

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

In re: 1998 Depreciation Study
by Indiantown Gas Company.

DOCKET NO. 980845-GU
ORDER NO. PSC-99-0048-FOF-GU
ISSUED: January 5, 1999

The following Commissioners participated in the disposition of this matter:

JULIA L. JOHNSON, Chairman
J. TERRY DEASON
SUSAN F. CLARK
JOE GARCIA
E. LEON JACOBS, JR.

NOTICE OF PROPOSED AGENCY ACTION
ORDER APPROVING RESERVE TRANSFERS, ESTABLISHING RECOVERY SCHEDULE
AND REVISING DEPRECIATION RATES

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

Rule 25-7.045, Florida Administrative Code, requires gas companies to file comprehensive depreciation studies at least once every five years. On July 9, 1998, Indiantown Gas Company, Inc. (Indiantown or the company) filed its regular depreciation study in accordance with this rule. Changes since the last study brought about by activity and company planning indicate the need to revise currently prescribed depreciation rates. The company proposed January 1, 1998 implementation date for new depreciation rates matches the beginning of its fiscal year. Data and related calculations have been provided abutting this date. We therefore

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FPSC-RECORDS/REPORTING

find that the current depreciation rates for Indiantown Gas Company, Inc., shall be revised, effective January 1, 1998.

CORRECTIVE RESERVE MEASURES

We find that the following reserve corrections shall be made:

Account	Book Reserve	Recommended Transfers	Restated Reserve
	(\$)	(\$)	(\$)
Office Furniture	32,028	7,119	39,147
Computers - Post '92 Adds.	33,335	(8,057)	25,278
Power Operated Equipment	0	938	938

As part of our review of the company's study, a review of the reserve position for each account was performed. Our approach to reserve transfers is where surpluses and deficits exist, corrective reserve transfers between accounts should be considered.

The investment in the Power Operated Equipment account reflects the cost of a mini-trackhoe designed to excavate in small areas such as easements and back yards. It was leased throughout 1996 and then purchased in December, 1996. Even though the company has stated that a 5% depreciation rate is being applied to this investment, no depreciation accruals were recorded for 1996 or 1997. Accordingly, this account has an existing reserve deficiency.

On the other hand, the depreciation accruals recorded for the computer accounts are more than what the current rates provide. In the last depreciation review, a 0.5% depreciation rate was approved for the embedded investment in computer as of January 1, 1993, with a 12.5% rate approved for post-1993 additions of computer equipment. Activity submitted in the current study indicates no accruals recorded for either of these categories and then doubled in 1994 as a make-up. The \$26,680 accruals recorded in 1994 for the embedded investment implies use of a higher depreciation rate than 0.5% for two years. Expenses for 1993 and 1994 combined should not have been more than \$324 ($\$32,417 \cdot 0.005 \cdot 2$). The same type of situation exists for the post 1993 category. The accruals

recorded are in excess of what they should have been. Because the furniture investment is over 25 years of age, we order a transfer of \$7,119 from the surplus existing for computers to complete the recovery of this investment. Additionally, we find that a transfer of \$938 shall be made to correct the reserve deficiency in Power Operated Equipment. In light of the possible impact of reserve transfers on cost allocations, the company shall make corresponding entries to the related depreciation expense accounts.

APPROPRIATE DEPRECIATION RATES

The approved remaining lives, net salvages, reserves, and resultant depreciation rates are shown on Attachment A. The approved rates are the result of a comprehensive review of the company's submitted data and information.

Indiantown operates in a stable community, which has been reflected in the past by the lack of additions and retirements. However, during the 1993-1999 period, Indiantown has experienced significant growth while retirements have remained infrequent. The growth is attributed to the addition of a second industrial customer, the US Generating Cogeneration facility, and a system upgrade. Over the past few years, the company has been replacing its 3/4-inch steel main with 1.25-inch plastic. This upgrade program also involves the replacement of the service line riser, and new meter and regulator sets. The company plans to complete the upgrade within the next three years.

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. The review of each account's activity indicates that the service lives and curve shapes approved in the last depreciation review remain reasonable.

