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December 15, 2016

VIA E-PORTAL FILING

Ms. Carlotta S. Stauffer
Commission Clerk
Florida Public Service Commission
2540 Shumard Oak Boulevard
Tallahassee, Florida 32399-0850

Re: Docket No. 160159-GU – Petition for approval of 2016 depreciation study by Peoples Gas System

Dear Ms. Stauffer:

Attached for filing with the Commission in the above docket on behalf of Peoples Gas System (“Peoples”) and the Office of Public Counsel (“OPC”), please find Peoples’ and OPC’s Joint Motion Seeking Commission Approval of Settlement Agreement. (The Settlement Agreement between Peoples and OPC is attached as Attachment 1 to the motion.)

We appreciate your usual assistance.

Sincerely,

ANSLEY WATSON, JR.

AWjr/a
Attachment

Ms. Carlotta S. Stauffer
December 15, 2016
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cc: Walter Trierweiler, Esquire
J. R. Kelly, Esquire
Charles Rehwinkel, Esquire
Stephanie Morse, Esquire
Ms. Kandi M. Floyd

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

In re: Petition for approval of 2016)
Depreciation Study by Peoples Gas)
System.)
_____)

Docket No. 160159-GU

Submitted for Filing:
12-15-16

**JOINT MOTION SEEKING COMMISSION
APPROVAL OF SETTLEMENT AGREEMENT**

Peoples Gas System ("PGS" or the "Company") and the Office of Public Counsel ("OPC") (together, the "Parties") file this joint motion requesting the Florida Public Service Commission to approve the attached Settlement Agreement. In support of this joint motion, the Parties submit the following:

1. The Parties have entered into a Settlement Agreement to settle all issues in this docket that avoids the time, expense and uncertainty associated with adversarial litigation, and in keeping with the Commission's long-standing policy and practice of encouraging parties in contested proceedings to settle issues whenever possible. The Settlement Agreement is attached to this joint motion as Attachment 1.

2. The Parties believe that the Settlement Agreement is in the public interest and therefore request that the Commission accept and approve it expeditiously as filed, and that this docket be closed. The Parties further request that the order approving the Settlement Agreement state that it resolves all matters that were or might have been addressed in this docket and the other issues identified in the Settlement Agreement.

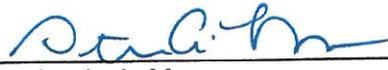
WHEREFORE, the Parties respectfully request that the Commission issue an order (i) approving the attached Settlement Agreement, (ii) stating that the attached Settlement Agreement is in the public interest, and (iii) stating that it resolves all matters that were or might have been addressed in this docket and the other issues identified in the Settlement Agreement.

Respectfully submitted this 15th day of December, 2016.



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Attorneys for the Citizens of the State of Florida

CERTIFICATE OF SERVICE

WE HEREBY CERTIFY that a copy of the forgoing Joint Motion has been furnished by electronic mail this 15th day of December, 2016, to J.R. Kelly, Esquire, Charles Rehwinkel, Esquire, and Stephanie A. Morse, Esquire, Office of Public Counsel, c/o The Florida Legislature, 111 W. Madison St., Room 812, Tallahassee, Florida 32399-1400, and to Walter Trierweiler, Esquire, Office of General Counsel, Florida Public Service Commission, 2540 Shumard Oak Boulevard, Tallahassee, Florida 32399-0850.



Ansley Watson, Jr.

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

In re: Petition for approval of 2016)
Depreciation Study by Peoples Gas)
System.)
_____)

Docket No. 160159-GU

Submitted for Filing:
12-15-16

SETTLEMENT AGREEMENT

Pursuant to Section 120.57(4), *Florida Statutes*, Peoples Gas System (“PGS” or the “Company”) and the Office of Public Counsel (“OPC”) (together, the “Parties”) have entered into this Settlement Agreement to reach an informal disposition and complete a binding resolution of any and all matters and issues that were or might have been addressed by the Commission in Docket No. 160159-GU. It also covers other matters over which the Commission has jurisdiction. This Settlement Agreement avoids the time, expense and uncertainty associated with adversarial litigation, in keeping with the Commission’s longstanding policy and practice of encouraging parties in contested proceedings to settle issues whenever possible. The terms of this Settlement Agreement are as follows:

BACKGROUND

PGS’s 2016 Depreciation Study

1. PGS, as required by Rule 25-7.045, *F.A.C.*, filed its 2016 Depreciation Study with the Commission on June 28, 2016, resulting in the opening of this docket. The petition sought approval for new depreciation rates resulting in a \$4,918,980 overall reduction in annual depreciation expense for 2016, and for certain reserve transfers. OPC filed a Notice of Intervention in this docket on August 4, 2016.

2. The Parties and Commission Staff participated in an informal meeting in Tallahassee on October 11, 2016, during which the Company provided answers to certain questions regarding its study. On October 14, 2016, PGS filed amended pages to its study which would have resulted in a reduction to its 2016 annual depreciation expense of

\$6,845,565.

3. On October 25, 2016, PGS filed responses to follow-up questions posed by Commission Staff at the informal meeting, as well as further amended pages to its study. As of the filing made on October 25, 2016, the reduction in the Company's annual depreciation expense for 2016 would have been \$8,453,154 if the new rates for which approval was sought were implemented as of January 1, 2016.

4. On November 4, 2016, OPC filed a preliminary report by its consultant, David Garrett, whose analyses and the rates resulting therefrom suggested that the annual depreciation expense proposed by PGS as of its October 25 filing should be reduced by an additional \$20,087,410.

Annual Accrual to PGS's Environmental Reserve Account

5. PGS was first permitted to recover costs associated with the assessment, monitoring and remediation/cleanup of environmental contaminants produced by old manufactured gas plants ("MGPs") by the Commission's Order No. 16313, issued July 8, 1986 in Docket No. 850811-GU. In that order referring to MGP sites, the Commission stated:

. . . . If possible, the ratepayer should pay anticipated removal costs while these plants are in use as is this Commission's policy with decommissioning of nuclear power plants. However, waste cleanup may not have been anticipated while in use and in this case the need for such cleanup is more likely to be discovered after the facility is retired from use.

