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IN REPLY REFER TO:

Ansley Watson, Jr.
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July 5, 2012

VIA FEDEX

Ann Cole
Commission Clerk
Florida Public Service Commission
2540 Shumard Oak Boulevard
Tallahassee, Florida 32399-0850

RECEIVED-FPSC
12 JUL -6 PM 2:11
COMMISSION
CLERK

Re: Docket No. 110320-GU -- Petition for approval of Cast Iron/Bare Steel Pipe Replacement Rider (Rider CI/BSR), by Peoples Gas System

Dear Ms. Cole:

Enclosed for filing with the Commission on behalf of Peoples Gas System, please find the original and five (5) copies of Peoples' responses to the Commission Staff's Fifth Data Request dated June 22, 2012 in the above docket.

Please acknowledge your receipt of the enclosures on the enclosed copy of this letter, and return the same to me in the enclosed preaddressed envelope.

Thank you for your usual assistance.

Sincerely,



Ansley Watson, Jr.

ECO 1
ENG 1 AWjr/a
AFD 2 Enclosures
COM _____
APA _____ cc: Martha C. Brown, Esquire
ECR _____ Charles J. Rehwinkel, Esquire
GCL 1 Ms. Kandi M. Floyd
RAD _____
SRC _____
ADM _____
OPC _____
CLK _____

DOCUMENT NUMBER-DATE
04500 JUL -6 02
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PEOPLES GAS SYSTEM
DOCKET NO. 110320-GU
STAFF'S FIFTH DATA REQUEST
REQUEST NO. 1
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1. Referring to Peoples responses to items 8 and 9 of staff's 4th data request, Peoples has described the process of how it intends to shift the capital investments from the CI/BSR surcharge mechanism into base rates by including them in rate base during a future rate case. However, in response to item 9, the Company appears to definitively state that the surcharge mechanism would terminate "when all applicable cast iron and bare steel mains and services are replaced."
 - A) Does Peoples anticipate filing a rate case upon the completion of the CI/BSR program?
 - B) If Peoples does not anticipate filing a rate case upon the completion of the CI/BSR program, does Peoples intend to seek recovery of any carrying costs related to the capital investments from the CI/BSR program until such time as the Company would be able to shift any unamortized balance of the CI/BSR program into rate base?
 - C) Or, does Peoples intend to continue use of the surcharge mechanism until such time as all of the unamortized CI/BSR capital investments have been shifted into rate base, regardless of the completion date of the CI/BSR program?
- A.
 - a. No, not at this time. Completion of the CI/BSR program is not intended to be an automatic "trigger" for the filing of a rate case. Whether Peoples would file a rate case – either during the period the program is in effect, or upon completion of the program – would be based on the Company's consideration of the facts and circumstances typically considered when determining whether the filing of a petition for rate relief is warranted (e.g., current and projected net operating income, return on equity, etc.) Please see Peoples' revised response to Staff's Fourth Data Request, No. 9, as filed on July 2, 2012.
 - b. Yes, but see Peoples' revised response to Staff's Fourth Data Request, No. 9, as filed on July 2, 2012.
 - c. Yes, but see Peoples' revised response to Staff's Fourth Data Request, No. 9, as filed on July 2, 2012.

DOCUMENT NUMBER-DATE

04500 JUL -6 2012

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2. Please explain how Peoples chose a 10-year replacement program, as opposed to e.g., a 15- or 20-year replacement program.
 - A. Peoples' goal is to replace the eligible cast iron and unprotected bare steel materials in its system in an efficient, productive, safe and cost-effective manner. After consideration of several factors including customer rate impact, contractor and employee availability and workload, Peoples believed a 10 year time frame was a reasonable projection to complete the replacement program. While Peoples anticipates a completion date of 10 years from the program's commencement, completion could be sooner or later than the projected 10 years.

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3. How does Peoples plan to assess the effectiveness of the proposed rider to improve safety if the program is approved and implemented?

A. While Peoples believes its system and all the pipe comprising it is safe, with the recent national tragic incidents, Peoples believes now is an appropriate time to implement this program which will enable the Company to accelerate the replacement of the aged and aging cast iron and bare steel pipes in its system. As stated in paragraph 13 of Peoples' petition:

. . . with only \$1 million per year targeted for the replacement of this aged and aging pipe, it would take over 70 years to replace all of it at the rate contemplated by the expenditure included in Peoples' last rate case. For public perception and potential liability reasons alone, Peoples believes it is appropriate to accelerate the pace for replacement of this aging infrastructure to more appropriately continue to provide for the safety of its system and guard against the occurrence of an incident such as those recently reported in the news media. . . .

