

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

In Re: Request for approval of) DOCKET NO. 950776-GU
1995 Depreciation Study by West) ORDER NO. PSC-96-0470-FOF-GU
Florida Natural Gas Company.) ISSUED: April 4, 1996
_____)

The following Commissioners participated in the disposition of this matter:

SUSAN F. CLARK, Chairman
J. TERRY DEASON
JOE GARCIA
JULIA L. JOHNSON
DIANE K. KIESLING

NOTICE OF PROPOSED AGENCY ACTION ORDER
APPROVING DEPRECIATION STUDY

BY THE COMMISSION:

NOTICE IS HEREBY GIVEN by the Florida Public Service Commission that the action discussed herein is preliminary in nature and will become final unless a person whose interests are substantially affected files a petition for a formal proceeding, pursuant to Rule 25-22.029, Florida Administrative Code.

CASE BACKGROUND

On July 7, 1995, West Florida Natural Gas Company (WFNG or the Company) filed a depreciation study in compliance with Rule 25-7.045, Florida Administrative Code (F.A.C.), which requires natural gas companies to file a comprehensive depreciation study once every five years. The Company requested preliminary implementation of its proposed depreciation rates. By Order No. PSC-95-1050-FOF-GU, issued August 24, 1996, we approved WFNG's preliminary implementation of its proposed depreciation rates effective July 1, 1995. This docket remained open pending review of the depreciation rates and further Commission action.

DOCUMENT NUMBER-DATE

03925 APR-4 8

FPSC-RECORDS/REPORTING

DECISION

The Company's previous depreciation study was filed on June 28, 1990, with an effective date of July 1, 1990. An examination of WFNG's activity since that time indicates the need for revised depreciation rates.

We find after a comprehensive review of the depreciation study, that certain corrective reserve allocations are required to address certain accounts with major imbalances. The purpose of these reserve transfers is to bring the affected accounts more closely in line with their "theoretical" reserve. These approved reserve transfers are shown on Attachment A. Because of the possible impact of reserve transfers on cost allocations, the Company shall make corresponding entries to the related depreciation expense accounts.

In addition, we made adjustments to lives, net salvages, and reserves to achieve the appropriate depreciation rates. Approved rates and components are shown on Attachment B. Accounts with a substantial change in depreciation expense are outlined below. In summary these changes can be contributed to three factors: changes in salvage; recalculated ages; and/or changes in the reserve.

Account 376.1 - Mains (Plastic) - Because of the size of the investment, the net salvage for plastic Mains has a substantial effect on the depreciation expense. The Company had initially proposed to retain a negative 30% net salvage factor for this account. However, during the period of 1991 - 1995, WFNG's actual cost of removal relating to plant in service has averaged .29%. Assuming this book cost of removal is correct and this level of cost removal will continue over the remaining life of 32 years, a cost of removal factor of 10% results (.0029 x 32 years). We find that a negative 10% salvage factor is appropriate to be utilized for this account. The depreciation expense resulting from this cost of removal should closely match the cost of removal expenses the Company will incur on an annual basis.

Account 378.2 - Measuring & Regulating Equipment - General - This is a proposed new subaccount. It contains telemetering equipment, sensaphones, and SCADA equipment. Because it is electronic, it will experience a shorter life than standard measuring and regulating equipment.

Account 392.2 - Transportation - Trucks - This account has experienced a 25% growth rate over the last five years. Therefore, retention of the currently prescribed service life and net salvage factor for this account has been recommended. Retaining the

currently prescribed service life coupled with a recalculation of the average age has resulted in a 4-year remaining life.

Account 392.3 - Transportation - Trailers - We find it appropriate to create this new subaccount. This finding is a result of the WFNG Continuing Property Records (CPR) audit performed by the our Bureau of Regulatory Review.

The CPR audit revealed that approximately eleven trailers were not currently listed in the CPRs. Company representatives concluded that these trailers were erroneously included in the following accounts: Account 394 - Tools, Shop, and Garage Equipment; Account 395 - Laboratory Equipment; and Account 396 - Power Operated Equipment.

We and the Company agree that a 15 year average service life and a 0% net salvage factor are appropriate for this account. The Company provided the investment and associated reserve as well as the vintage year for these trailers. This data was used to calculate the average age for the trailers and the resultant remaining life and depreciation rate.

The implementation date of the approved rates and schedules shall be July 1, 1995 date, since the Company data and related calculations about this date. It is the earliest practicable date for utilizing the revised rates and schedules.