Specifically addressing a PGS MGP site in North Miami, the Commission noted:

. . . . It is in the public interest that the utility cooperates to clean up hazardous wastes. Staff is of the opinion that these costs (\$1,200,000) are normal ongoing, utility business expenses. To avoid unduly burdening the ratepayer and to allow for review of these expenses in future rate cases, these costs have been amortized over a five-year period. Amortization expenses are therefore reduced by \$160,000 in the attrition year to account for this five year amortization.

Since there are several other potentially sensitive sites on the Company's system and it is expected that these expenditures will be required on a continuing basis for several years, the Company agrees that any litigation resulting in

recovery of these expenses from previous owners of the plant sites will be reviewed by this Commission for inclusion in the setting of revenue requirements. (Order No. 16313 at pages 13-14)

The five-year amortization approved by Order No. 16313 resulted in an annual amortization of \$240,000.

6. The annual amortization of environmental costs associated with Peoples' MGP sites was increased from \$240,000 to \$1,248,000 by the Commission's Order No. 23858 (Docket No. 891353-GU), and continued at that level after the Company's next rate case in Docket No. 911150-GU pursuant to Commission Order No. PSC-92-0924-FOF-GU, issued September 3, 1992.

7. In 1993, in connection with the Commission's investigation into the authorized returns on equity ("ROE") for PGS and other Florida local distribution companies, PGS's authorized ROE was reduced from 12.0% to 11.25% (plus or minus 100 basis points) for all regulatory purposes effective January 1, 1994. By the same order, the Commission authorized PGS to fully amortize the \$2,495,000 balance of its environmental costs by September 30, 1994. Order No. PSC-93-1773-FOF-GU (Docket No. 931101-GU).

8. In Docket No. 971310-GU, the Commission initiated a review of PGS's earnings. By its final order in that docket, the Commission, among other things, ordered several adjustments to the Company's past amortization of environmental costs, and also ordered that the Company's 1996 overearnings of \$973,572 be credited to its deferred environmental costs account effective December 31, 1996 for regulatory purposes. In addition, the Commission found that PGS had been deferring all environmental costs since September 30, 1994 -- instead of expensing them -- and ordered that the Company expense all environmental costs as they were incurred until its receipt of Commission approval to use any other accounting treatment for such costs. Order No. PSC-98-0329-FOF-GU, issued February 24, 1998 in Docket No. 971310-GU.

9. PGS petitioned the Commission in March 1998 for approval of reserve accounting treatment of its environmental costs, and by Order No. PSC-98-0739 (Docket No. 980434-GU), such accounting treatment was approved, as well as an accrual to the reserve of \$640,000 annually. The \$640,000 annual accrual was based on the historical average costs incurred by the Company over the period 1985 to 1997, and those of the former West Florida Natural Gas Company (which PGS acquired by merger in 1997) for the period 1993 to 1997.

10. The \$640,000 annual accrual to the environmental reserve was not revisited in PGS's rate cases filed in 2002¹ and 2008² because the costs then being incurred did not appear to warrant an attempt to vary the annual accrual amount, and no reserve deficiency existed. As such, no adjustment to the accrual was made in those proceedings. However, the costs now being, and to be, incurred for the sites for which the Company is solely or partially responsible have changed in nature from those incurred primarily for assessment and monitoring, to those associated primarily with cleanup or remediation and monitoring, and have increased dramatically.

11. Exhibit A to this Settlement Agreement reflects the costs incurred from the inception of the Commission's authorization for PGS's recovery of its MGP environmental costs, and then by year from 1998 through June 2016, together with the balance of the reserve at each year end (and as of November 30, 2016). As shown on Exhibit A, the reserve balance deficiency as of the end of November 2016 represents a ratepayer liability to the Company (*i.e.*, a regulatory asset) of \$21,054,253. Based on the Company's latest independent consultants' evaluations of the MGP sites for which PGS is wholly or partially responsible, the future liability associated with work needed to remediate the MGP sites is projected to be \$33,938,077 as of the end of 2015, for a total of \$54,992,330 (as reflected in TECO Energy, Inc.'s 2015 10-K filing

¹ Docket No. 020384-GU, *In re: Petition for rate increase by Peoples Gas System.*

² Docket No. 080318-GU, *In re: Petition for rate increase by Peoples Gas System.*

with the Securities and Exchange Commission). If the Company's only recovery from its customers continued to be the \$640,000 annual accrual to the environmental reserve -- which was established in 1998 and is currently in effect -- it would take approximately 85 years for the Company to recover the full amount of the MGP environmental costs, assuming no additional remediation costs.

Inclusion of Problematic Plastic Pipe Replacements for Recovery Through Rider CI/BSR

12. The Commission approved PGS's Cast Iron/Bare Steel Replacement Rider (Rider CI/BSR) by its Order No. 12-0476-TRF-GU, issued September 18, 2012, in Docket No. 110320-GU. Rider CI/BSR has enabled PGS to accelerate the replacement of cast iron and bare steel infrastructure, with which there can be safety concerns. The nature of this safety-driven infrastructure replacement program and the Commission's reasons for approving it are set forth in Order No. 12-0476-TRF-GU.

13. Rider CI/BSR provides for surcharges for the Company's recovery of a return on its investment in replacement infrastructure (defined as "Eligible Replacements" in the Rider), as well as depreciation and ad valorem tax expense on such investment. The Rider's operation and the manner in which the surcharges are calculated are explained in Order No. 12-0476-TRF-GU. Since the Rider's initial approval by the Commission, revised surcharges have been approved by the Commission's Orders Nos. PSC-13-0602-TRF-GU, PSC-14-0682-TRF-GU, PSC-15-0572-TRF-GU, and PSC-16-0524-TRF-GU.

14. PGS began installing polyethylene (plastic) pipe in its distribution system in the 1960s. Much of the plastic pipe installed through the early 1990s was manufactured by DuPont (later Uponor) and was called Aldyl A. There may also be lesser amounts of plastic pipe in PGS's distribution system manufactured by Century Utility Products, Inc.

