (18,206) 1.9 28,827 (19,723)

 391.1 Office Furniture 544,318 139,840 6.9 37,558 5.5 29,937 (7,621) 5.5 29,937 (7,621)

 391.2 Ofc. Mach. & Equip. 389,719 \* 214,122 \* 11.0 42,869 6.5 25,332 (17,537) 8.3 32,347 (10,522)

 391.3 Computers‑Combined 458,311 \* 180,377 \* n/a 0 n/a 0 0 15.5 71,038 71,038

 391.3 Computers‑Embedded # ‑ ‑ 16.9 16,635 (12.2) (12,009) (28,644) n/a 0 (16,635)

 391.3 Computers‑New # ‑ ‑ 15.8 \*\* 50,713 17.0 54,564 3,851 n/a 0 (50,713)

 392 Transportation‑Combined 700,751 553,194 n/a 0 n/a 0 0 4.5 31,534 31,534

 392 Transportation‑Embedded # ‑ ‑ 18.4 82,056 (20.1) (89,637) (171,693) n/a 0 (82,056)

 392 Transportation‑New # ‑ ‑ 12.0 \*\* 30,575 19.1 48,666 18,091 n/a 0 (30,575)

 393 Stores Equipment 23,252 11,873 5.5 1,279 4.7 1,093 (186) 4.7 1,093 (186)

 394 Small Tools 613,789 356,354 6.2 38,055 6.3 38,669 614 6.3 38,669 614

 395 Laboratory Equipment 82,941 42,021 4.8 3,981 4.6 3,815 (166) 4.6 3,815 (166)

 397 Communication Equip. 249,268 127,338 7.5 18,695 6.0 14,956 (3,739) 6.8 16,950 (1,745)

 398 Miscellaneous Equip. 19,495 12,154 8.5 1,657 4.4 858 (799) 6.4 1,248 (409)

 Total General Support Assets 4,599,035 2,099,724 372,623 146,588 (226,035) 255,458 (117,165)

 TOTAL PLANT IN SERVICE 121,403,261 44,892,591 5,039,595 5,715,495 675,900 5,080,432 40,837

 Prospective Reserve Deficit ‑ (145,866) @ Amort. 76,100 Amort. 76,100 0 Amort. 76,100 0

 GRAND TOTAL 121,403,261 44,746,725 5,115,695 5,791,595 675,900 5,156,532 40,837

 \* Denotes Investment and Reserve transfer associated with computer

 equipment from Account 391.2 to Account 391.3.

 \*\* Denotes Whole Life Rate.

 @ Reserve deficit will be fully amortized January 1, 1996.

 # Note that while the balances in these accounts have been moved into the "Combined" accounts for Staff's Recommendation, the original

 balance for each account was used to compute Current Expenses and Company Proposal Expenses.