

BEFORE THE PUBLIC SERVICE COMMISSION

In re: Application for approval of new depreciation rates effective January 1, 2007, by Peoples Gas System.

DOCKET NO. 060496-GU  
ORDER NO. PSC-07-0125-PAA-GU  
ISSUED: February 12, 2007

The following Commissioners participated in the disposition of this matter:

LISA POLAK EDGAR, Chairman  
MATTHEW M. CARTER II  
KATRINA J. TEW

NOTICE OF PROPOSED AGENCY ACTION  
ORDER APPROVING NEW DEPRECIATION RATES

BY THE COMMISSION:

NOTICE is hereby given by the Florida Public Service Commission that the action discussed herein is preliminary in nature and will become final unless a person whose interests are substantially affected files a petition for a formal proceeding, pursuant to Rule 25-22.029, Florida Administrative Code.

BACKGROUND

Rule 25-7.045, Florida Administrative Code, requires natural gas companies to file a comprehensive depreciation study once every five years. In accordance with this rule, the next scheduled depreciation study was due to be filed on or before April 3, 2006. On March 8, 2006, Peoples Gas System (Peoples or company) filed a petition for a waiver of the filing deadline imposed by the rule from April 3, 2006 to July 14, 2006, and succeeding depreciation studies by July 14 at least every five years thereafter. By Order No. PSC-06-0379-PAA-GU, in Docket No. 060199-GU, we approved the waiver and extended the filing date of the comprehensive depreciation study to July 14, 2006. Thereafter, on July 12, 2006, the company filed its regular comprehensive depreciation study in accordance with the rule. Our review of Peoples' comprehensive depreciation study and our decision to approve changes to Peoples' depreciation rates is explained in detail below. We have jurisdiction pursuant to Sections 366.04, 366.05, and 366.06, Florida Statutes.

DOCUMENT NUMBER DATE

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FPSC-COMMISSION CLERK

## DECISION

Peoples' last comprehensive depreciation study was filed on April 3, 2001, with an effective date of January 1, 2002. The study addressed the changes in planning and activity resulting from Peoples' acquisition of West Florida Natural Gas and Tampa Electric Company's acquisition of Peoples. This current study affords us the opportunity to address the appropriate lives, salvage values, reserves, and resulting remaining life depreciation rates since the companies combined. The resulting effects of the activities occurring since the last comprehensive depreciation review, as well as changes in account activity and company planning, indicates that the currently prescribed depreciation rates should be revised. The changes result in an increase in annual depreciation expense of approximately \$1.9 million based on a January 1, 2007, investment date.

The company's data and resulting expenses reflect the impact of current planning and adherence to regulatory requirements to ensure that assets are fully recovered at the time of retirement, as reflected on Attachments A and B. Attachment A shows a comparison of rate components (lives, salvages, and reserves). Attachment B shows the estimated resulting increased expenses based on estimated investments as of December 31, 2006. The reserve position reflects the reserve allocations recommended below.

The company provided aged retirement data, proposed reserve transfers, and average age distributions of the surviving investments for each account. Investments, reserves, and activities were estimated through December 31, 2006. Based on the information provided, we have determined the appropriate lives, net salvage values, and resulting depreciation rates for all accounts. This determination included the rounding of some plant accounts average service and remaining lives to one decimal point up to 20 years and to the nearest whole year thereafter. The discussion that follows concerns only the plant accounts with proposed changes from the earlier prescribed comprehensive depreciation study.

### Distribution Plant

#### Mains and Services (Accounts 376 and 380)

Mains and services comprise approximately 84 percent of the investment in distribution plant. The company is continuing its cast iron replacement program, which is a system upgrade to relieve water infiltration and to increase system pressures.

