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Public Service Commission

May 1, 2023

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

Re: Docket No. 20230022-GU, Petition for approval of 2022 Depreciation Study by St. Joe Natural Gas Company, Inc.

Dear Ms. Stitt:

Staff has completed its report regarding St. Joe Natural Gas Company's current depreciation study. This report documents staff's preliminary positions concerning St. Joe's study. Please provide your response to the report by June 1, 2023. Specifically, please indicate whether St. Joe is in agreement or disagreement with staff's preliminary positions.

Should you have any questions, or need further information, please do not hesitate to contact me at (850) 413-7003.

Sincerely,

/s/ Lee Smith
Public Utilities Analyst

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2023 MAY -1 AM 11:52
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Attachment
cc: Charles A. Costin
Office of Public Counsel
Commission Clerk

Depreciation Study Report

General

Staff's average age calculations (Attachment C) are not in agreement with St. Joe Natural Gas Company's (St. Joe or Company) average age calculations in its 2022 Depreciation Study (2022 Study) for several accounts. Staff recalculated the age-weighted investment values for certain years which resulted in different average ages than the Company's 2022 Study.¹ Also, staff determined that St. Joe's as-proposed average remaining lives (ARL) were not calculated using retirement dispersion curves.² Staff applied the currently-approved Iowa-Type Survivor Curves³ to each of St. Joe's accounts in order to calculate the appropriate Average Remaining Life (ARL) values. Staff proposes to retain all but one of the currently-approved Average Service Lives (ASL) and all but four of the currently-approved Net Salvage (NS) values. Staff's proposed changes to St. Joe's ASLs and NS values, as well as Reserve Transfer amounts, are summarized in the tables immediately following this section. In general, the effects of staff's proposed depreciation parameters for calculating depreciation rates of St. Joe's plant were mixed, but the majority of staff's proposals resulted in greater rates of depreciation. Each account in which staff calculated a different average age is discussed in the following section, along with an account-by-account analysis and discussion related to the depreciation parameters for each account. 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 in Attachments A, B, and C located at the end of this report.

Proposed Average Service Life (years)			
Acct. No.	Account Title	Currently-Approved ASL	Proposed ASL
380.2	Services - Steel	53	55

Proposed Net Salvage (percentage)			
Acct. No.	Account Title	Currently-Approved Net Salvage	Proposed Net Salvage
380.1	Services - Plastic	(22)	(30)
380.2	Services - Steel	(40)	(50)
382	Meter Installations	(25)	(35)
384	Regulator Installations	(40)	(45)

¹ DN 02489-2023, No. 6

² DN 02489-2023, No. 2

³ Iowa-type survivor curves, a component of depreciation studies, are a standardized sets of curve shapes that visually represent asset retirement patterns and are commonly used by depreciation professionals to calculate the ARL for groups of utility assets.

Proposed Reserve Transfers (\$)		
Acct. No.	Account Title	Reserve Transfer Amount
376.2	Mains - Steel	(91,320)
380.1	Services - Plastic	96,138
387	Other Equipment	(4,818)

Staff's Initial Positions

The following section of this report refers to Exhibit A of St. Joe's 2022 Depreciation Study.

1. Account 375 – Buildings & Structures

As reflected in Exhibit A of the 2022 Study, this account has an average age of 7.3 years. The Company proposes retaining the currently-approved ASL of 40 years and (5) percent NS. Using these parameters with the S3 curve, an Average Remaining Life (ARL) of 32.7 years is calculated. This ARL value is then used to produce a remaining life depreciation rate of 2.7 percent for this account.

2. Account 376.1 – Main – Plastic

This account has an average age of 19.8 years. The Company proposes retaining the currently-approved 40-year ASL and NS of (30) percent. Using these parameters with the S3 curve, an ARL of 20.6 years is calculated. This ARL is then used to produce a remaining life depreciation rate of 3.2 percent for this account.

3. Account 376.2 – Mains – Steel

This account has an average age of 31.0 years. The Company proposes retaining the currently-approved 40-year ASL and NS of (30) percent. Using these parameters with the S3 curve, an ARL of 12.3 years is calculated. This ARL is then used to produce a remaining life depreciation rate of 3.0 percent for this account. Due to the reserve surplus associated with this account, staff proposes a reserve transfer of (\$91,320).

