

State of Florida



# Public Service Commission

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**-M-E-M-O-R-A-N-D-U-M-**

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COMMISSION CLERK

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**DATE:** January 23, 2012  
**TO:** Ann Cole, Commission Clerk, Office of Commission Clerk  
**FROM:** Suzanne M. Ollila, Economic Analyst, Division of Economic Regulation *SMO*  
**RE:** Docket No. 110232-GU – Peoples Gas System’s Petition for Approval of its 2011 Depreciation Study

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Please place the attached enclosure (Peoples Gas System’s Responses to the Commission Staff’s Data Requests) in the above docket file.

If you have any questions, please do not hesitate to let me know. Thank you.

Enclosure

DOCUMENT NUMBER-DATE  
00434 JAN 23 2012  
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January 19, 2012

## VIA FEDEX

Dave Dowds  
Supervisor, Cost Analysis Section  
Division of Economic Regulation  
Florida Public Service Commission  
2540 Shumard Oak Boulevard  
Tallahassee, Florida 32399-0850

**Re: Docket No. 110232-GU – Peoples Gas System's Petition for Approval  
of its 2011 Depreciation Study**

Dear Mr. Dowds:

Enclosed please find three (3) copies of Peoples Gas System's Responses to the Commission Staff's Data Requests, the requests having been transmitted to Peoples by your letter dated December 1, 2011.

Please let me know in the event you have any questions.

Sincerely,



ANSLEY WATSON, JR.

AWjr/a  
Enclosures

cc: Ms. Paula K. Brown  
Ms. Kandi M. Floyd

2 JAN 20 PM 1:41  
COMMISSION OF REGULATION  
FLORIDA PUBLIC SERVICE

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PEOPLES GAS SYSTEM  
DOCKET NO. 110232-GU  
STAFF'S DATA REQUEST  
REQUEST NO. 1  
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**1. Reserve Transfers**

PGS' proposed reserve transfers result in the reserves for all accounts being brought to their theoretical levels (based on PGS' proposed inputs to depreciation rates) except for Accounts 376 (Mains – Steel), 376.02 (Mains – Plastic), 380 (Services – Steel), and 380.02 (Services – Plastic).

- a. Please explain PGS' philosophy with regard to reserve transfers when there is insufficient reserve to bring every account to its theoretical level.
  - b. To the extent not already answered, please explain why PGS did not bring any of the mains and services accounts to its theoretical reserve.
  - c. Is \$6,150,000 still the correct amount to transfer into the reserve per Order No. PSC-11-0111-PAA-GU, issued February 10, 2011 in Docket No. 100462-GU and the letter dated June 17, 2011 from Jeffrey S. Chronister to Marshall Willis in the same docket?
- A.**
- a. PGS' actual filed reserve balance, in the aggregate, is theoretically deficient (\$16.7 million). Without proposing reserve transfers, some accounts would have negative depreciation rates or inappropriate rates that are out of line with the whole life comparison. Using the remaining life method, the depreciation formulas correct for theoretical deficiencies or surpluses having slightly higher or lower annual accruals. The company chose to put the ancillary / support accounts to their theoretical level, while spreading the aggregate (\$16.7 million) deficiency among the primary distribution pipe accounts (Mains and Services). The assets in these four pipe accounts (376.00, 376.02, 380.00, 380.02) make up 78 percent of the \$1.1 billion gross plant balance, 79 percent of the \$509.7 million actual reserve balance and carry a (\$27.7 million) theoretical deficiency before reserve transfers. These four accounts are most susceptible to increases in cost of removal and lack of salvage due to the material composition of the pipe (plastic or steel) creating the potential for increased theoretical reserve deficiencies in future depreciation studies. In addition, this philosophy helps to stabilize future rate making by minimizing large fluctuations in future depreciation accruals.
  - b. See response to 1a.

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c. Yes.

**2. Remaining Life Calculation**

Staff spot-checked a few of the Company's remaining life calculations and found some differences. In Table 1, staff compares its calculation of remaining lives with PGS' calculation, including a column that subtracts staff's remaining lives from PGS' remaining lives. In order to calculate remaining life, staff inputs the average service life, curve, and age into an Excel-based program. Staff verified its program by calculating remaining lives using the Iowa Curve Projected Life Tables, finding occasional minimal differences (0.3 year or less) between the two.

The vast majority of the differences between staff and the Company are one year or less. Staff is willing to accept PGS' calculation of the remaining life for each account where the difference is one year or less. However, there are seven accounts where the difference is greater than one year. We request that the Company explain the reason for the differences and provide any proposals to address the differences for the seven accounts that have differences greater than one year. These accounts are bolded in Table 1.