15. Several incidents related to brittle-like cracking of older plastic pipe, caused the

National Transportation Safety Board (“NTSB”) to initiate a special investigation. Of the eleven conclusions in the NTSB’s 1998 Report of its investigation,³ four were directed at the manufacture and installation of early vintage (1960s through early 1980s) plastic pipe. The conclusions were:

- The procedure used in the United States to rate the strength of plastic pipe may have overrated the strength and resistance to brittle-like cracking of much of the plastic pipe manufactured and used for gas service from the 1960s through the early 1980s.
- Much of the plastic pipe manufactured and used for gas service from the 1960s through the early 1980s may be susceptible to premature brittle-like failures when subjected to stress intensification, and these failures represent a potential public safety hazard.
- Gas pipeline operators have had insufficient notification that much of the plastic pipe manufactured and used for gas service from the 1960s through the early 1980s may be susceptible to brittle-like cracking and therefore may not have implemented adequate pipeline surveillance and replacement programs for their older piping.
- Because guidance covering the installation of plastic piping is inadequate for limiting stress intensification at plastic service connections to steel mains, many of these connections may have been installed without adequate protection from shear and bending forces.

16. In response to the NTSB Report, the Pipeline and Hazardous Materials Safety Administration (“PHMSA”)⁴ published two advisory bulletins to owners and operators of natural gas distribution systems to inform them of the susceptibility of older plastic pipe to premature brittle-like cracking.⁵ Subsequent PHMSA bulletins⁶ have been published to reiterate the

³ NTSB/SIR-98/01, *Brittle-Like Cracking in Plastic Pipe for Gas Service*, April 23, 1998, <http://www.nts.gov/safety/safety-studies/Documents/SIR9801.pdf>.

⁴ PHMSA was formerly known as the Research and Special Programs Administration.

⁵ ADB-99-01, 47 Fed. Reg. 12211, March 11, 1999, <http://www.phmsa.dot.gov/portal/site/PHMSA/menuitem.6f23687cf7b00b0f22e4c6962d9c8789/?vgnextoid=1f29bfcd618a8110VqnVCM1000009ed07898RCRD&vgnnextchannel=8590d95c4d037110VqnVCM100009ed07898RCRD&vgnnextfmt=print>; ADB-99-02, 47 Fed. Reg. 12211, March 11, 1999, <http://www.phmsa.dot.gov/portal/site/PHMSA/menuitem.6f23687cf7b00b0f22e4c6962d9c8789/?vgnextoid=2739bfcd618a8110VqnVCM1000009ed07898RCRD&vgnnextchannel=8590d95c4d037110VqnVCM100>

message and update owners and operators of pipe and fittings from additional manufacturers that are susceptible to brittle-like cracking. Those pipes and fittings include Aldyl A plastic pipe, Delrin insert tap tees, and Plexco service tee Celcon caps; all three of which PGS has installed in its distribution system.

17. PGS estimates there are approximately 1,100 miles of this plastic pipe installed in its distribution system, approximately half of which is pre-1983 vintage (“problematic plastic pipe”). The replacement costs would vary significantly depending on the communities where the pipe is currently installed. Additionally, there would be less concentrations of the plastic pipe in urban areas where cast iron and bare steel was more prevalent. As such, the Company believes the estimated replacement cost will be lower than the per mile replacement costs of cast iron and bare steel the Company has experienced in connection with Rider CI/BSR. The Company desires to accelerate the replacement of this pipe for the same reasons it sought approval of Rider CI/BSR. In order to do so, the Company desires to include the replacements for this pipe as “Eligible Replacements” for purposes of the recovery permitted through the surcharges provided in Rider CI/BSR beginning in 2017. The accelerated replacement will result in an upgrade to the Company’s distribution system by replacing the older plastic pipe with safer pipe having a longer useful life.

18. In the course of projects for the replacement of cast iron or bare steel pipes, PGS has encountered situations in which there is problematic plastic pipe interspersed in the same areas with the cast iron or bare steel pipe that is being replaced, or actually connected to the pipes being replaced. In most of these situations, had the subject plastic pipe been included for removal under Rider CI/BSR, it would have been more efficient and cost-effective to replace it at

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⁶ ADB-02-7, 67 Fed. Reg. 70806, November 26, 2002, <https://www.gpo.gov/fdsys/pkg/FR-2002-11-26/pdf/02-30055.pdf>; ADB-07-01, 72 Fed. Reg. 51301, September 6, 2007, <https://www.gpo.gov/fdsys/pkg/FR-2007-09-06/pdf/07-4309.pdf>.

the same time as the cast iron or bare steel pipe is being replaced. Further, because of safety concerns associated with these kinds of pipe, the most prudent course of action, going forward, would be to replace these sections of pipe rather than allow them to remain in place and continue to be used.

19. If the investment associated with the replacement of problematic plastic pipe is included in Rider CI/BSR, the replacement of cast iron and bare steel infrastructure will remain the priority of the Company's replacement plan (in accordance with its Distribution Integrity Management Plan ("DIMP") requirements); however, the Company would begin to include replacement of the problematic plastic pipe along with cast iron and bare steel pipe where feasible to benefit its ratepayers. This prioritization would continue until 2022 (at which time PGS estimates that substantially all cast iron and bare steel will have been replaced), with the replacement of problematic plastic pipe continuing until 2028 under the rider.

PGS's Commission-Authorized ROE

20. PGS's currently effective ROE was established by the Commission's Order No. PSC-09-0411-FOF-GU, issued June 9, 2009 in Docket No. 080318-GU. By that order, the Company's ROE of 10.75% and earnings range of 9.75% to 11.75% was established for all regulatory purposes.

TERMS OF SETTLEMENT

A. Depreciation. Based on PGS's 2016 depreciation study (as amended through the date of this Settlement Agreement), the Parties agree that the Company-proposed lives, net salvage percentages, and resulting depreciation rates for all accounts are appropriate.