4. Account 378 – M&R Equipment – Distribution

This account has an average age of 25.4 years for this account. The Company proposes retaining the currently-approved 35-year ASL and NS of (5) percent. Using these parameters with the R3 curve, an ARL of 12.7 years is calculated. This ARL is then used to produce a remaining life depreciation rate of 2.7 percent for this account.

5. Account 379 – M&R Equipment – City Gate

This account has an average age of 30.2 years. The Company proposes retaining the currently-approved 35-year ASL and NS of (5) percent. Using these parameters with the

S3 curve, an ARL of 9.0 years is calculated. This ARL is then used to produce a remaining life depreciation rate of 1.9 percent for this account.

6. Account 380.1 – Services – Plastic

This account has an average age of 12.0 years. The Company proposes retaining the currently-approved 42-year ASL and NS of (22) percent. However, staff is proposing a (30) NS for this account. Using these parameters with the S3 curve, an ARL of 30.0 years is calculated. This ARL is then used to produce a remaining life depreciation rate of 3.1 percent for this account. Due to the reserve deficit associated with this account, staff proposes a reserve transfer of \$96,138.

7. Account 380.2 – Services – Steel

This account has an average age of 51.6 years. The currently-approved ASL is 53 years with a (40) percent NS. In the 2022 Study, St. Joe stated that inspections of the steel services show all lines to be in acceptable condition “with every indication of many years of service remaining.” In response to staff’s data request, the Company stated that an increase in the ASL was needed for this account due to the average age and condition of the assets.⁴ Staff agrees with the Company and proposes extending the ASL for this account to 55 years. Further, staff proposes decreasing⁵ the net salvage percentage from (40) percent to (50) percent. Based on these parameters, with a SQ curve, the resulting ARL for this account is 3.4 years. This ARL is then used to produce a remaining life rate of 8.0 percent.

8. Account 381 – Meters

This account has an average age of 14.8 years. The Company proposes retaining the currently-approved 25-year ASL and NS of 0 percent. Based on these parameters with the R4 curve, an ARL of 10.7 years is calculated. This ARL is then used to produce a remaining life depreciation rate of 3.9 percent for this account.

9. Account 382 – Meter Installations

This account has an average age of 18.0 years. The Company proposes retaining the currently-approved 40-year ASL and NS of (25) percent. However, staff is proposing to reduce the NS to (35) percent. Using these parameters with the S2 curve, an ARL of 22.9 years is calculated. This ARL is then used to produce a remaining life depreciation rate of 3.9 percent for this account.

10. Account 383 – Regulators

This account has an average age of 16.7 years. The Company proposes retaining the currently-approved 30-year ASL and NS of 0 percent. Using these parameters with the R4 curve, an ARL of 13.8 years is calculated. This ARL is then used to produce a remaining life depreciation rate of 3.3 percent for this account.

⁴ DN 02489-2023, No. 4

⁵ Decreasing an account’s NS value (less positive or more negative) increases the amount of money that will be collected to fully retire an asset.

11. Account 384 – Regulator Installations

This account has an average age of 11.6 years. The Company proposes retaining the currently-approved 40-year ASL and NS of (40) percent. However, staff is proposing reducing the NS for this account to (45) percent. Using these parameters with the S3 curve, an ARL of 28.4 years is calculated. This ARL is then used to produce a remaining life depreciation rate of 3.9 percent for this account.

12. Account 385 – Industrial M&R Equipment

This account has an average age of 11.5 years. The Company proposes retaining the currently-approved 30-year ASL and NS of (5) percent. Using these parameters with the S4 curve, an ARL of 18.5 years is calculated. This ARL is then used to produce a remaining life depreciation rate of 3.7 percent for this account.

13. Account 387 – Other Equipment

In St. Joe's 2017 Depreciation Study (2017 Study), the Commission approved a 7.1 percent whole-life rate to any new assets booked to this account. Staff notes that no new investments have been booked to this account since the 2017 Study. However, St. Joe continued booking depreciation expense to this account which has resulted in a \$4,818 reserve surplus. Therefore, staff proposes a reserve transfer of (\$4,818) to eliminate the reserve surplus. Staff further proposes that the Company cease booking depreciation expense to this account as of January 1, 2023, and until such time as new investments are booked to this account. Staff proposes retaining the 7.1 percent whole-life rate for any new investments booked to this account. This rate is based on a 14-year ASL with a 0 percent NS.