As noted above, we have made revisions to WFNG's depreciation rates and reserve allocations, to be effective July 1, 1995. Section 46(f)(6) of the Internal Revenue Code (IRC) states that the amortization of ITCs should be determined by the period of time used in computing depreciation expense for purposes of reflecting regulated operating results of the utility. Since we have made changes in the depreciation rates, it is also appropriate to change the amortization of ITCs.

Section 203(e) of the Tax Reform Act of 1986 (TRA) prohibits rapid write-back of protected (depreciation related) deferred taxes. In addition, Rule 25-14.013, Accounting for Deferred Income Taxes under SFAS 109, Florida Administrative Code (F.A.C), prohibits, without good cause shown, excess deferred income taxes associated with temporary differences from being reversed any faster than allowed under Section 203(e). Therefore, both the TRA and Rule 25-14.013, F.A.C., prohibit faster write-off of protected excess deferred taxes. Based on the foregoing, we find that the flowback of excess deferred taxes should be altered to comply with the TRA and Rule 25-14.013, F.A.C.

The Company has submitted detailed workpapers quantifying the impact of the proposed depreciation rates on the amortization of ITCs and the flowback of excess deferred income taxes. The calculations have been reviewed and found acceptable. The amounts reflected on the workpapers, however, will be based on the approved depreciation rates. WFNG shall revise the current amortization of ITCs and the flowback of excess deferred income taxes to reflect the approved depreciation rates and recovery schedules. Also, the utility shall file detailed calculations of the revised ITC amortization and flowback of excess deferred taxes at the time it files its September, 1996 surveillance report.

Based on the foregoing, it is

ORDERED by the Florida Public Service Commission that the depreciation study submitted by West Florida Natural Gas Company is approved as set forth in the body of this order. It is further

ORDERED that each of the findings made in the body of this order is hereby approved in every respect. It is further

ORDERED that all matters contained in the schedules attached hereto are by reference incorporated herein. It is further

ORDERED that the new depreciation rates shall be implemented as of July 1, 1995. It is further

ORDERED that the utility file detailed calculations of the revised ITC amortization and flowback of excess deferred taxes at the time it files its September, 1996 surveillance report. It is further

ORDERED that the provisions of this Order, issued as proposed agency action, shall become final and effective unless an appropriate petition, in the form provided by Rule 25-22.036, Florida Administrative Code, is received by the Director, Division of Records and Reporting, 2540 Shumard Oak Boulevard, Tallahassee, Florida 32399-0850, by the close of business on the date set forth in the "Notice of Further Proceedings or Judicial Review" attached hereto. It is further

ORDERED that in the event this Order becomes final, this Docket should be closed.

ORDER NO. PSC-96-0470-FOF-GU
DOCKET NO. 950776-GU
PAGE 5

By ORDER of the Florida Public Service Commission, this 4th
day of April, 1996.

BLANCA S. BAYÓ, Director
Division of Records and Reporting

by: Kay DeLeon
Chief, Bureau of Records

(S E A L)

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NOTICE OF FURTHER PROCEEDINGS OR JUDICIAL REVIEW

The Florida Public Service Commission is required by Section 120.59(4), Florida Statutes, to notify parties of any administrative hearing or judicial review of Commission orders that is available under Sections 120.57 or 120.68, Florida Statutes, as well as the procedures and time limits that apply. This notice should not be construed to mean all requests for an administrative hearing or judicial review will be granted or result in the relief sought.

The action proposed herein is preliminary in nature and will not become effective or final, except as provided by Rule 25-22.029, Florida Administrative Code. Any person whose substantial interests are affected by the action proposed by this order may file a petition for a formal proceeding, as provided by Rule 25-22.029(4), Florida Administrative Code, in the form provided by Rule 25-22.036(7)(a) and (f), Florida Administrative Code. This petition must be received by the Director, Division of Records and Reporting, 2540 Shumard Oak Boulevard, Tallahassee, Florida 32399-0850, by the close of business on April 25, 1996.

ORDER NO. PSC-96-0470-FOF-GU
DOCKET NO. 950776-GU
PAGE 6.

In the absence of such a petition, this order shall become effective on the day subsequent to the above date as provided by Rule 25-22.029(6), Florida Administrative Code.

Any objection or protest filed in this docket before the issuance date of this order is considered abandoned unless it satisfies the foregoing conditions and is renewed within the specified protest period.