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Table 1: Comparison of Remaining Life Calculations

Account No.	Account Name	Staff's Remaining Life Results	Peoples Gas' Remaining Life Results	Difference
374.02	Land Rights	59	59	0
375.00	Structures and Improvements	26	27	1.0
376	Steel Mains	24	25	1.0
376.02	Plastic Mains	29	30	1.0
378	Measuring & Regulating – General	25	25	0
379	Measuring & Regulating – City Gate	25	25	0
<b>380</b>	<b>Steel Services</b>	<b>10.9</b>	<b>13.6</b>	<b>2.7</b>
380.02	Plastic Services	21	21	0
381	Meters	10.4	11.1	0.7
<b>382</b>	<b>Meter Installations</b>	<b>15.4</b>	<b>16.5</b>	<b>1.1</b>
383	House Regulators	16.3	17.1	0.8
384	House Regulator Installations	16.0	16.6	0.6
385	M & R Station	15.3	15.7	0.4
387	Other Equipment	8.9	9.9	1.0
390	Structures and Improvements	36	36	0
391	Office Furniture	11.9	12.4	0.5
391.01	Computer Equipment	2.5	3.1	0.6
391.02	Office Equipment	7.2	7.8	0.6
392.01	Vehicles up to ½ Ton	4.3	4.8	0.5
392.02	Vehicles from ½ Ton – 1 Ton	3.0	3.3	0.3
<b>392.04</b>	<b>Trailers and Others</b>	<b>5.9</b>	<b>7.1</b>	<b>1.2</b>
<b>392.05</b>	<b>Vehicles over 1 Ton</b>	<b>3.2</b>	<b>4.7</b>	<b>1.5</b>
<b>393</b>	<b>Stores Equipment</b>	<b>1.4</b>	<b>2.5</b>	<b>1.1</b>
<b>394</b>	<b>Tools, Shop &amp; Garage Equipment</b>	<b>6.5</b>	<b>7.8</b>	<b>1.3</b>
395	Laboratory Equipment	8.2	8.3	0.1
<b>396</b>	<b>Power Operated Equipment</b>	<b>4.0</b>	<b>5.8</b>	<b>1.8</b>
397	Communication Equipment	4.0	5.0	1.0
398	Miscellaneous Equipment	6.6	7.1	0.5

- A. PGS has not had access to nor reviewed the data inputs to the Staff's Excel model that is re-performing the calculations of the company's licensed Depreciation Valuation program. The company reviewed its data inputs and found no errors in the processing of its program. This program has been widely used in the utility industry and accepted by this Commission in previous depreciation study filings.

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Because PGS has not reviewed the results of the Staff Excel model, it cannot respond to the request to "explain the reason for the differences." If Staff were willing to provide PGS with their model, perhaps the differences could be explained. PGS does note that two of the bolded accounts on the staff table above have differences of 1.1, one of 1.2, one of 1.3 and another of only 1.5, which are very close to the 1.0 cutoff for Staff acceptance of the PGS-derived remaining lives.

The company's use of Staff's calculated remaining lives for the bolded accounts would result in an increase to the company's 2012 proposal of \$941,407 and that would result in an increase in annual depreciation expense of \$802,208 over the expense under the current approved rates.

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3. **Distribution**

- a. Account 374.02 – Land Rights – Please indicate the currently approved average service life, average remaining life, net salvage, reserve dollars, and remaining life rate for this account. In addition, if possible, please identify the docket number and order number that addressed the above values.
  
  - b. Account 386 – Other Property Customer Premise – Please refer to PGS' response to staff's First Data Request, No. 31. According to this response, PGS stated that it "does not expect to use this account in the future." Please explain why PGS believes it is appropriate to retain this account, and why the Commission should set depreciation parameters for an account for which the Company has no identified investment plans. Staff notes that, if there were investment or investment plans for this account, an average service life of 15 years would have been appropriate.
- A.
- a. To the company's knowledge, the group Account 374 has never been filed with the Commission in previous depreciation studies and thus these values have not been approved by the Commission in a previous order. During production of the 2011 filing, the company recognized that Account 374.02 Land Rights is a depreciable account and not Non-Depreciable Land in Account 374.00.
  
  - b. PGS proposed to retain this account on the basis of "just in case", in other words if this account became needed to be used it would then be available with an approved life. The company has no strong opinion regarding this position and is willing to accept a Staff recommendation that might reject this account until there are investments or investment plans for it.



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4. General

- a. Account 392.02 – Airplanes – PGS states in its study that the airplane was retired in 2009. Currently, there are no assets in this account and PGS apparently has no plans for additional investment. Please explain why PGS believes it is appropriate to retain this account, and why the Commission should set depreciation parameters for an account for which the Company has no identified investment plans.
  
- A. The company agrees with Staff, Account 392.02 should be closed.