(1) PGS has, concurrently with the filing of the Parties' joint motion for approval of this Settlement Agreement, filed revised pages to its 2016 Depreciation Study reflecting the Parties' agreements with respect to the Company's depreciation rates and expense.

(2) Exhibit B to this Settlement Agreement contains a comparison of current components and rates to the components and rates the Parties agree should be approved by the Commission.

(3) Exhibit C to this Settlement Agreement contains a comparison of current 2016 depreciation expense versus the depreciation expense the Parties agree should be approved by the Commission for 2016.

(4) The rates on which the Parties agree result in a decrease to 2016 depreciation expense of \$16,114,365.

(5) The Parties agree that the reserve transfers identified in Exhibit D to this Settlement Agreement should be approved by the Commission.

(6) The Rider CI/BSR Surcharges approved by the Commission's Order No. PSC-16-0524-TRF-GU include recovery by the Company of depreciation expense for the Eligible Replacements at currently effective rates, which will change based on the Commission's approval of this Settlement Agreement. Exhibit E to this Settlement Agreement is a comparison of the 2017 Rider CI/BSR Surcharges approved by the Commission's Order No. PSC-16-0524-TRF-GU with the 2017 Surcharges that would have been approved had this Settlement Agreement been approved prior to the establishment of 2017 Rider CI/BSR Surcharges. Because Rider CI/BSR contains provisions for true-up, the Parties agree that the 2017 Surcharges approved by Order No. PSC-16-0524-TRF-GU should remain in effect for 2017.

B. PGS's Environmental Reserve Account. The Parties agree that the Commission should substitute for the currently allowed \$640,000 annual amortization for PGS's environmental reserve the following:

(1) Amortization, at the discretion of PGS as to the annual amounts, of the current portion of the deficiency in PGS's environmental reserve account -- \$21,054,253

– over two years, beginning in 2016.

(2) Amortization of at least \$32,000,000 of the current/future MGP environmental liability (inclusive of the portion amortized in 2016 and 2017), to the extent expenses are reasonably and prudently incurred, over the period 2016 through 2020.

(3) Authorization to accrue/amortize additional reasonably and prudently incurred MGP environmental expense over the years 2016 through 2020.

(4) The accrual/amortization of MGP expense would not be used by PGS to drive its achieved ROE below the bottom of its authorized range in effect at the time of the accrual/amortization.

(5) The Parties agree that the currently estimated total MGP environmental expense of \$54,992,330 has been publicly reported as reasonably likely to be incurred as a liability of the company and is expected to be prudently incurred by PGS. OPC reserves the right to contest or oppose the recoverability of any MGP environmental expense incurred by the Company that is incremental to the \$54,992,330 identified in this paragraph. The Company agrees that MGP environmental expenses recovered from other owners of the plant sites as a result of any future litigation or proceeding will be credited to the Company's MGP environmental reserve account.

(6) The above provisions with respect to MGP environmental accruals/amortization shall create no presumption of correctness, and shall have no precedential value in a future PGS rate case.

C. Inclusion of Problematic Plastic Pipe Replacements for Recovery Through Rider CI/BSR. The Parties agree that the Commission should approve the following amendment to the definition of "Eligible Replacements" on Sheet No. 7.806 of PGS's Natural Gas Tariff, Revised Volume No. 3 (Rider CI/BSR), effective as of the date of the Commission's vote to approve this Settlement Agreement:

“Eligible Replacements” means the following Company plant investments that (i) do not increase revenues by directly connecting new customers to the plant asset, (ii) are in service and used and useful in providing utility service and (iii) were not included in the Company’s rate base for purposes of determining the Company’s base rates in its most recent general base rate proceeding:

Mains and service lines, as replacements for existing materials recognized/identified by the Pipeline Safety and Hazardous Materials Administration as being obsolete and that present a potential safety threat to operations and the general public, including, cast iron, wrought iron, and bare steel, and specific polyethylene/plastic facilities, and regulators and other pipeline system components the installation of which is required as a consequence of the replacement of the aforesaid facilities.

D. **PGS’s Authorized ROE.** The Parties agree that upon the Commission’s approval of this Settlement Agreement, PGS’s range of ROE established by the Commission’s Order No. PSC-09-0411-FOF-GU for all regulatory purposes shall be modified by reducing the bottom of the authorized range to 9.25%. This “bottom” shall remain until the earlier to occur of (a) the effective date of base rates established in PGS’s next general base rate proceeding (which PGS will not file before December 31, 2020 unless its earned ROE as reported on a future quarterly Earnings Surveillance Report is below 9.25%), or (b) December 31, 2020.

E. In accordance with Section 120.57(4), *Florida Statutes*, approval of this Settlement Agreement in its entirety will resolve all matters in Docket No. 160159-GU with respect to depreciation rates for various categories of plant, depreciation reserves and reserve transfers, effective as of January 1, 2016. In addition, it will resolve issues related to (a) PGS’s MGP environmental reserve accruals/amortization, (b) the inclusion of replacements for problematic plastic pipe as “Eligible Replacements” under PGS’s Rider CI/BSR, and (c) PGS’s ROE through the year 2020 (or until rates are established in the Company’s next general base rate proceeding).

F. This Settlement Agreement will take effect the day after it is approved by the Commission.

G. The provisions of this Settlement Agreement are contingent on the Commission's approval of this Settlement Agreement in its entirety without modification.

H. It is the desire of the Parties that this Settlement Agreement be considered at an appropriate proceeding that does not involve live testimony and cross examination on the merits of the matters covered by this Settlement Agreement. The Parties agree that: (a) consideration of this Settlement Agreement as an agenda item at a regularly scheduled Commission conference at which all interested persons are provided an opportunity to speak shall satisfy any requirement for the conduct of a hearing on the approval of this Settlement Agreement; (b) the following documents on file in this proceeding shall be available for the Commission during its consideration of this Settlement Agreement: the Petition in this docket, the depreciation study supporting a \$16,114,365 reduction to depreciation expense for 2016, and PGS's outside consultants' report on the projected MGP liability and this Settlement Agreement; (c) upon the Commission's approval of this Settlement Agreement, such documents shall become part of the record of this proceeding as if admitted into evidence at a final hearing; and (d) a Commission decision approving this Settlement Agreement may be issued as a final order.

