

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: November 17, 2009

TO: Office of Commission Clerk (Cole)

FROM: Division of Economic Regulation (Marsh, Bulecza-Banks)
Office of the General Counsel (Brown) *McB JSB*

RE: Docket No. 080182-GU – 2008 depreciation study by Florida City Gas

AGENDA: 12/01/09 – Regular Agenda – Proposed Agency Action – Interested Persons May Participate

COMMISSIONERS ASSIGNED: All Commissioners

PREHEARING OFFICER: Edgar

CRITICAL DATES: None

SPECIAL INSTRUCTIONS: None

FILE NAME AND LOCATION: S:\PSC\ECR\WP\080182.RCM.DOC

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Case Background

Rule 25-7.045, Florida Administrative Code (F.A.C.), requires gas utilities to file comprehensive depreciation studies at least once every five years. On March 28, 2008, Florida City Gas (FCG or Company) filed its regular depreciation study in accordance with this rule. Subsequently, FCG filed updated information through December 31, 2008. Staff has completed its review and presents its recommendation herein.

FCG, a wholly-owned subsidiary of NUI Corporation, which is a wholly-owned subsidiary of AGL Resources Inc. (AGL Resources or AGLR), is a natural gas distribution company engaged in distributing and transporting natural gas to approximately 104,000 consumers in Dade, Broward, Martin, St. Lucie, Indian River, Palm Beach and Brevard counties within the State of Florida.

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On November 30, 2004, AGL Resources completed the acquisition of NUI Corporation (NUI), parent company of NUI Utilities, Inc., for approximately \$825 million, including the assumption of \$709 million in debt. As a result, AGL Resources acquired the operations of NUI Utilities, Inc., which became a wholly owned subsidiary and was subsequently renamed Pivotal Utility. Additionally, effective December 1, 2004, Pivotal Utility's fiscal year end was changed from September 30 to December 31.

The Commission has jurisdiction in 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 FCG be changed?

Recommendation: Yes. A comprehensive review of FCG's planning and activity since the prior depreciation filing indicates a need for a revision to the currently prescribed depreciation rates. (Marsh)

Staff Analysis: FCG's last comprehensive depreciation study was filed on March 4, 2003. The current study, filed March 28, 2008, is in keeping with Rule 25-7.045(8)(a), F.A.C., which requires gas utilities to file a comprehensive depreciation study at least once every five years from the submission date of the previously filed study. A review of the Company's activity data indicates the need to revise depreciation rates.

Rule 25-7.045(6)(b), F.A.C., requires that the data submitted in a depreciation study, including plant and reserve balances or Company estimates, "shall be brought to the effective date of the proposed rates." The supporting data and calculations provided by FCG match an implementation date of January 1, 2009.

Some of the notable changes to plant include significant expansion in Vero Beach, Port St. Lucie, and Brevard County. FCG installed 3.5 miles of 6 inch plastic pipe in Indian River County to serve a housing development and a large commercial gas user, and an additional 3.5 miles of 6 inch plastic pipe was installed in Port St. Lucie to serve a commercial laundry facility. Over 4 miles of 6 inch of pipe was installed in Brevard County to serve residential subdivisions and commercial sites. A gate station was also constructed in Brevard County for pressure improvement to support the system during heavy demand. A regulator station was installed to serve the WASA Blackpoint water treatment plant. Two meter and regulator stations were installed to serve South Florida Water Management District pumping stations off the East West Transmission line in West Palm Beach.

The Company also updated its computer system. The upgrades provided standardization of businesses processes, and more consistent customer services. FCG also migrated legacy desktop operating systems to Window XP, and implemented Citrix/Terminal Servers along with migration network data onto standard AGL Resources infrastructure. Further, three automated dispatch systems were integrated into one, allowing for standardization of business processes, and positioning for future integration with distribution work management. Storage replacement was implemented to handle increasing demands and existing storage becoming outdated.

In summary, the developments discussed as well as other changes in account activity and Company planning indicate the need to revise currently prescribed depreciation rates.

Issue 2: What are the appropriate remaining lives, net salvage, reserve amounts, and resultant depreciation rates for FCG?

