STATE OF FLORIDA

DIVISION OF ECONOMICS
GREG SHAFER
DIRECTOR
(850) 413-6410

# Public Service Commission

April 9, 2018

St. Joe Natural Gas Company
Attn: Debbie Stitt
P.O. Box 549
Port St. Joe, FL. 32457

**Re: Docket No. 20170265-GU - Application for approval of new depreciation rates by St. Joe Natural Gas Company.**

Dear Ms. Stitt:

Staff has completed its report regarding St. Joe Natural Gas Company's current depreciation study which is contained herein. Please review the attached report and data request and provide a response by May 8, 2018.

Should you have any questions, or need further information, please do not hesitate to contact me at (850) 413-6433.

Sincerely,

Devlin Higgins
Public Utilities Analyst



Attachment
cc: Office of Commission Clerk
Office of Public Counsel
Charles A. Costin

Data Request

1. Please refer to St. Joe's 2017 Depreciation Study (petition or 2017 Study), Exhibit A. Please explain how the "Average Age Years," which are shown in column (E), were derived. Please also provide a sample calculation for Federal Energy Regulatory Commission (FERC) Account 375 – Building and Improvements.

General

Staff observes that St. Joe Natural Gas Company's (St. Joe or Company) as-proposed average remaining lives were not calculated using retirement dispersion curves. Staff has applied the last known Iowa-Type Survivor Curves applicable to St. Joe's plant on an account-by-account basis and derived new Average Remaining Life (ARL) values.[1] Staff notes that many of St. Joe's currently-approved service lives were retained and used in the curve selection process.[2] In general, the effects of using the newly-derived ARLs for calculating depreciation rates of St. Joe's plant were mixed, with greater rates of depreciation for some accounts, lesser rates of depreciation for others. An account-by-account analysis and discussion concerning ARLs follows below. Further, staff notes that if a depreciation parameter for any given account was not specifically discussed, staff accepted and/or agreed with the Company's proposal. This was the case for many net salvage value proposals for example.

Complete tabulations of staff's initial depreciation parameter positions, as well as depreciation rates and expense comparisons (to St. Joe's currently-approved depreciation rates) are contained on Attachments A and B located at the end of this report.[3]

Staff's Initial Positions

The following section of this report refers to Exhibit A of St. Joe's 2017 Depreciation Study.

1. Account 375 – Buildings & Improvements

   As indicated in Exhibit A of the 2017 Study, this account has an average age of 33.6 years. The Company proposes to retain the currently-approved Average Service Life (ASL) of 40 years. Using these parameters with the S3 curve, an Average Remaining Life (ARL) of 10.8 years is calculated, which is further used to produce a remaining life depreciation rate of 1.6 percent for this account.

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[1] Developed in a study at the University of Iowa in the 1950's, Iowa curves are comprised of a set of standardized patterns, or curve shapes, of asset retirement dispersion organized into four broad classes: "S," "R," "L," and "O" curves.

[2] Order No. PSC-13-0174-PAA-GU, Issued April 26, 2013, in Docket No. 120325-GU, *In re: Application for approval of new depreciation rates, effective January 1, 2013, by St. Joe Natural Gas Company.*

[3] Id.

2. Account 376.1 – Mains-Plastic

   This account has an average age of 21.2 years, and the Company proposes to retain the currently-approved ASL of 40 years. Using these parameters with the S3 curve results in an ARL of 19.4 years. Using the new ARL, a remaining life depreciation rate of 3.2 percent is calculated for this account.

3. Account 376.2 – Mains-Steel

   This account has an average age of 26.2 years. The Company proposes to retain the currently-approved ASL of 40 years. These parameters with the S3 curve results in a ARL of 15.4 years. Staff proposes a reserve transfer of negative $63,019 to reduce the account's reserve imbalance which is the difference between the theoretical and actual reserve balances.[4] A (post-reserve-transfer) remaining life depreciation rate of 3.1 percent is calculated for this account.