I. With respect to this Settlement Agreement, the Parties agree to waive: (a) all notice requirements for a hearing as set forth in Section 120.569(2)(b), *Florida Statutes*, or other applicable provisions of law; (b) their right to require a hearing on the merits; (c) their respective rights to seek reconsideration pursuant to Rule 25-22.060, *Florida Administrative Code*, of any final order that approves this Settlement Agreement in its entirety and without change; and (d) their respective rights to judicial review of any such final agency action approving this Settlement Agreement afforded by Section 120.68, *Florida Statutes*.

J. The Parties further agree that they will support this Settlement Agreement and affirmatively assert that this Settlement Agreement is in the public interest and should be approved. In this regard, the Parties acknowledge that this Settlement Agreement has been

agreed to by each Party and resolves each and every issue in this docket, and with respect to the other matters covered by this agreement. The Parties agree that they will not request or support any order, relief, outcome, or result in conflict with the terms of this Settlement Agreement in any administrative or judicial proceeding relating to, reviewing, or challenging the establishment, approval, adoption, or implementation of this Settlement Agreement or the subject matter hereof.

K. The Parties' agreement to the terms in this Settlement Agreement shall be without prejudice to a Party's ability to advocate a different position in future proceedings not involving this Settlement Agreement. The Parties further expressly agree that no individual provision, by itself, necessarily represents a position of a Party in a future proceeding, and the Parties further agree that neither Party shall assert or represent in any future proceeding in any forum that the other Party endorses any specific provision of this Settlement Agreement because of that Party's signature hereto. It is the intent of the Parties to this Settlement Agreement that the Commission's approval of all the terms and provisions of this Settlement Agreement is an express recognition that (a) no individual term or provision, by itself, necessarily represents a position, in isolation, of a Party and (b) that neither Party to this Settlement Agreement endorses a specific provision, in isolation, of this Settlement Agreement because of that Party's signature hereto.

L. If the Commission does not accept this Settlement Agreement in its entirety pursuant to its terms set out herein, then (i) the Settlement Agreement shall be considered rejected and shall be and become null and void and of no further force or effect as if this document had never been developed and written; (ii) this document shall not be admissible in any hearing on any matters at issue in Docket No. 160159-GU, any matters at issue with respect to PGS's environmental reserve, any matters at issue related to PGS's authorized range of ROE, or any matters at issue with respect to the inclusion of problematic plastic pipe in the

definition of "Eligible Replacements" for purposes of PGS's Rider CI/BSR, or in any other docket or forum; and (iii) neither Party to this Settlement Agreement waives any position on any issue that it could have otherwise asserted in any docket in which it is a Party.

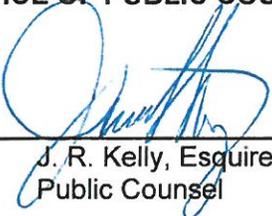
M. This Settlement Agreement may be executed in counterpart originals and a facsimile or scan of an original signature shall be deemed an original.

N. This Settlement Agreement constitutes a single, integrated written contract expressing the entire agreement between the Parties and superseding all other agreements, representations and understandings on the subject matter hereof. There is no other agreement, oral or written, expressed or implied, between the Parties with respect to the subject matter hereof, except this Settlement Agreement.

[signature page follows]

The Parties evidence their acceptance of and agreement with the provisions of this Settlement Agreement by their signatures:

OFFICE OF PUBLIC COUNSEL

By:  _____
J. R. Kelly, Esquire
Public Counsel

PEOPLES GAS SYSTEM

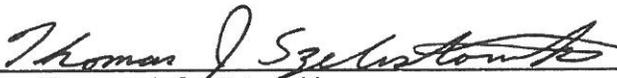
By: _____
Thomas J. Szelistowski
President, Peoples Gas System

The Parties evidence their acceptance of and agreement with the provisions of this Settlement Agreement by their signatures:

OFFICE OF PUBLIC COUNSEL

By: _____
J. R. Kelly, Esquire
Public Counsel

PEOPLES GAS SYSTEM

By: 
Thomas J. Szelistowski
President, Peoples Gas System

PGS MGP Environmental Cost and Reserve Balance

Year	Total Costs	Annual Amortization	Reserve Balance
1998			\$ (291,186)
1999	\$ 377,568	\$ (639,996)	\$ (553,615)
2000	\$ 829,061	\$ (639,996)	\$ (364,550)
2001	\$ 544,571	\$ (639,996)	\$ (459,974)
2002	\$ 1,517,876	\$ (639,996)	\$ 417,906
2003	\$ (3,766,982)	\$ (639,996)	\$ (3,989,072)
2004	\$ (82,464)	\$ (639,996)	\$ (4,711,532)
2005	\$ 5,351,528	\$ (639,996)	\$ (0)
2006	\$ 639,996	\$ (639,996)	\$ (0)
2007	\$ 639,996	\$ (639,996)	\$ (0)
2008	\$ 833,890	\$ (639,996)	\$ 193,894
2009	\$ 1,729,363	\$ (639,996)	\$ 1,283,261
2010	\$ 1,759,218	\$ (639,996)	\$ 2,402,483
2011	\$ 297,083	\$ (639,996)	\$ 2,059,570
2012	\$ 8,254,773	\$ (639,996)	\$ 9,674,347
2013	\$ 1,929,273	\$ (639,996)	\$ 10,963,623
2014	\$ 9,447,232	\$ (639,996)	\$ 19,770,859
2015	\$ 861,130	\$ (639,996)	\$ 19,991,993
*2016	\$ 1,648,927	\$ (586,667)	\$ 21,054,253