Recommendation: Staff's recommended remaining lives, net salvage values, reserves, and resultant depreciation rates are shown on Attachment A. The rates, based upon actual investments as of December 31, 2008, result in a decrease in the annual depreciation expense of approximately \$97,667, as summarized on Attachment B. (Marsh)

Staff Analysis: Staff's recommendation is the result of a comprehensive review of the Company's filed depreciation study. Attachment A 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 B, reflect actual amounts as of December 31, 2008, with the reserve positions restated to reflect 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, staff considers the prudence of company planning, including additions and retirements, technological impacts, retirement and salvage practices, and other related activities. The average service life refers to the overall period the account is expected to serve the public and is projected based on experience or estimates. The average remaining life is the remaining period of service which can be expected from the equipment or plant assets under study.

The Company's filing provided aged retirement data for the 2003 through the 2008 period. The Company provided the average age distributions of the surviving investments for each account. Staff worked with the Company in the development of appropriate life parameters and salvage values. The review of each account's activity indicates that the service lives and curve shapes recommended in the last depreciation review remain reasonable. Staff and the Company agree on lives, net salvages, 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, 2) age recalculation by plant account, and 3) correction of reserve positions by transfers to appropriate accounts. Staff will continue to monitor the reserve positions of the plant accounts when the Company files its annual status report. A brief discussion of the plant accounts life parameters with a recommended change is set forth below.

Distribution Plant

Account 379 - Measuring and Regulating Station Equipment

A gate station was constructed in Viera, Brevard County for pressure improvement to support the system during heavy demand. Based on FCG's experience, staff agrees with the Company's proposed change in salvage from -5.0 percent to 0.0 percent.

Account 380.2 - Services - Plastic

The majority of new services being installed by FCG are plastic. FCG reports high levels of attrition in its residential customer class, resulting in increased retirements of plastic services. Currently, salvage is set at -35.0 percent. However, the Company's experience and the industry average indicate a change is appropriate, from -35.0 percent to -30.0 percent. The Company agrees with staff's recommendation.

Account 382 - Meter Installations

There have been no major changes that have impacted this account. However, the Company's experience indicates that a change in salvage is appropriate. Currently, salvage is set at -10.0, and the industry average is -13.6 percent. The actual cost experienced by FCG has been -26.56 in recent years. Staff recommends a change in salvage to -25.0 percent. The Company agrees with staff's recommendation.

Account 382.1 - ERT Installations

A regulatory subaccount was established in 2008, with a 15 year average service life for Encoder Receiver Transmitter installations (ERTs).¹ The stated goal of the Company is to fully install ERT devices on all FCG meters by the end of 2009. The Company proposed a 15 year average service life based on industry standards. Staff has reviewed the account, and believes it is appropriate to continue the 15 year life. The Company agrees with staff's recommendation.

Account 384 - Regulator Installation

There have been no major changes that have impacted this account. However, the Company's experience indicates that a change in salvage is appropriate. Currently, salvage is set at -10.0 percent, and the industry average is -17.6 percent. The actual cost experienced by FCG has been de minimis. Staff recommends a change in salvage to 0.0 percent. The Company agrees with staff's recommendation.

General Plant

Account 392 - Transportation Equipment

In 2004, AGL Resources acquired NUI companies which included FCG. The Company reports that since joining AGLR, FCG has made no material purchases of transportation equipment. FCG states that it will execute operating leases in the future for light weight transportation equipment and plans to purchase heavy duty distribution transportation equipment. FCG states that even with plans to purchase some heavy duty equipment, the transportation asset class is expected to decline. Currently, salvage is set at 0.0 percent. The Company's experience over recent years has been a salvage of 12.1 percent. Staff recommends a change to 10.0 percent, which is the industry average. The Company agrees with staff's recommendation.

¹ Order No. PSC-08-0623-PAA-GU, issued September 24, 2008, in Docket No. 080163-GU, In re: Petition for approval to create regulatory subaccount of meter installation to capitalize all incurred and future costs associated with installation of encoder receiver transmitters (ERTs) under provisions of Statement of Financial Accounting Standard No. 71, Accounting for the Effects of Certain Types of Regulation (SFAS 71); and requesting depreciation of installation costs of ERTs over 15-year period beginning January 1, 2008, by Florida City Gas.