4. Account 378 – Measuring & Regulating Equip. (Distribution)

   This account has an average age of 21.6 years. The Company proposes to retain the currently-approved ASL of 35 years. Using these parameters with the R3 curve, a ARL of 15.6 years is calculated. Staff proposes a positive reserve transfer of $256 (from Account 376.2 – Mains-Steel) for bringing the account's actual reserve to its correct theoretical level. A (post-reserve-transfer) remaining life depreciation rate of 3.0 percent is calculated for this account.

5. Account 379 – Measuring & Regulating Equip. (City Gate)

   This account has an average age of 25.2 years. The Company proposes to retain the currently-approved ASL of 35 years. Using these parameters with the S3 curve, a ARL of 11.9 years is calculated. Using the new ARL, a remaining life depreciation rate of 2.5 percent is calculated for this account.

6. Account 380.1 – Services-Plastic

   This account has an average age of 17.1 years. The Company proposes to retain the currently-approved ASL of 40 years. In Filing Requirements 6(f) of the 2017 Study, the Company reports that: "[r]andom inspections of plastic service lines . . . are performed on a regular basis and all lines continue to be found in acceptable condition with every indication of many years of service remaining." Taking this statement into consideration, staff believes that a moderate increase of 2 years to the service life for this account is appropriate. The 42-year ASL is within the industry range of Florida's natural gas utilities. With an ASL of 42 years, using the S3 curve and an average age of 17.1 years, a ARL of 25 years is calculated.

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[4] See Commission Rule 25-7.045(1)4.(k), Florida Administrative Code: Theoretical Reserve = Book Investment - Future Accruals - Future Net Salvage.

Staff proposes a positive reserve transfer of $57,246 (from Account 376.2 – Mains-Steel) to bring this account's reserve to its correct theoretical level. Based on the aforementioned parameters, a (post-reserve-transfer) remaining life depreciation rate of 2.9 percent is calculated for this account.

7. Account 380.2 – Services-Steel

This account has an average age of 46.9 years. St. Joe proposes to retain the currently-approved ASL of 50 years. In Filing Requirements 6(f) of the 2017 Study, the Company reports that: "[r]andom inspections of steel service lines are performed on a regular basis and all lines continue to be found in acceptable condition with every indication of many years of service remaining." Taking this statement into consideration, staff believes that a moderate increase of 3 years to the service life for this account is appropriate. With an ASL of 53 years with the SQ curve and an average age of 47 years, a ARL of 6.1 years is then calculated.

St. Joe proposed to retain the current approved net salvage (NS) of negative 30 percent (shown as "(30)" on Attachment A to this report) which is at the highest (least negative) end of the industry range.[5] During the current study period of 2013 through 2017, this account experienced a 59.6 percent average cost removal with no gross salvage.[6] Staff notes that during the Company's last depreciation study period, this account had experienced an average 48 percent cost removal with no gross salvage; and the Commission ordered a decrease in the NS from the then-approved (25) percent to the currently-approved (30) percent.[7] Given this account's NS trend during the last 10 years and considering the industry average, staff proposes to further decrease the NS level of this account to (40) percent. Staff notes the level of reduction does not fully reflect actual experience and still leaves the NS level at the high end (least negative) of the industry range. However, staff believes that whenever possible, gradual change, rather than abrupt, large-magnitude change, is preferable. With an ARL of 6.1 years and a (40) percent NS, a remaining life depreciation rate of 3.9 percent is calculated for this account.

8. Account 381 – Meters

This account has an average age of 14 years. The Company proposes to retain the currently-approved ASL of 25 years. Using these parameters with the R4 curve, an ARL of 11.5 years is calculated. Using the new ARL, a remaining life depreciation rate of 3.8 percent is calculated for this account.

9. Account 382 – Meters Installations

This account has an average age of 29 years. The Company proposes to retain the currently-approved ASL of 40 years. Using these parameters with the S2 curve, an ARL

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[5] Approved NS levels for Florida's gas utilities range from (125) percent to (30) percent, with an average of (73) percent.

[6] Net Salvage is equal to: Gross Salvage - Cost of Removal.

[7] Order No. PSC-13-0174-PAA-GU, Issued April 26, 2013, in Docket No. 120325-GU, *In re: Application for approval of new depreciation rates, effective January 1, 2013, by St. Joe Natural Gas Company.*

of 15.3 years is calculated. Using the new ARL, a remaining life depreciation rate of 3.0 percent is calculated.