* Costs through November 2016

**PEOPLES GAS SYSTEM
2016 Depreciation Rate Review
Comparison of Rates and Components**

Account Number	Account Title	Current Rates - Effective 2011 - 2015					Company Proposed - Effective 1/1/2016										
		Curve Type	Average Service Life	Average Remaining Life	Future Net Salvage	Reserve Ratio 2011	Depreciation Rate	Whole Life			Remaining Life						
			(yrs)	(yrs)	(%)	(%)	(%)	Curve Type	Average Service Life	Future Net Salvage	Whole Life Rate	Average Age	Average Remaining Life	Round Average Remaining Life	Future Net Salvage	Reserve Ratio 2015	Depreciation Rate
	<u>Distribution Plant</u>																
37402	Land Rights	Confirm	Confirm	Confirm	Confirm	Confirm	Confirm	Confirm	Confirm	Dep Val	Dep Val	Dep Val					
37500	Structures & Improvements	SQ	75	59.0	0	21.96	1.3	SQ	75	0	1.3	15.7	59.3	59.0	0	20.90	1.3
37600	Mains Steel	R3	40	27.0	0	32.90	2.5	R3	40	0	2.5	17.8	24.2	24.0	0	39.58	2.5
37602	Mains Plastic	R3	40	25.0	(60)	56.05	4.2	R2	55	(40)	2.5	16.8	41.2	41.0	(40)	48.16	2.2
37800	Meas & Reg Station Eq Gen	R3	40	30.0	(25)	31.40	3.1	R3	45	(25)	2.8	12.1	33.8	34.0	(25)	42.75	2.4
37900	Meas & Reg Station Eq City	R1	31	25.0	(5)	20.74	3.4	R1	31	(5)	3.4	9.4	24.7	25.0	(5)	21.46	3.4
38000	Services Steel	R1	31	25.0	(5)	20.28	3.4	R1	31	(5)	3.4	8.1	25.5	26.0	(5)	18.70	3.4
38002	Services Plastic	R3	32	13.6	(100)	110.83	6.6	R0.5	45	(100)	4.4	24.0	31.1	31.0	(100)	84.71	3.7
38100	Meters	R3	32	21.0	(55)	49.92	5.0	R3	40	(55)	3.9	12.7	28.3	28.0	(55)	62.07	3.3
38200	Meter Installations	L1	16	11.1	5	29.16	5.9	L1	16	5	5.9	8.5	10.8	10.8	5	31.17	5.9
38300	House Regulators	R4	27	16.5	(20)	46.54	4.5	R4	27	(20)	4.4	13.3	15.3	15.3	(20)	51.87	4.5
38400	House Regulator Installs	R2	28	17.1	0	38.98	3.6	R2	28	0	3.6	14.9	16.6	16.6	0	40.54	3.6
38500	Meas & Reg Station Eq Ind	R4	27	16.6	(20)	46.03	4.5	R4	27	(20)	4.4	12.5	15.7	15.7	(20)	50.32	4.4
38600	Other Property Cust Premise	R4	32	15.7	0	50.91	3.1	R4	32	0	3.1	20.6	12.9	12.9	0	59.64	3.1
38700	Other Equipment	R1	15	15.0	0	0.00	6.7	R1	15	0	6.7	0.0	15.0	15.0	0	0.00	6.7
		S2	16	9.9	0	38.01	6.3	S2	16	0	6.3	6.8	10.2	10.2	0	36.21	6.3

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PEOPLES GAS SYSTEM
2016 DEPRECIATION STUDY
FILED: JUNE 28, 2016
REVISED: OCTOBER 14, 2016
2ND REVISED: OCTOBER 25, 2016
3RD REVISED: DECEMBER 15, 2016

PEOPLES GAS SYSTEM
2016 Depreciation Rate Review
Comparison of Rates and Components

Account Number	Account Title	Current Rates - Effective 2011 - 2015					Company Proposed - Effective 1/1/2016											
		Curve Type	Average Service Life	Average Remaining Life	Future Net Salvage	Reserve Ratio 2011	Depreciation Rate	Whole Life			Remaining Life							
			(yrs)	(yrs)	(%)	(%)	(%)	Curve Type	Average Service Life	Future Net Salvage	Whole Life Rate	Average Age	Average Remaining Life	Round Average Remaining Life	Future Net Salvage	Reserve Ratio 2015	Depreciation Rate	Round Depreciation Rate
Transportation Equipment																		
39201	Vehicles up to 1/2 Tons	S1	8	4.8	10	36.36	11.2	S1	8	10	11.3	4.9	4.5	4.5	10	38.92	11.4	11.4
39202	Vehicles from 1/2 - 1 Tons	S1	7	3.3	10	48.06	12.7	S1	7	10	12.9	5.4	3.3	3.3	10	47.17	13.0	13.0
39204	Trailers & Other	S3	20	7.1	20	51.49	4.0	S3	20	20	4.0	5.4	15.5	15.5	20	18.09	4.0	4.0
39205	Vehicles over 1 Ton	S4	12	4.7	10	55.12	7.4	S4	12	10	7.5	5.8	7.0	7.0	10	37.17	7.5	7.5
General Plant																		
30100	Organization Costs		Not Depreciable				0.0	Not Depreciable				Not Depreciable				0.0		0.0
30200	Franchise & Consents		25 year Amortizable				4.0	SQ	25	0	4.0	0.0	25.0	25.0	0	0.00	4.0	4.0
30300	Misc Intangible Plant		25 year Amortizable				4.0	SQ	25	0	4.0	20.5	4.5	4.5	0	81.93	4.0	4.0
30301	Custom Intangible Plant		15 year Amortizable				6.7	SQ	15	0	6.7	5.2	9.9	9.9	0	33.98	6.7	6.7
39000	Structures & Improvements	R3	40	36.0	0	10.61	2.5	R3	40	0	2.5	5.7	34.4	34.0	0	13.90	2.5	2.5
39100	Office Furniture	R1	15	12.4	0	17.43	6.7	SQ	15	0	6.7	9.2	5.8	5.8	0	61.01	6.7	6.7
39101	Computer Equipment	S2	8	3.1	0	61.18	12.5	SQ	8	0	12.5	6.6	1.8	1.8	0	77.82	12.3	12.3
39102	Office Equipment	R1	15	7.8	0	47.70	6.7	SQ	15	0	6.7	6.8	8.5	8.5	0	43.42	6.7	6.7
39300	Stores Equipment	S4	25	2.5	0	89.97	4.0	S4	25	0	4.0	3.5	21.5	22.0	0	14.03	4.0	3.9
39400	Tools, Shop & Garage Equip	S1	15	7.8	0	48.19	6.6	SQ	15	0	6.7	4.0	11.1	11.1	0	25.83	6.7	6.7
39401	CNC Station Equipment		New Rate Requested				0.0		20	0	5.0	0.0	20.0	20.0	0	0.00	5.0	5.0
39500	Laboratory Equipment	S1	20	8.3	0	58.54	5.0	SQ	20	0	5.0	0.0	20.0	20.0	0	0.00	5.0	5.0
39600	Power Operated Equipment	S4	15	5.8	5	57.96	6.4	S4	15	5	6.3	8.9	8.0	8.0	5	44.63	6.3	6.3
39700	Communication Equipment	S3	12	5.0	0	58.06	8.4	SQ	12	0	8.3	7.8	4.6	4.6	0	62.08	8.2	8.2
39800	Miscellaneous Equipment	R2	17	7.1	0	58.19	5.9	SQ	17	0	5.9	15.0	3.8	3.8	0	77.38	6.0	6.0