Mains and service lines are generally abandoned in place upon retirement. This involves travel time for the crew, digging down to the main or service, cutting and capping, refilling the hole, and restoring the roadway. Restoring the roadway can become a significant expense if the lines are under pavement. Surface restoration normally occurs at two locations for each retired service line; one at the point of the service riser, and the other at the property line or at the connection to the main. The galvanic action of dissimilar metals such as a galvanized steel service line running off a cast iron main requires that the line be cut at the main rather than the

property line. Under these circumstances, paving restoration is required. Account 376-Mains has experienced early retirements due to government improvements that shorten the average service life. The company proposed to continue with a 40-year average service life which was approved in the previous study. The company requested an increase in negative net salvage from 45 percent to 50 percent for Mains-Other than Plastic and 10 percent to 15 percent for Mains-Plastic. We accept the company's proposal as reasonable and in line with the gas industry.

Service lines removal costs are on a continuous climb for the industry due to the ever increasing costs of labor and materials in current dollars. Also, the embedded retirement costs for labor and materials for service lines are over 30 years old. High retirements or high growth tend to increase early retirements. Plant subject to theft, damage, or public requirements can be expected to have a greater incident of early retirements than similar plant in a rural or small town setting. Account 380-Service Lines has experienced early retirements due to demolition, upgrades, and inactivity as explained previously. Peoples proposed to continue the use of an average service life of 32 years, increase negative net salvage from 80 percent to 90 percent for Service Lines-Other than Plastic, and from 35 percent to 50 percent for Service Lines-Plastic. We find the company's proposals reasonable and in line with the gas industry.

#### Measuring and Regulating Station Equipment –General and City Gate (Accounts 378 and 379)

We find that the company's proposal to continue with an average service life of 31 years and a negative net salvage of 5 percent for these accounts is appropriate. These accounts contain similar types of equipment and therefore should have similar life and salvage characteristics. The majority of retirements that were subject to upgrades are minor items of equipment. Also retired were two older odorant injection systems, and the closing of a substation at the request of JEA.

#### Meters (Account 381)

We find that the company's proposal of an average service life of 16 years and a 3 percent net salvage is reasonable and in line with the gas industry. In the previous depreciation study, Peoples outsourced its meter shop to North American Service Group. At that time, there was not sufficient history with the new company and its processes to determine the proper average service life. Therefore, a 23 year average service life and 5 percent net salvage was approved.

#### Meter and House Regulator Installations (Accounts 382 and 384)

In its previous depreciation study, Peoples implemented a new tracking system that allowed it to track meter and regulator installations in a detailed manner. The tracking system works correctly, but the written report derived from the system is incorrect. Prior to Peoples' becoming a division of Tampa Electric Company, its policy was to retire the meter and regulator when the service ends regardless of reuse. This was not consistent with the Commission's direction to the company, which was that installations are rarely retired prior to the date the

service ends or when the meter is removed due to inactivity. The company has subsequently agreed with this direction. Currently, the company is recreating the aged records and needs additional time to complete an accurate report. Upon its completion, the company will provide an updated report on these accounts. For these accounts, the company also proposed the continued use of a previously prescribed average service life of 27 years and an increase in negative net salvage from 18 to 20 percent. We find that the company's proposal is reasonable and in line with the gas industry.

#### General Plant

##### Computer Equipment (391.1)

The company proposes an average service life increase from 6 to 8 years and a continued use of net salvage of 0 percent. We find that the company's proposal is reasonable and in line with the gas industry.

##### Trucks $\frac{3}{4}$ to 1 Ton (Account 392.2)

The company proposes an average service life decrease from 8 to 7 years and a continued use of net salvage of 10 percent. We find that the company's proposal is reasonable and in line with the gas industry.

##### Trucks Over 1 Ton (Account 392.5)

The company proposes the continued use of the previously prescribed average service life of 12 years and a decrease in net salvage from 12 to 10 percent. We find that the company's proposal is reasonable and in line with the gas industry.