10. Account 383 – Regulators

This account has an average age of 18.8 years. The Company proposes to retain the currently-approved ASL of 30 years. Using these parameters with the R4 curve, an ARL of 12.0 years is calculated. Using the new ARL, a remaining life depreciation rate of 3.1 percent is calculated.

11. Account 384 – Regulator Installations

This account has an average age of 22.3 years. The Company proposes to retain the currently-approved ASL of 40 years. This account has experienced significant activity over the study period in terms of plant additions and retirements. With the account's growth rate of 14.5 percent and retirement rate of 1.4 percent, staff believes a S3 curve shape (40-year ASL), rather than the current S2 curve shape (40-year ASL), would more closely depict this account's activity. Using an ASL of 40 years, an average age of 22 years, and the S3 curve, an ARL of 18.4 years is calculated for this account.

To bring this account's reserve balance to its correct theoretical level, staff proposes a positive reserve transfer of $5,517 (from Account 376.2 – Mains-Steel). Based on the aforementioned parameters, a post-reserve-transfer remaining life depreciation rate of 3.5 percent is calculated for this account.

12. Account 385 – Industrial Measuring & Regulating Equipment

This account has an average age of 6.4 years. The Company proposes to retain the currently-approved ASL of 30 years. Using these parameters with the S4 curve, an ARL of 24 years is calculated. Using the new ARL, a remaining life depreciation rate of 3.4 percent is calculated.

13. Account 387 – Other Equipment

This account is near fully depreciated at the study date of December 31, 2017. This account has also experienced no activity (e.g. plant addition, retirement, etc.) during the study period. The Company seeks to apply a depreciation rate when new investment is added.[8] As further discussed below, staff suggests a whole life rate, rather than a remaining life rate, be applied to any new investments added to this account as an interim measure until St. Joe's next depreciation rate review.

As indicated in Exhibit A of the 2017 Study, this account has an average age of 5.2 years, and the Company proposes to retain the currently-approved ASL of 10 years. Staff notes that a 10-year ASL is at the lowest end of the industry range of Florida gas utilities which has a mid-point of 18.8 years. Staff believes that an increase in ASL of 4 years for this

[8] See Filing Requirement 6(f) of the Depreciation Study and St. Joe's response to Staff's First Data Request, No. 10.

account is appropriate. Using the new ARL of 14 years, a whole life depreciation rate of 7.1 percent is calculated. Further, staff recommends a 7.1 percent whole life depreciation rate be applicable to any new investments added to this account. This depreciation rate will be reviewed for continued appropriateness during St. Joe's next depreciation study proceeding.

14. Account 390 – Structures & Improvements

St. Joe proposed an ASL of 40 years, an ARL of approximately 14 years, and a depreciation rate of 2.2 percent. In recalculating the ARL using an R3 curve, staff arrived at a value of 16.8 years. Staff proposes a 16.8-year ARL, which is used to calculate a remaining life depreciation rate of 1.9 percent for this account.

15. Account 391.1 – Office Furniture

St. Joe proposed an ASL of 15 years, an ARL of approximately 1.3 years, and a depreciation rate of 5.7 percent. In recalculating the ARL using an S2 curve, staff arrived at a value of 4.36 years. Staff proposes a 4.4-year ARL, which is used to calculate a remaining life depreciation rate of 1.7 percent for this account.

16. Account 391.2 – Office Devices

St. Joe proposed an ASL of 8 years, an ARL of approximately 3.05 years, and a depreciation rate of 11.3 percent. In recalculating the ARL using an S1 curve, staff arrived at a value of 4.06 years. Staff proposes a 4.1-year ARL, which is used to calculate a remaining life depreciation rate of 8.4 percent for this account.

17. Account 391.3 – Office Computers

St. Joe proposed an ASL of 16 years, an ARL of approximately 7.72 years, and a depreciation rate of 7.4 percent. In recalculating the ARL using an S3 curve, staff arrived at a value of 7.92 years. Staff proposes a 7.9-year ARL for the account. Staff also recommends that a reserve transfer (from Account 392 – Transportation Equipment) of $5,190 be made in order to correct the account's theoretical reserve deficiency. The (post-reserve-transfer) remaining life depreciation rate is calculated to be 6.3 percent for this account.