If this order becomes final and effective on the date described above, any party substantially affected may request judicial review by the Florida Supreme Court in the case of an electric, gas or telephone utility or by the First District Court of Appeal in the case of a water or wastewater utility by filing a notice of appeal with the Director, Division of Records and Reporting and filing a copy of the notice of appeal and the filing fee with the appropriate court. This filing must be completed within thirty (30) days of the effective date of this order, pursuant to Rule 9.110, Florida Rules of Appellate Procedure. The notice of appeal must be in the form specified in Rule 9.900(a), Florida Rules of Appellate Procedure.

WEST FLORIDA NATURAL GAS COMPANY
1995 Depreciation Study
Commission Approved Reserved Allocations

<u>ACCOUNT</u>	<u>BOOK RESERVE (\$)</u>	<u>THEORETICAL RESERVE (\$)</u>	<u>APPROVED RESERVE TRANSFERS (\$)</u>	<u>RESTATED RESERVE (\$)</u>
375 - Structures and Improvements	7,855	1,518	(6,337)	1,518
378.1 - Measuring & Regulating Equipment - Electronic	3,244	35,504	32,260	35,504
378.1 - Measuring & Regulating Equipment - City Gate	1,513	4,652	3,139	4,652
380 - Services - Plastic	1,134,952	1,205,423	70,471	1,205,423
380 - Services - Other	346,517	448,062	101,545	448,062
381 - Meters	942,955	798,343	(103,973)	838,982
382 - Meter Installations	392,705	295,600	(97,105)	295,600
391.1 - Data Equipment - Embedded	141,516	119,714	(21,802)	119,714
391.2 - Office Equipment	17,445	23,949	2,914	20,359
392.1 - Transportation - Cars	<u>22,716</u>	<u>41,604</u>	<u>18,888</u>	<u>41,604</u>
TOTALS	<u>3,011,418</u>		<u>0</u>	<u>3,011,418</u>

WEST FLORIDA NATURAL GAS COMPANY
 1995 STUDY
 RATES AND COMPONENTS

	COMMISSION APPROVED RATES			
	AVERAGE REMAINING LIFE (YRS.)	NET SALVAGE (%)	ESTIMATED 7/1/95 RESERVE (%)	REMAINING LIFE RATE (%)
DISTRIBUTION PLANT				
303 - CIAC - Gate Station	24.0	0.0	5.10	4.0
375 - Structures and Improvements	12.2	0.0	18.26 *	6.7
376.1 - Mains - Plastic	32.0	(10.0)	21.38	2.8
376.2 - Mains - Other	24.0	(35.0)	57.46	3.2
378 - Measuring and Regulating Equipment - General	26.0	(5.0)	9.22	3.7
378 - Measuring and Regulating Equipment - Electronic	2.1	(1.0)	65.22 *	16.8
379 - Measuring and Regulating Equipment - City Gate	24.0	(5.0)	20.16	3.5
379.1 - Measuring and Regulating Equipment - Electronic	4.1	0.0	31.53 *	16.7
380.1 - Services - Plastic	32.0	(30.0)	23.74 *	3.3
380.2 - Services - Other	21.0	(30.0)	61.03 *	3.3
381 - Meters	14.6	5.0	41.53 *	3.7
381.1 - Electronic Meters	10.0	0.0	3.70	9.6
382 - Meter Installations	30.0	(5.0)	27.00 *	2.6
383 - House Regulators	16.4	(5.0)	42.34	3.8
384 - House Regulator Installation	27.0	(5.0)	27.49	2.9
GENERAL PLANT				
390 - Structures & Improvements	36.0	0.0	2.39	2.7
391 - Office Furniture	12.1	0.0	37.40	5.2
391.1 - Data Equipment (Embedded)	0.5	0.0	92.75 *	14.8
391.2 - Office Equipment	5.2	0.0	29.75 *	13.5
391.3 - Data Equipment (New Additions)	4.6	0.0	23.64	16.6
392.1 - Transportation - Cars	2.5	15.0	42.50 *	17.0
392.2 - Transportation - Trucks	4.0	10.0	56.62	8.3
392.3 - Transportation - Trailers	12.7	0.0	13.98	6.8
394 - Tools, Shop & Garage Equipment	10.8	0.0	19.20	7.5
394.1 - Tools, Shop & Garage Equipment (CNG)	14.2	0.0	5.54	6.7
395 - Laboratory Equipment	25.0	0.0	4.09	3.8
396 - Power Operated Equipment	9.5	0.0	39.67	6.4
397 - Communication Equipment	3.2	0.0	54.33	14.2