##### Stores Equipment (Account 393)

This account was fully depreciated prior to 2002 when additional equipment was added. The previously prescribed depreciation rate of 11.3 percent was based upon a fully depreciable investment of approximately \$60,000, an average service life of 25 years, and net salvage of 0 percent. The current depreciable investment of approximately \$4,300 was added in 2002. The company proposes to continue the average service life of 25 years with a net salvage of 0 percent. We find that the company's proposal is reasonable and in line with the gas industry.

#### Reserve Allocations

As part of the review of the company's depreciation study, we considered the reserve position for each account. When significant surpluses and deficits exist, corrective reserve transfers between accounts should be recovered as quickly as possible, unless such recovery prevents the company from earning a fair and reasonable return on its investments. The effect of prior depreciation rates, average service lives, and net salvage projections creates surpluses and

deficits that should be addressed. The reserve transfers presented are based upon the company's planning and expectation of future retirements, which may further affect several plant account balances. As our staff reviews the company's annual status report of plant accounts, it will continue to monitor the company's reserve position. For now, we find it appropriate to transfer these related reserve surpluses to help correct the existing reserve deficiencies in the accounts as shown below.

RESERVE ALLOCATIONS					
ACCOUNT		Actual 01/01/2007 Reserve	Theoretical Reserve	Approved Allocations	Restated 01/01/2007 Reserve
376.0	Mains-Other Than Plastic	126,516,763	137,268,879	509,008	127,025,771
378.0	Meas. & Reg. Stat. Equip.General	1,696,016	1,370,869	(231,324)	1,464,692
379.0	Meas. & Reg. Stat. Equip.-City Gate	2,338,572	1,956,690	(300,330)	2,038,242
381.0	Meters	6,928,784	23,868,445	647,670	7,576,454
383.0	Regulators	4,347,485	3,637,679	(625,024)	3,722,461
	Total	141,827,620	168,102,562	0	141,827,620

#### Implementation Date

Rule 25-6.0436, Florida Administrative Code, requires that data submitted in a depreciation study, including plant and reserve balances or company estimates, "shall be brought to the effective date of the proposed rates." In this regard, Peoples' supporting data and calculations for its new depreciation rates as shown on Attachments A and B have been provided to match a January 1, 2007, implementation date.

#### Amortization of Investment Tax Credits (ITC) and Flowback of Excess Deferred Income Taxes (EDIT)

The current amortization of ITCs and the flowback of EDITs shall be revised to match the actual recovery periods for the related property. The company shall file detailed calculations of the revised ITC amortization and flowback of EDIT at the same time it files its surveillance report covering the period ending December 31, 2006.

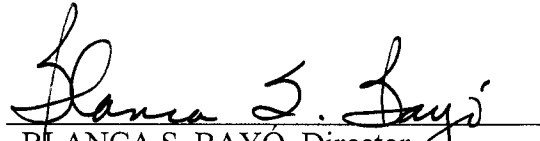
Based on the foregoing, it is

ORDERED by the Florida Public Service Commission that the Application for approval of new depreciation rates effective January 1, 2007, by Peoples Gas System is approved as set out in the body of this Order. It is further

ORDERED that the provisions of this Order, issued as proposed agency action, shall become final and effective upon the issuance of a Consummating Order unless an appropriate petition, in the form provided by Rule 28-106.201, Florida Administrative Code, is received by the Director, Division of the Commission Clerk and Administrative Services, 2540 Shumard Oak Boulevard, Tallahassee, Florida 32399-0850, by the close of business on the date set forth in the "Notice of Further Proceedings" attached hereto. It is further

ORDERED that in the event this Order becomes final, this docket shall be closed.

By ORDER of the Florida Public Service Commission this 12th day of February, 2007.