Peoples believes the effectiveness of the program should be readily apparent based on the sheer fact that the use of better quality materials than those installed pre-1970 will result in an even safer system in the areas replaced, while addressing public perception and potential liability concerns within an estimated 10 years, rather than the estimated 70 years it might take absent approval of this program. Peoples will continue to assess the safety of its system (including the replacement infrastructure) in accordance with its Standard Operating Procedures and applicable state and federal safety rules.

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- 4.** Please refer to the response in staff's first data request no. 11 and provide the historical main replacement costs Peoples used to determine the projected \$8 million annual replacement costs.

- A.** The projected \$8 million in annual replacement costs was calculated by taking PGS's remaining linear miles of cast iron and bare steel pipe and multiplying those miles by the projected costs associated with replacing the cast iron and bare steel pipe using contractor pricing for the company's east and west regions. The historical review of main replacement costs referenced in Peoples response to Staff's First Data Request No. 11, filed on March 9, 2012 was the 2011 data by region provided in the company's response to Staff's First Data Request No. 19, filed on March 9, 2012. Only 2011 data was utilized as it represented the most up-to-date data available to project costs forward through 2021. As noted in the response to No. 11 the total projected costs to replace all remaining cast iron and bare steel pipe for both regions amounts to \$72.3 million but a 10 percent contingency was added to arrive at the \$80 million estimate over a ten year period. These costs are only estimates, and the actual costs could be more or less than estimated. Only the actual capital expenditures made would be included for recovery through the rider mechanism of a return on investment and associated depreciation and ad valorem tax expense.

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5. Please refer to the response in staff's fourth data request no. 5 and explain why Peoples is not proposing to use any quantifiable O&M reductions (e.g., \$80 thousand reductions in survey expense) to offset the revenue requirement of the proposed replacement program.
 - A. The response to data request No. 5 included an estimate of the electrical survey cost that will be eliminated because of the replacements of cast iron and bare steel materials in Peoples system. Peoples anticipates that other O&M reductions will occur naturally because the new materials installed will have less maintenance requirements, however those costs are not completely quantifiable at this time. While the electrical survey component will be an O&M reduction, Peoples would request the Commission to consider that the Company is annually excluding recovery of \$1 million for capital replacements each year before any other capital investments are included for purposes of the recovery permitted by the clause, which Peoples believes to be an adequate contribution to offset any O&M reductions which occur as a result replacing the cast iron and bare steel pipes.

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- 6.** Will Peoples physically remove piping replaced under the proposed replacement program or leave the facilities in the ground?
 - A.** Generally, Peoples will not physically remove existing cast iron and bare steel pipe if not required to do so as a result of an agency or jurisdictional mandate. Any cost of removal incurred as a result of removing existing cast iron and bare steel will not be included in the rider.

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7. How many leaks, by cause, have occurred annually in bare unprotected steel and cast iron pipeline, respectively, during the past 10 years?

A. See table that provides the annual number of leaks by cause for cast iron and bare steel pipe. Peoples' records only contain data available since 2005.

Leak Count

Cast Iron	Bare Steel	Cause	Calendar Year
28	188	Corrosion	2005
1	15	Equipment	2005
38	142	Excavation	2005
38	54	Material and Welds	2005
4	19	Natural Forces	2005
60	67	Other	2005
1	12	Outside Force Damage	2005
42	126	Corrosion	2006
0	5	Equipment	2006
36	140	Excavation	2006
22	44	Material and Welds	2006
2	14	Natural Forces	2006
0	2	Operations	2006
117	35	Other	2006
2	17	Outside Force Damage	2006
17	144	Corrosion	2007
2	13	Equipment	2007
32	93	Excavation	2007
33	66	Material and Welds	2007
12	16	Natural Forces	2007
0	2	Operations	2007
49	23	Other	2007
0	5	Outside Force Damage	2007
17	178	Corrosion	2008
3	16	Equipment	2008
6	91	Excavation	2008
22	86	Material and Welds	2008
0	2	Natural Forces	2008

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Leak Count

Cast Iron	Bare Steel	Cause	Calendar Year
0	3	Operations	2008
56	33	Other	2008
1	8	Outside Force Damage	2008
5	101	Corrosion	2009
5	12	Equipment	2009
9	78	Excavation	2009
78	45	Material and Welds	2009
0	4	Natural Forces	2009
0	5	Operations	2009
20	54	Other	2009
1	7	Outside Force Damage	2009
2	156	Corrosion	2010
12	46	Equipment	2010
3	75	Excavation	2010
66	82	Material and Welds	2010
0	5	Natural Forces	2010
0	3	Operations	2010
16	115	Other	2010
1	2	Outside Force Damage	2010
2	137	Corrosion	2011
3	29	Equipment	2011
3	78	Excavation	2011
103	37	Material and Welds	2011
0	6	Natural Forces	2011
0	1	Operations	2011
9	79	Other	2011
0	3	Outside Force Damage	2011