Also, as a result of the 1993 Continuing Property Records (CPR) audit performed by the Commission's Division of Research and Regulatory Review, Indiantown has developed a CPR system. This system has been used to develop the current average age of surviving investment for each account. The approved remaining life for each account reflects CPR data and activity since the last study. The approved changes in depreciation rates can be attributed mainly to two factors - updated ages to reflect activity

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since the last represcription, and/or changes in the reserve position.

Distribution Plant

In 1993 and 1994, Indiantown began renovations to a six inch gas main to comply with the Department of Transportation requirements for a road construction project and to uprate the system pressure to accommodate the US Generating Cogeneration facility. Additionally, the company is upgrading its system by replacing all 3/4 inch steel mains with 1.25 inch plastic mains. This project also involves replacement of service lines, risers, meters, and regulators. Current planning is for the upgrade to be completed by year-end 2000.

The company has provided an estimate of the investments planned for replacement as part of the upgrade program. The associated reserve amount was developed assuming a 30% cost of removal relating to the abandonment of the mains. The net unrecovered investments of \$14,148 shall be placed on a recovery schedule and amortized over three years, coinciding with the expected completion of the program. The annual expense associated with this recovery schedule will be \$4,715. Any necessary true-up can be made at the time of the next prescription.

As a result of the renovations and upgrades, significant additions have been made in Industrial Measuring and Regulating Equipment, Account 384; Plastic Services, Account 380; Meters and Regulators, Accounts 381 and 383; and, Meter and Regulator Installations, Accounts 382 and 384. These additions translate into a younger average age for the related investments, thus a longer remaining life than last prescribed.

According to the company, installation costs associated with house regulators are recorded along with the meter installation costs due to the minimal cost per installation. All embedded regulator installations are associated with regulators that will be replaced as part of the upgrade program.

General Plant

During the review of the company's submitted data, it was discovered that four new general plant accounts have been established since the last depreciation review (Power Operated Equipment, Account 396; and, Communication Equipment, Account 397).

The depreciation rates currently applied to these accounts have not been approved by the Commission. The company apparently violated Rule 25-7.045, Florida Administrative Code, by not obtaining approval of the depreciation rates prior to their initiation. However, because the rates are in the range of reasonableness for the associated equipment, no harm has come to the customers of Indiantown due to this apparent violation. In the future, however, the company shall petition the Commission, in accordance with Rule 25-7.045, Florida Administrative Code, anytime a new account is established thus necessitating the need for a new depreciation rate.

With the reserve transfers approved in this Order, the existing investment in the furniture account is fully recovered. For any furniture investment added after January 1, 1998, a 5% depreciation rate (20 year life and zero net salvage) shall be utilized.

The Communication Equipment Account investment is comprised of four two-way radios purchased in 1997. The approved life recognizes that this equipment is subject to technological impacts.

AMORTIZATION OF INVESTMENT TAX CREDITS (ITCS) AND THE FLOWBACK OF EXCESS DEFERRED INCOME TAXES (EDIT)

In this Order, we have approved revisions to the company's remaining lives, to be effective January 1, 1998. Revising a utility's book depreciation lives generally results in a change in its rate of ITC amortization and flowback of EDIT in order to comply with the normalization requirements of the Internal Revenue Code (IRC) and underlying Regulations (REGs) found in Sections 46, 167, and 168 and 1.46, 1.67, and 1.68, respectively.

Section 46(f)(6), IRC, states that the amortization of ITCs should be determined by the period of time actually used in computing depreciation expense for rate making purposes and on the regulated books of the utility. Since we have approved a change in remaining lives, it is also important to change the amortization of ITCs to avoid violation of the provisions of sections 46 and 1.46, IRC and REGs, respectively.

Section 203(3) of the Tax Reform Act of 1986 (the Act) prohibits rapid flowback of depreciation related (protected) EDIT. Further, Rule 25-14.013, Florida Administrative Code, Accounting

for Deferred Income Taxes Under SFAS 109, generally prohibits EDIT from being written off any faster than allowed under the Act. The Act, SFAS 109, and Rule 25-14.013, Florida Administrative Code, regulate the flowback of EDIT. Therefore, we find that the flowback of EDIT be adjusted to comply with the Act, SFAS 109, and Rule 25-14.013, Florida Administrative Code.