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PEOPLES GAS SYSTEM
2016 DEPRECIATION STUDY
FILED: JUNE 28, 2016
REVISED: OCTOBER 14, 2016
2ND REVISED: OCTOBER 25, 2016
3RD REVISED: DECEMBER 15, 2016

**PEOPLES GAS SYSTEM
2016 Depreciation Rate Review
Change in Annual Accruals**

Account Number	Account Title	Current Rates - Effective 2011 - 2015				Company Proposed - Effective 1/1/2016					
		Total Plant Cost 12/31/2015 (\$)	Post Transfer Accumulated Reserve 12/31/2015 (\$)	Depre- ciation Rate (%)	Depre- ciation Expense (\$)	Whole Life			Remaining Life		
						Depre- ciation Rate (%)	Depre- ciation Expense (\$)	Change in Depreciation Expense (\$)	Depre- ciation Rate (%)	Depre- ciation Expense (\$)	Change in Depreciation Expense (\$)
Distribution Plant											
37402	Land Rights	2,836,412	592,695	1.3	36,873	1.3	36,873	-	1.3	36,873	-
37500	Structures & Improvements	19,415,983	7,684,556	2.5	485,400	2.5	485,400	-	2.5	485,400	-
37600	Mains Steel	385,317,174	185,571,117	4.2	16,183,321	2.5	9,632,929	(6,550,392)	2.2	8,476,978	(7,706,343)
37602	Mains Plastic	401,310,012	171,546,122	3.1	12,440,610	2.8	11,236,680	(1,203,930)	2.4	9,631,440	(2,809,170)
37800	Meas & Reg Station Eqp Gen	12,924,984	2,773,069	3.4	439,449	3.4	439,449	-	3.3	426,524	(12,925)
37900	Meas & Reg Station Eqp City	34,586,108	6,466,837	3.4	1,175,928	3.4	1,175,928	-	3.3	1,141,342	(34,586)
38000	Services Steel	46,376,347	39,283,507	6.6	3,060,839	4.4	2,040,559	(1,020,280)	3.7	1,715,925	(1,344,914)
38002	Services Plastic	247,505,036	153,636,596	5.0	12,375,252	3.9	9,652,696	(2,722,556)	3.3	8,167,666	(4,207,586)
38100	Meters	63,032,755	19,646,963	5.9	3,718,933	5.9	3,718,933	-	5.9	3,718,933	-
38200	Meter Installations	49,175,177	25,507,475	4.5	2,212,883	4.4	2,163,708	(49,175)	4.5	2,212,883	-
38300	House Regulators	14,633,325	5,932,047	3.6	526,800	3.6	526,800	-	3.6	526,800	-
38400	House Regulator Installs	19,915,060	10,020,798	4.5	896,178	4.4	876,263	(19,915)	4.4	876,263	(19,915)
38500	Meas & Reg Station Eqp Ind	9,089,094	5,420,679	3.1	281,762	3.1	281,762	-	3.1	281,762	-
38600	Other Property Cust Premise	-	-	6.7	-	6.7	-	-	6.7	-	-
38700	Other Equipment	5,889,159	2,132,612	6.3	371,017	6.3	371,017	-	6.3	371,017	-
Total Distribution Plant		1,312,006,627	636,215,072	4.1	54,205,245	3.2	42,638,997	(11,566,248)	2.9	38,069,806	(16,135,439)

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PEOPLES GAS SYSTEM
2016 DEPRECIATION STUDY
FILED: JUNE 28, 2016
REVISED: OCTOBER 14, 2016
2ND REVISED: OCTOBER 25, 2016
3RD REVISED: DECEMBER 15, 2016