18. Account 392 – Transportation Equipment

St. Joe proposed an ASL of 7 years, an ARL of approximately 2.43 years, and a depreciation rate of 10.9 percent. In recalculating the ARL using an S2 curve, staff arrived at a value of 2.99 years. Staff proposes a 3.0-year ARL for the account. As Account 392 is in a theoretical reserve surplus position, staff recommends that a reserve transfer of ($5,190) be made to Account 391.3 – Office Computers' as to correct the reserve deficiency in account 391.3. The (post-reserve transfer) remaining life depreciation rate is calculated to be 9.3 percent for this account.

19. Account 394 – Tools, Shop & Garage Equipment

St. Joe proposed an ASL of 20 years, an ARL of approximately 15.75 years, and a depreciation rate of 4.9 percent. In recalculating the ARL using an S3 curve, staff arrived at a value of 15.76 years. Staff proposes a 15.8-year ARL, which is used to calculate a remaining life depreciation rate of 4.9 percent for this account.

20. Account 396 – Power Operated Equipment

St. Joe proposed an ASL of 15 years, an ARL of approximately 5.83 years, and a depreciation rate of 0.6 percent. In recalculating the ARL using an S4 curve, staff arrived at a value of 5.91 years. Staff proposes a 5.9-year ARL, which is used to calculate the same remaining life depreciation rate of 0.6 percent as the Company proposed for this account.

21. Account 397 – Communication Equipment

St. Joe proposed an ASL of 12 years, an ARL of approximately 2.83 years, and a depreciation rate of 8.1 percent. In recalculating the ARL using an S3 curve, staff arrived at a value of 3.74 years. Staff proposes a 3.7-year ARL, which is used to calculate a remaining life depreciation rate of 6.2 percent for this account.

Attachment A

| Account Number | Account Title | Comparison of Rates and Components Current[1] Ave. Rem. Life (yrs.) | Future Net Salvage (%) | Remaining Life Rate (%) | Staff Proposed Ave. Rem. Life (yrs.) | Reserve (%) | | Future Net Salvage (%) | Remaining Life Rate (%) |
|---|---|---|---|---|---|---|---|---|---|
| DISTRIBUTION PLANT | | | | | | | | | |
| 375 | Structures & Improvements | 11.4 | (5) | 2.7 | 10.8 | 88.08 | | (5) | 1.6 |
| 376.1 | Mains - Plastic | 22.0 | (30) | 3.4 | 19.4 | 68.71 | | (30) | 3.2 |
| 376.2 | Mains - Steel | 18.8 | (30) | 3.3 | 15.4 | 81.94 | * | (30) | 3.1 |
| 378 | M&R Station Equip. - Distribution | 18.1 | (5) | 3.6 | 15.6 | 58.20 | * | (5) | 3.0 |
| 379 | M&R Station Equip. - City Gate | 14.8 | (5) | 3.0 | 11.9 | 75.30 | | (5) | 2.5 |
| 380.1 | Services - Plastic | 24.0 | (22) | 3.4 | 25.0 | 49.50 | * | (22) | 2.9 |
| 380.2 | Services - Steel | 8.1 | (30) | 3.0 | 6.1 | 116.13 | | (40) | 3.9 |
| 381 | Meters | 5.6 | 0 | 4.2 | 11.5 | 56.63 | | 0 | 3.8 |
| 382 | Meter Installations | 10.3 | (25) | 4.8 | 15.3 | 79.45 | | (25) | 3.0 |
| 383 | Regulators | 13.7 | 0 | 3.4 | 12.0 | 62.44 | | 0 | 3.1 |
| 384 | Regulator Installations | 17.5 | (40) | 4.4 | 18.4 | 75.60 | * | (40) | 3.5 |
| 385 | Industrial M&R Equip. | 18.7 | (5) | 3.8 | 24.0 | 22.33 | | (5) | 3.4 |
| 387 | Other Equipment | 5.0 | 0 | 11.4 | 8.8 | 99.87 | | 0 | **7.1 |
| GENERAL PLANT | | | | | | | | | |
| 390 | Structures & Improvements | 16.8 | 0 | 2.7 | 16.8 | 68.50 | | 0 | 1.9 |
| 391.1 | Office Furniture | 6.0 | 0 | 7.4 | 4.4 | 92.39 | | 0 | 1.7 |
| 391.2 | Office Devices | 5.9 | 5 | 12.6 | 4.1 | 60.45 | | 5 | 8.4 |
| 391.3 | Office Computers | 5.8 | 0 | 6.3 | 7.9 | 50.23 | * | 0 | 6.3 |
| 392 | Transportation Equip. | 1.4 | 10 | 12.9 | 3.0 | 62.10 | * | 10 | 9.3 |
| 394 | Tools, Shop & Garage Equip. | 4.8 | 0 | 5.5 | 15.8 | 22.24 | | 0 | 4.9 |
| 396 | Power Operated Equip. | 4.7 | 5 | 6.3 | 5.9 | 91.57 | | 5 | 0.6 |
| 397 | Communication Equip. | 4.5 | 0 | 8.3 | 3.7 | 77.03 | | 0 | 6.2 |