The Commission, the Internal Revenue Service, and independent outside auditors look to a company's books and records and at the orders and rules of the jurisdictional regulatory authorities to determine if the books and records are maintained in the appropriate manner and to determine the intent of the regulatory bodies in regard to normalization. Therefore, we find that the current amortization of ITCs and the flowback of EDIT be revised to reflect the approved remaining lives. To provide a clear audit trail, the company shall file detailed calculations of the revised ITC amortization and EDIT flowback at the same time it files its surveillance report covering the period ending December 31, 1998.

Based on the foregoing, it is

ORDERED by the Florida Public Service Commission that the current depreciation rates for Indiantown Gas Company, shall be revised, effective January 1, 1998. It is further

ORDERED that Indiantown Gas Company, shall make the reserve transfers detailed in this Order. It is further

ORDERED that the remaining lives, net salvages, reserves, and resultant depreciation rates shown on Attachment A are approved. It is further

ORDERED that the current amortization of investment tax credits and the flowback of excess deferred income taxes shall be revised to match the actual recovery periods for the related property. The utility shall file detailed calculations of the revised ITC amortization and flowback of EDIT at the same time it files its surveillance report covering the period ending December 31, 1998. 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 28-106.201,

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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 shall be closed.

By ORDER of the Florida Public Service Commission this 5th day of January, 1999.

BLANCA S. BAYÓ, Director
Division of Records and Reporting

By: _____

Kay Flynn
Kay Flynn, Chief
Bureau of Records

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NOTICE OF FURTHER PROCEEDINGS OR JUDICIAL REVIEW

The Florida Public Service Commission is required by Section 120.569(1), 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.

Mediation may be available on a case-by-case basis. If mediation is conducted, it does not affect a substantially interested person's right to a hearing.

The action proposed herein is preliminary in nature. Any person whose substantial interests are affected by the action proposed by this order may file a petition for a formal proceeding,

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in the form provided by Rule 28-106.201, 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 January 26, 1999.

In the absence of such a petition, this order shall become effective on the day subsequent to the above date.

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(c), Florida Rules of Appellate Procedure.

INDIANTOWN GAS COMPANY
 1997 STUDY

ACCOUNT		AVERAGE REMAINING LIFE (YRS.)	NET SALVAGE (%)	1/1/98 RESERVE (%)	REMAINING LIFE RATE (%)
GAS DISTRIBUTION					
376	Mains - Steel	20.0	(30.0)	84.87	2.3
376	Mains - Plastic	24.0	(30.0)	46.94	3.5
378	M&R Equipment - General	16.9	0.0	54.82	2.7
380	Services - Steel	13.6	(35.0)	97.38	2.8
380	Services - Plastic	26.0	(35.0)	63.21	2.8
381	Meters	18.9	0.0	30.93	3.7
382	Meter Installations	34.0	(5.0)	51.70	1.6
383	House Regulators	24.0	0.0	22.68	3.2
384	House Regulators - Installations		NA		
385	M&R Equipment - Industrial	21.0	0.0	24.73	3.6
387	Other Equipment	25.0	0.0	0.00	4.0 *
GENERAL					
391	Office Furniture		NA		
	Computer Equip. - Post '92 Adda.	5.6	0.0	93.17 **	1.2
394	Small Tools	17.0	0.0	17.45	4.9
396	Power Operated Equipment	13.5	0.0	9.55 **	6.7
397	Communication Equipment	11.5	0.0	3.13	8.4
	Mains-Steel Rets.			3-YR. RECOVERY	
	Services-Steel Rets.			3-YR. RECOVERY	
	Meters Rets.			3-YR. RECOVERY	
	Meter Installations Rets.			3-YR. RECOVERY	
	House Regulators Rets.			3-YR. RECOVERY	
	House Regulators-Installations Rets.			3-YR. RECOVERY	

* Denotes whole life rate.

** Denotes restated reserve after corrective measures.