**PEOPLES GAS SYSTEM
2016 Depreciation Rate Review
Change in Annual Accruals**

Account Number	Account Title	Current Rates - Effective 2011 - 2015				Company Proposed - Effective 1/1/2016					
		Total Plant Cost 12/31/2015 (\$)	Post Transfer Accumulated Reserve 12/31/2015 (\$)	Depreciation Rate (%)	Depreciation Expense (\$)	Whole Life			Remaining Life		
						Depreciation Rate (%)	Depreciation Expense (\$)	Change in Depreciation Expense (\$)	Depreciation Rate (%)	Depreciation Expense (\$)	Change in Depreciation Expense (\$)
Transportation Equipment											
39201	Vehicles up to 1/2 Tons	8,035,686	3,127,353	11.2	899,997	11.3	908,033	8,036	11.4	916,068	16,071
39202	Vehicles from 1/2 - 1 Tons	6,569,197	3,098,777	12.7	834,288	12.9	847,426	13,138	13.0	853,996	19,708
39204	Trailers & Other	1,153,494	208,703	4.0	46,140	4.0	46,140	-	4.0	46,140	-
39205	Vehicles over 1 Ton	1,769,839	657,801	7.4	130,968	7.5	132,738	1,770	7.5	132,738	1,770
General Plant											
30100	Organization Costs	12,620	-	0.0	-	0.0	-	-	0.0	-	-
30200	Franchise & Consents	-	-	4.0	-	4.0	-	-	4.0	-	-
30300	Misc Intangible Plant	815,325	668,002	4.0	32,613	4.0	32,613	-	4.0	32,613	-
30301	Custom Intangible Plant	25,717,580	8,738,083	6.7	1,723,078	6.7	1,723,078	-	6.7	1,723,078	-
39000	Structures & Improvements	149,951	20,841	2.5	3,749	2.5	3,749	-	2.5	3,749	-
39100	Office Furniture	1,470,244	896,947	6.7	98,506	6.7	98,506	-	6.7	98,506	-
39101	Computer Equipment	5,293,685	4,119,598	12.5	661,711	12.5	661,711	-	12.3	651,123	(10,588)
39102	Office Equipment	922,076	400,399	6.7	61,779	6.7	61,779	-	6.7	61,779	-
39300	Stores Equipment	1,283	180	4.0	51	4.0	51	-	3.9	50	(1)
39400	Tools, Shop & Garage Equip	6,105,880	1,577,372	6.6	402,988	6.7	409,094	6,106	6.7	409,094	6,106
39401	CNG Station Equipment	-	-	0.0	-	5.0	-	-	5.0	-	-
39500	Laboratory Equipment	-	-	5.0	-	5.0	-	-	5.0	-	-
39600	Power Operated Equipment	2,775,668	1,238,693	6.4	177,643	6.3	174,867	(2,776)	6.3	174,867	(2,776)
39700	Communication Equipment	4,841,709	3,005,855	8.4	406,704	8.3	401,862	(4,842)	8.2	397,020	(9,684)
39800	Miscellaneous Equipment	463,234	362,299	5.9	27,626	5.9	27,626	-	6.0	28,094	468
Total General Plant		66,102,470	28,120,903	8.3	5,507,841	8.4	5,529,273	21,432	8.4	5,528,915	21,074
Total Distribution & General Plant		1,378,109,097	664,335,975	4.3	59,713,086	3.5	48,168,270	(11,544,816)	3.2	43,598,721	(16,114,365)

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PEOPLES GAS SYSTEM
2016 DEPRECIATION STUDY
FILED: JUNE 28, 2016
REVISED: OCTOBER 14, 2016
2ND REVISED: OCTOBER 25, 2016
3RD REVISED: DECEMBER 15, 2016

**PEOPLES GAS SYSTEM
2016 Depreciation Rate Review
Summary of Reserve Transfers**

Account Number	Account Title	Before Reserve Transfers 12/31/2015 (\$)	Proposed Reserve Transfers (\$)	After Reserve Transfers 12/31/2015 (\$)
<u>Distribution Plant</u>				
		ASR		
37402	Land Rights	654,666	(61,971)	592,695
37500	Structures & Improvements	7,928,741	(244,185)	7,684,556
37600	Mains Steel	218,020,297	(32,449,180)	185,571,117
37602	Mains Plastic	137,184,318	34,361,804	171,546,122
37800	Meas & Reg Station Eq Gen	3,080,334	(307,265)	2,773,069
37900	Meas & Reg Station Eq City	7,637,719	(1,170,882)	6,466,837
38000	Services Steel	51,484,453	(12,200,946)	39,283,507
38002	Services Plastic	134,479,130	19,157,466	153,636,596
38100	Meters	21,875,201	(2,228,238)	19,646,963
38200	Meter Installations	25,829,866	(322,391)	25,507,475
38300	House Regulators	6,517,882	(585,835)	5,932,047
38400	House Regulator Installs	9,903,729	117,069	10,020,798
38500	Meas & Reg Station Eq Ind	5,427,013	(6,334)	5,420,679
38600	Other Property Cust Premise	-	-	-
38700	Other Equipment	2,188,642	(56,030)	2,132,612
Total Distribution Plant		632,211,992	4,003,081	636,215,072

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PEOPLES GAS SYSTEM
2016 DEPRECIATION STUDY
FILED: JUNE 28, 2016
REVISED: OCTOBER 14, 2016
2ND REVISED: DECEMBER 15, 2016

**PEOPLES GAS SYSTEM
2016 Depreciation Rate Review
Summary of Reserve Transfers**

<u>Account Number</u>	<u>Account Title</u>	<u>Before Reserve Transfers 12/31/2015</u> (\$)	<u>Proposed Reserve Transfers</u> (\$)	<u>After Reserve Transfers 12/31/2015</u> (\$)
<u>Transportation Equipment</u>				
39201	Vehicles up to 1/2 Tons	3,196,303	(68,950)	3,127,353
39202	Vehicles from 1/2 - 1 Tons	3,899,377	(800,600)	3,098,777
39204	Trailers & Other	211,220	(2,517)	208,703
39205	Vehicles over 1 Ton	669,848	(12,047)	657,801
<u>General Plant</u>				
30100	Organization Costs	3,116	(3,116)	-
30200	Franchise & Consents	0	(0)	-
30300	Misc Intangible Plant	757,491	(89,489)	668,002
30301	Custom Intangible Plant	12,337,858	(3,599,775)	8,738,083
39000	Structures & Improvements	21,023	(182)	20,841
39100	Office Furniture	682,484	214,463	896,947
39101	Computer Equipment	4,204,474	(84,876)	4,119,598
39102	Office Equipment	289,367	111,032	400,399
39300	Stores Equipment	(4,568)	4,748	180
39400	Tools, Shop & Garage Equip	1,175,475	401,897	1,577,372
39401	CNC Station Equipment	-	-	-
39500	Laboratory Equipment	(14,417)	14,417	-
39600	Power Operated Equipment	1,310,249	(71,556)	1,238,693
39700	Communication Equipment	3,064,545	(58,690)	3,005,855
39800	Miscellaneous Equipment	320,139	42,160	362,299
Total General Plant		32,123,984	(4,003,081)	28,120,903
Total Distribution & General Plant		664,335,975	0	664,335,975