[1] Order No. PSC-13-0174-PAA-GU.

* Denotes occurrence of a Reserve Transfer.

**Denotes a Whole Life Depreciation Rate.

Attachment B

| Account Number | Account Title | Comparison of Expenses Current[1] Depreciation Rate (%) | Current[1] Annual Expense ($) | Staff Proposed Depreciation Rate (%) | Staff Proposed Annual Expense ($) | Change In Expense ($) |
|---|---|---|---|---|---|---|
| DISTRIBUTION PLANT | | | | | | |
| 375 | Structures & Improvements | 2.7 | $578 | 1.6 | 342 | (236) |
| 376.1 | Mains - Plastic | 3.4 | $36,860 | 3.2 | 34,692 | (2,168) |
| 376.2 | Mains - Steel | 3.3 | $100,521 | 3.1 | 94,429 | (6,092) |
| 378 | M&R Station Equip. - Distribution | 3.6 | $3,560 | 3.0 | 2,967 | (593) |
| 379 | M&R Station Equip. - City Gate | 3.0 | $13,772 | 2.5 | 11,477 | (2,295) |
| 380.1 | Services - Plastic | 3.4 | $22,160 | 2.9 | 18,901 | (3,259) |
| 380.2 | Services - Steel | 3.0 | $3,294 | 3.9 | 4,282 | 988 |
| 381 | Meters | 4.2 | $23,567 | 3.8 | 21,323 | (2,244) |
| 382 | Meter Installations | 4.8 | $3,477 | 3.0 | 2,173 | (1,304) |
| 383 | Regulators | 3.4 | $6,485 | 3.1 | 5,912 | (573) |
| 384 | Regulator Installations | 4.4 | $1,481 | 3.5 | 1,178 | (303) |
| 385 | Industrial M&R Equip. | 3.8 | $2,059 | 3.4 | 1,843 | (216) |
| 387 | Other Equipment | 11.4 | $1,596 | 7.1 | 0 | (1,596) |
| GENERAL PLANT | | | | | | |
| 390 | Structures & Improvements | 2.7 | $4,228 | 1.9 | 2,976 | (1,252) |
| 391.1 | Transportation Equip. | 7.4 | $556 | 1.7 | 128 | (428) |
| 391.2 | Office Devices | 12.6 | $2,687 | 8.4 | 1,791 | (896) |
| 391.3 | Office Computers | 6.3 | $4,686 | 6.3 | 4,686 | 0 |
| 392 | Transportation Equip. | 12.9 | $46,608 | 9.3 | 33,601 | (13,007) |
| 394 | Tools, Shop & Garage Equip. | 5.5 | $2,467 | 4.9 | 2,198 | (269) |
| 396 | Power Operated Equip. | 6.3 | $5,971 | 0.6 | 569 | (5,402) |
| 397 | Communication Equip. | 8.3 | $449 | 6.2 | 336 | (113) |
| | **Total** | | **287,064** | | **245,804** | **(41,258)** |

[1] Order No. PSC-13-0174-PAA-GU.