STATE OF FLORIDA

TIMOTHY DEVLIN, DIRECTOR
AUDITING & FINANCIAL ANALYSIS
(850) 413-6480

Public Service Commission

June 26, 1998

Mr. L. J. Defrain
Secretary/Treasurer
South Florida Natural Gas Co.
101 NW 202 Terrace
Miami, FL 33169

Re: DOCKET NO. 980700 - GU

Dear Mr. Defrain:

We are in the process of reviewing the depreciation study for South Florida Natural Gas Company filed in the above referenced docket. As a result, questions and the need for additional information have arisen and are covered on the attached.

Please provide your response by July 31, 1998. Should you have any questions, please contact either myself at (850) 413-6453 or Bob Holroyd at (850) 413-6471.

Sincerely,

Patricia S. Lee
USC/Eng. Supervisor

PSL:frp
Attachment

cc: Divison of Records and Reporting
Division of Electric and Gas
Division of Legal Services
Office of Public Counsel

SOUTH FLORIDA NATURAL GAS COMPANY
INITIAL REVIEW
DOCKET NO. 980700 - GU

1. In a telephone conversation on June 8, 1998, the company stated that the desired date of implementation for the depreciation study filed on May 31, 1998 is July 1, 1998. To accomplish this implementation date, please provide an update of activity by account through June 30, 1998. This will bring the investment and reserve accounts current to the date abutting the implementation of new depreciation rates. As discussed, staff will recalculate the age by account based on the updated activity.

2. For a typical main and service line abandoned/retired under pavement and not under pavement, please provide the crew size, crew time, loaded hourly rate and materials associated with the abandonment/retirement. Please provide the average length of a main. If the company recognizes a different cost to abandon/retire steel versus plastic please provide the above requested information for each.

3. The Code of Federal Regulations 18 Part 201, for Accounts 382 - Meter Installations and 384 - House Regulator Installations states that when a meter/regulator installation is permanently retired from service, the cost thereof shall be credited to the appropriate account. Please confirm that credits to this account are reflective of meter/regulator services permanently retired and not reflective of service upgrades such as changing from steel to plastic while meter service to the customer continues.

4. For a typical Account 382 - Meter/Regulator Installation retirement, please provide the crew size, crew time, loaded hourly rate, and any material costs associated with the removing the installation. Please also provide the number of meters and the number of house regulators installed as of the study date.

5. Account 390 - Structures and Improvements, shows a retirement of $2,427, on worksheet DEPS1238 page 27 of 38, for 1997 with no cost of removal. Although the activity is supported by the status report, this account normally has a cost of removal associated with a retirement. Please explain why there is no cost of removal in this instance.

6. As discussed with the company, note (D) of the "Depreciation Study Notes", on worksheet RETPO498, indicates that $1,899.00, identified as an office air conditioner, was reclassified from Small Tools (Account 394) to Office Furniture (Account 391) in April, 1998. Please confirm that the above requested account activity update will reflect the reclassification to Structures and Improvements (Account 390).

7. Staff has noted that there has been no activity in Office Machines (Account 491) since the last study. In addition over 45% of the survivors in this account are more than 30 years old and it appears that the embedded plant balance has been fully depreciated. Are there any plans to retire the investment over 30 years old?

8. It has been noted that there are no salvage amounts and no costs associated with retirements indicated in Account 392 - Transportation Equipment. How are amounts such as trade allowances recognized? Further, what criteria, such as, mileage or age, is used by the company to determine the appropriate time to retire transportation equipment?

9. The transmittal letter, dated May 28, 1998, requested the establishment of a new "Vehicle repairs" account and the study includes an Account 392.1 - Vehicles, in the amount of $10,657. Additional information requested by staff shows that $3,166 of this amount represents repairs made to a vehicle damaged in an accident. In accordance with the Code of Federal Regulations 18, Part 201, "Work performed specifically for the purpose of preventing failure, restoring serviceability or maintaining life of plant" is included under operating expenses (Maintenance). Staff plans to include in its recommendation that the $3,166 be removed from the Account 392.1 plant balance and the associated reserve be removed from the reserve balance and that the net of these amounts be transferred to the maintenance account.

10. The age of the balance of Account 392.1, $7,491, should be included in the year when the vehicle was first placed in service for the company, even though it was under lease at that time. This will properly represent the age of the asset and will allow for recovery over the remaining useful life of the vehicle. Recognizing that this is a 1993 vehicle with approximately 2 years remaining life, does the investment require a separate account or should it be included with Account 392 - Transportation Equipment?

11. Account 396 - Power Operated Equipment, shows a 1996 investment retirement of $1,171 and a reserve retirement of $1,724 on worksheet DEPS1238 page 34 of 38. Please explain why the reserve retirement does not equal the investment retirement.

12. The company proposed remaining life for each account is the difference between the average service life and the average age. This implies all investment retiring simultaneously, with no ongoing retirements. Such a pattern of expected retirements (curve shape, retirement dispersion, or mortality dispersion) represents an idealized situation where the equipment is so designed and manufactured as to live efficiently until the precise year the company-determined replacing equipment was ready. In reality, there is no plant type where the company has such full control over retirement. The nearest would be heavy trucks or trailers, where maintenance problems and accidents can modify the pattern.

In selecting a curve shape, we work from averages, modifying the average as necessary for any peculiarities of the given company. A basic premise is that a similar plant type, used in a similar fashion, will have the same curve shape.

Certain patterns of activity will change the curve shape. High retirements and/or high growth tend to increase early retirements (infant mortality). A stagnant situation has the opposite effect. Plant subject to theft, damage, or public requirements can be expected to have a greater incident of infant mortality than similar plant in a rural or small town setting.

13. The expected average service life for each account is estimated from an analysis of historic activity, expected impact of factors such as growth and technological change, and industry averages. Staff's review of each account's activity indicates that the service lives and curve shapes recommended in the last depreciation review remain reasonable. These are shown in the following table. If there are any factors that have the potential to impact any given account, please provide that information so the life or curve can be modified accordingly. The average age, average remaining life, and net salvage values will be developed after receipt of the information requested above.

Account	Description	Current/Staff Proposed	
		Curve	ASL
375	Structs. & Improves.	SQ	25.0
376	Mains (Steel)	R4	38.0
476	Mains (Plastic)	R4	38.0
378	Meas. & Reg. Eq. Gen.	R3	34.0
379	Meas. & Reg. City Gate	R3	34.0
380	Services (Steel)	S2	36.0
480	Services (Plastic)	S2	36.0
381	Meters	S4	29.0
382/384	Meter & Reg. Inst.	S2	36.0
383	House Regulators	S4	30.0
385	Ind. Meas. & Reg. Sta. Eq.	S4	30.0
387	Other Equipment	S4	35.0
390	Structures	SQ	20.0
391	Office Equipment (Furn.)	S2	25.0
391.1	Computer Equipment	SQ	5.0
491	Office Equip. (New Adds.)	S1	15.0
392	Transportation Equip.	S2	7.0
394	Small Tools	S4	20.0
395	Laboratory Equipment	S4	20.0
396	Power Operated Equip.	S4	15.0
397	Communications Equip.	WLR	10.0
398	Miscellaneous Equip.	S4	15.0