14. Account 390 – Structures & Improvements

Exhibit A reflects an average age of 25.8 years for this account. However, staff's calculation resulted in an average age of 29.75 years. The Company proposes retaining the currently-approved 40-year ASL and NS of 0 percent. Using these parameters with the R3 curve, an ARL of 16.9 years is calculated. This ARL is then used to produce a remaining life depreciation rate of 1.8 percent for this account.

15. Account 391.1 – Office Furniture

This account has an average age of 13.7 years. The Company proposes retaining the currently-approved 15-year ASL and NS of 0 percent. Using these parameters with the S2 curve, an ARL of 4.4 years is calculated. This ARL is then used to produce a remaining life depreciation rate of 6.6 percent for this account.

16. Account 391.2 – Office Devices

This account has an average age of 4.7 years. The Company proposes retaining the currently-approved 8-year ASL and NS of 5 percent. Using these parameters with the S1 curve, an ARL of 4.2 years is calculated. This ARL is then used to produce a remaining life depreciation rate of 12.0 percent for this account.

17. Account 391.3 – Office Computers

This account has an average age of 10.3 years. The Company proposes retaining the currently-approved 16-year ASL and NS of 0 percent. Using these parameters with the S3 curve, an ARL of 6.3 years is calculated. This ARL is then used to produce a remaining life depreciation rate of 7.6 percent for this account.

18. Account 392 – Transportation Equipment

This account has an average age of 5.9 years. The Company proposes retaining the currently-approved 7-year ASL and NS of 10 percent. Using these parameters with the S2 curve, an ARL of 2.3 years is calculated. This ARL is then used to produce a remaining life depreciation rate of 16.9 percent for this account.

19. Account 394 – Tools, Shop, & Garage

This account has an average age of 7.2 years. The Company proposes retaining the currently-approved 20-year ASL and NS of 0 percent. Using these parameters with the S3 curve, an ARL of 12.9 years is calculated. This ARL is then used to produce a remaining life depreciation rate of 4.9 percent for this account.

20. Account 396 – Power Operated Equipment

In the current Depreciation Study, Exhibit A reflects an average age of 4.5 years for this account. In response to staff's data request, the Company stated that this number is a typo.⁶ St. Joe confirmed the correct average age for this account is 10.7 years. The Company proposes retaining the currently-approved 15-year ASL and NS of 5 percent. Using these parameters with the S4 curve, an ARL of 4.6 years is calculated. This ARL is then used to produce a remaining life depreciation rate of 6.4 percent for this account.

21. Account 397 – Communication Equipment

This account has an average age of 4.5 years. The Company proposes retaining the currently-approved 12-year ASL and NS of 0 percent. Using these parameters with the S3 curve, an ARL of 7.5 years is calculated. This ARL is then used to produce a remaining life depreciation rate of 20.3 percent for this account.

⁶ DN 02489-2023

Comparison of Rates and Components								
Acct. No.	Account Title	Current ¹			Staff Recommended			
		Average Remaining Life (yrs)	Future Net Salvage (%)	Remaining Life Rate (%)	Average Remaining Life (yrs)	Theoretical Reserve (%)	Future Net Salvage (%)	Remaining Life Rate (%)
Distribution Plant								
375	Buildings & Improvements	10.8	(5)	1.6	32.7	19.09	(5)	2.7
376.1	Mains - Plastic	19.4	(30)	3.2	20.6	63.07	(30)	3.2
376.2	Mains - Steel	15.4	(30)	3.1	12.3	90.18 *	(30)	3.0
378	M&R Equip. - Distribution	15.6	(5)	3.0	12.7	66.83	(5)	2.7
379	M&R Equip - City Gate	11.9	(5)	2.5	9.0	77.99	(5)	1.9
380.1	Services - Plastic	25.0	(22)	2.9	30.0	37.06 *	(30)	3.1
380.2	Services - Steel	6.1	(40)	3.9	3.4	140.82	(50)	8.0
381	Meters	11.5	0	3.8	10.7	57.01	0	3.9
382	Meter Installations	15.3	(25)	3.0	22.9	57.57	(35)	3.9
383	Regulators	12.0	0	3.1	13.8	53.85	0	3.3
384	Regulator Installations	18.4	(40)	3.5	28.4	42.13	(45)	3.9
385	Industrial M&R Equipment	24.0	(5)	3.4	18.5	40.19	(5)	3.7
387	Other Equipment	8.8	0	7.1	0.0	100.00 *	0	0.0
General Plant								
390	Structures & Improvements	16.8	0	1.9	16.9	57.66	0	1.8
391.1	Office Furniture	4.4	0	1.7	4.4	70.67	0	6.6
391.2	Office Devices	4.1	5	8.4	4.2	45.19	5	12.0
391.3	Office Computers	7.9	0	6.3	6.3	60.76	0	7.6
392	Transportation Equipment	3.0	10	9.3	2.3	60.93	10	16.9
394	Tools, Shop & Garage Equipment	15.8	0	4.9	12.9	35.74	0	4.9
396	Power Operated Equipment	5.9	5	0.6	4.6	65.82	5	6.4
397	Communication Equipment	3.7	0	6.2	7.5	37.30	0	20.3