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

Recommendation: Yes. Staff recommends the reserve allocations shown in the table below. These allocations bring each account more in line with its theoretically correct reserve level. (Marsh)

Staff Analysis: As part of its review of the Company's depreciation study, staff considered 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. For these reasons, staff recommends transferring these related reserve surpluses to help correct the existing reserve deficiencies in the accounts, as shown in the table below. The Company should make corresponding entries to the related depreciation expense accounts.

Reserve Re-Allocation					
Account Number	Account Name	Actual Reserves (A)	Theoretical Reserves (B)	Reserve Transfers (C)	2009 Restated Reserves D=(A)+(C)
Distribution		(\$)	(\$)	(\$)	(\$)
375.0	Structures & Improvements	\$296,605	\$267,421	\$(29,184)	\$267,421
376.2	Mains-Plastic	19,105,866	18,677,833	(428,033)	18,677,833
380.1	Services-Other Than Plastic	16,119,615	18,046,506	228,609	16,348,224
380.2	Services -Plastic	13,130,961	14,324,081	228,608	13,359,569
390.0	Structures & Improvements	449,524	1,007,542	558,018	1,007,542
391.1	Office Furniture	775,019	844,868	69,849	844,868
391.2	Office Machines & Equipment	119,732	574,772	455,040	574,772
391.3	Computers	4,567,129	2,306,453	(898,283)	3,668,846
392.0	Transportation Equip-Combined	1,448,244	1,213,233	(235,011)	1,213,233
393.0	Stores Equipment	3,088	3,859	771	3,859
394.0	Tools, Shop, Garage Equipment	530,238	571,407	41,169	571,407
395.0	Laboratory Equipment	(5,928)	3,243	9,171	3,243
397.0	Communication Equipment	986,479	1,025,834	39,355	1,025,834
398.0	Misc. Equipment	183,975	143,896	(40,079)	143,896
	Total	\$57,710,54	\$59,009,948	0	\$57,710,547

Issue 4: What should be the date of implementation for the new depreciation rates?

Recommendation: Staff recommends approval of the Company's proposed January 1, 2009, date of implementation for the new depreciation rates. (Marsh)

Staff Analysis: FCG has proposed an implementation date for new depreciation rates of January 1, 2009. 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.

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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.

FLORIDA CITY GAS
 2008 DEPRECIATION STUDY
 COMPARISON OF RATES AND COMPONENTS

ACCOUNT	CURRENT			STAFF/COMPANY RECOMMENDED				
	AVERAGE	NET	REMAINING	AVERAGE	12/31/2008	REMAINING		
	REMAINING	SALVAGE	LIFE	REMAINING	ESTIMATED	LIFE		
	LIFE	(%)	(%)	LIFE	RESERVE	RATE	(%)	
	(YRS.)	(%)	(%)	(YRS.)	(%)	(%)	(%)	
DISTRIBUTION ASSETS								
375.0	Structures & Improvements	27.0	0.0	2.2	25.6	0.00	36.00	2.5
376.0	Mains - Other Than Plastic	26.0	-20.0	2.8	20.7	-20.00	57.30	3.0
376.0	Mains - Plastic	32.0	-20.0	2.9	29.1	-20.00	32.70	3.0
379.0	M&R Equipment - City Gate	26.0	-5.0	2.9	17.3	0.00	42.64	3.3
380.0	Services - Other Than Plastic	11.8	-80.0	7.1	7.6	-80.00	126.57	7.0
380.0	Services - Plastic	27.0	-35.0	3.8	23.1	-30.00	39.38	3.9
381.0	Meters	14.5	0.0	4.2	16.8	0.00	23.93	4.5
382.0	Meter Installations	21.0	-10.0	3.5	17.6	-25.00	46.20	4.5
382.1	ERT Installations	0.0	0.0	3.5	15.0	0.00	0.00	6.7
383.0	House Regulators	11.7	0.0	4.4	10.9	0.00	45.98	5.0
384.0	Regulator Installations	20.0	-10.0	3.7	16.4	0.00	47.72	3.2
385.0	Industrial M&R Station Equipment	21.0	0.0	3.2	16.8	0.00	43.55	3.4
387.0	Other Equipment	10.4	0.0	2.9	14.8	0.00	32.93	4.5
GENERAL PLANT								
390.0	Structures & Improvements	27.0	0.0	2.5	22.7	0.00	43.25	2.5
391.1	Office Furniture	98.8	0.0	4.3	3.6	0.00	80.92	5.3
391.2	Office Machines & Equipment	8.2	0.0	1.9	8.2	0.00	31.94	8.3
391.3	Computers	2.6	0.0	16.7	7.1	0.00	46.13	7.6
392.0	Transportation Equip. - Combined	7.2	0.0	2.7	6.3	10.00	42.75	7.5
393.0	Stores Equipment	6.9	0.0	3.6	12.0	0.00	51.99	4.0
394.0	Tools, Shop, Garage Equipment	8.5	0.0	6.7	6.0	0.00	59.80	6.7
395.0	Laboratory Equipment	4.6	0.0	4.0	4.9	0.00	80.39	4.0
397.0	Communication Equipment	6.2	0.0	6.9	1.0	0.00	91.70	8.3
398.0	Misc. Equipment	11.3	0.0	6.7	10.0	0.00	33.00	6.7

FLORIDA CITY GAS
 2008 DEPRECIATION STUDY
 COMPARISON OF EXPENSES

ACCOUNT			CURRENT		STAFF/COMPANY RECOMMENDED		
	12/31/2008 INVESTMENT (\$)	12/31/2008 RESERVE (\$)	RATE (%)	EXPENSES (\$)	RATE (%)	EXPENSES (\$)	CHANGE IN EXPENSES (\$)
DISTRIBUTION ASSETS							
375.0 Structures & Improvements	742,836	267,421	2.2	16,342	2.5	18,571	2,229
376.0 Mains - Other Than Plastic	82,462,048	47,252,826	2.8	2,308,937	3.0	2,473,861	164,924
376.0 Mains - Plastic	57,118,756	18,677,833	2.9	1,656,444	3.0	1,713,563	57,119
379.0 M&R Equipment - City Gate	5,766,845	2,458,819	2.9	167,239	3.3	190,306	23,067
380.0 Services - Other Than Plastic	12,916,194	16,348,224	7.1	917,050	7.0	904,134	(12,916)
380.0 Services - Plastic	33,927,240	13,359,569	3.8	1,289,235	3.9	1,323,162	33,927
381.0 Meters	8,922,161	2,135,077	4.2	374,731	4.5	401,497	26,766
382.0 Meter Installations	3,155,080	1,457,651	3.5	110,428	4.5	141,979	31,551
382.1 ERT Installations	0	0	3.5	0	6.7	0	0
383.0 House Regulators	2,497,833	1,148,470	4.4	109,905	5.0	124,892	14,987
384.0 Regulator Installations	1,349,317	643,953	3.7	49,925	3.2	43,178	(6,747)
385.0 Industrial M&R Station Equipment	3,186,398	1,387,642	3.2	101,965	3.4	108,338	6,373
387.0 Other Equipment	454,679	149,721	2.9	13,186	4.5	20,461	7,275
TOTAL DISTRIBUTION	212,499,387	105,287,206		7,115,387		7,463,942	348,555
GENERAL PLANT							
390.0 Structures & Improvements	2,329,578	1,007,542	2.5	58,239	2.5	58,239	0
391.1 Office Furniture	1,044,078	844,868	4.3	44,895	5.3	55,336	10,441
391.2 Office Machines & Equipment	1,799,537	574,772	1.9	34,191	8.3	149,362	115,171
391.3 Computers	7,953,286	3,668,846	16.7	1,328,199	7.6	604,450	(723,749)
392.0 Transportation Equip. - Combined	2,837,973	1,213,233	2.7	76,625	7.5	212,848	136,223
393.0 Stores Equipment	7,422	3,859	3.6	267	4.0	297	30
394.0 Tools, Shop, Garage Equipment	955,530	571,407	6.7	64,021	6.7	64,021	0
395.0 Laboratory Equipment	4,034	3,243	4	161	4.0	161	0
397.0 Communication Equipment	1,118,685	1,025,834	6.9	77,189	8.3	92,851	15,662
398.0 Misc. Equipment	436,048	143,896	6.7	29,215	6.7	29,215	0
TOTAL GENERAL PLANT	18,486,171	9,057,500		1,713,002		1,266,780	(446,222)
GRAND TOTAL	230,985,558	114,344,706		8,828,389		8,730,722	(97,667)