¹ Order No. PSC-2018-0368-PAA-GU

* Denotes a Reserve Transfer

Comparison of Expenses						
Account No.	Account Title	Current		Staff Recommended		
		Depreciation Rate (%)	Annual Expense (\$)	Depreciation Rate (%)	Annual Expense (\$)	Change In Expense (\$)
Distribution Plant						
375	Buildings & Improvements	1.6	2,628	2.7	4,435	1,807
376.1	Mains - Plastic	3.2	47,093	3.2	47,093	(0)
376.2	Mains - Steel	3.1	95,243	3.0	92,170	(3,073)
378	M&R Equip. - Distribution	3.0	3,103	2.7	2,793	(310)
379	M&R Equip - City Gate	2.5	11,477	1.9	8,722	(2,755)
380.1	Services - Plastic	2.9	30,311	3.1	32,402	2,091
380.2	Services - Steel	3.9	3,675	8.0	7,538	3,863
381	Meters	3.8	26,901	3.9	27,609	708
382	Meter Installations	3.0	3,459	3.9	4,497	1,038
383	Regulators	3.1	7,738	3.3	8,237	499
384	Regulator Installations	3.5	2,551	3.9	2,842	291
385	Industrial M&R Equipment	3.4	1,759	3.7	1,914	155
387	Other Equipment	7.1	956	7.1	0	(956)
	TOTAL DISTRIBUTION PLANT		236,894		240,252	3,358
General Plant						
390	Structures & Improvements	1.9	3,385	1.8	3,207	(178)
391.1	Office Furniture	1.7	185	6.6	720	535
391.2	Office Devices	8.4	1,904	12.0	2,721	817
391.3	Office Computers	6.3	5,751	7.6	6,937	1,186
392	Transportation Equipment	9.3	43,994	16.9	79,946	35,952
394	Tools, Shop & Garage Equipment	4.9	2,837	4.9	2,837	(0)
396	Power Operated Equipment	0.6	664	6.4	7,086	6,422
397	Communication Equipment	6.2	87	20.3	286	199
	TOTAL GENERAL PLANT		58,808		103,740	44,932

Current and Proposed Depreciation Components							
Account No.	Account Title	Current		Staff Proposed			
		Curve Type	Average Service Life	Curve Type	Average Service Life	Age	
Distribution Plant							
375	Buildings & Improvements	S3	40	S3	40	7.3	
376.1	Mains - Plastic	S3	40	S3	40	19.8	
376.2	Mains - Steel	S3	40	S3	40	31.0	
378	M&R Equip. - Distribution	R3	35	R3	35	25.4	
379	M&R Equip - City Gate	S3	35	S3	35	30.2	
380.1	Services - Plastic	S3	42	S3	42	12.0	
380.2	Services - Steel	SQ	53	SQ	55	51.6	
381	Meters	R4	25	R4	25	14.8	
382	Meter Installations	S2	40	S2	40	18.0	
383	Regulators	R4	30	R4	30	16.7	
384	Regulator Installations	S3	40	S3	40	11.6	
385	Industrial M&R Equipment	S4	30	S4	30	11.5	
387	Other Equipment		14		14		
General Plant							
390	Structures & Improvements	R3	40	R3	40	25.8	
391.1	Office Furniture	S2	15	S2	15	13.7	
391.2	Office Devices	S1	8	S1	8	4.7	
391.3	Office Computers	S3	16	S3	16	10.3	
392	Transportation Equipment	S2	7	S2	7	5.9	
394	Tools, Shop & Garage Equipment	S3	20	S3	20	7.2	
396	Power Operated Equipment	S4	15	S4	15	10.7	
397	Communication Equipment	S3	12	S3	12	4.5	