  
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BLANCA S. BAYÓ, Director  
Division of the Commission Clerk  
and Administrative Services

( S E A L )

MCB

NOTICE OF FURTHER PROCEEDINGS OR JUDICIAL REVIEW

The Florida Public Service Commission is required by Section 120.569(1), Florida Statutes, to notify parties of any administrative hearing that is available under Section 120.57, Florida Statutes, as well as the procedures and time limits that apply. This notice should not be construed to mean all requests for an administrative hearing will be granted or result in the relief sought.

Mediation may be available on a case-by-case basis. If mediation is conducted, it does not affect a substantially interested person's right to a hearing.

The action proposed herein is preliminary in nature. Any person whose substantial interests are affected by the action proposed by this order may file a petition for a formal proceeding, in the form provided by Rule 28-106.201, Florida Administrative Code. This petition must be received by the Director, Division of the Commission Clerk and Administrative Services, 2540 Shumard Oak Boulevard, Tallahassee, Florida 32399-0850, by the close of business on March 5, 2007.

In the absence of such a petition, this order shall become final and effective upon the issuance of a Consummating Order.

Any objection or protest filed in this/these docket(s) before the issuance date of this order is considered abandoned unless it satisfies the foregoing conditions and is renewed within the specified protest period.

PEOPLES GAS COMPANY.  
2006 DEPRECIATION STUDY

COMPARISON OF RATES AND COMPONENTS

ACCOUNT	CURRENT					COMMISSION APPROVED				
	AVERAGE SERVICE LIFE	AVERAGE REMAINING LIFE (YRS.)	NET SALVAGE (%)	1/1/2007 RESERVE (%)	REMAINING LIFE RATE (%)	AVERAGE SERVICE LIFE	AVERAGE REMAINING LIFE (YRS.)	NET SALVAGE (%)	1/1/2007 RESERVE (%)	REMAINING LIFE RATE (%)
	<b>DISTRIBUTION PLANT</b>									
375.0 Structures & Improvements	40	30.0	0.0	17.66	2.7	40	28.0	0.0	21.9	2.8
376.1 - Mains - Other Than Plastic	40	28.0	-45.0	41.40	3.7	40	25.0	-50.0	*50.9	4.0
376.2 - Mains - Plastic	40	32.0	-10.0	21.20	2.8	40	31.0	-15.0	24.0	2.9
378 - Measuring and Regulating Ept. - General	31	22.0	-5.0	19.78	3.9	31	24.0	-5.0	*25.0	3.3
379 - Measuring and Regulating Ept. - City Gate	31	24.0	-5.0	32.69	3.0	31	24.0	-5.0	*24.4	3.4
380.0 - Services - Other Than Plastic	32	14.6	-80.0	83.13	6.6	32	12.8	-90.0	87.5	8.0
380.2 - Services - Plastic	32	24.0	-35.0	30.40	4.4	32	23.0	-50.0	32.1	5.1
381 - Meters	23	13.2	5.0	23.69	5.4	16	11.2	3.0	*22.6	6.6
382 - Meter Installations	27	18.0	-18.0	40.01	4.3	27	17.4	-20.0	32.8	5.0
383 - House Regulators	28	14.1	0.0	35.83	4.6	28	17.3	0.0	*38.6	3.5
384 - House Regulator Installations	27	18.4	-18.0	36.24	4.4	27	18.0	-20.0	28.4	5.1
385 -Industrial M & R Station Equip	32	22.0	0.0	34.35	3.0	32	20.0	-3.0	34.4	3.4
387 - Other Distribution Equipment	16	9.3	0.0	26.29	7.9	16	9.1	0.0	47.7	5.7
<b>GENERAL PLANT</b>										
390.0 Structures & Improvement	40	31.0	0.0	16.83	2.7	40	29.0	0.0	17.1	2.9
391.0 - Office Furniture	15	9.5	0.0	8.31	9.7	15	8.7	0.0	33.6	7.6
391.1 - Computer Equipment	6	1.6	0.0	68.35	19.8	8	3.1	0.0	77.7	7.2
391.2 - Office Machines	15	7.6	0.0	49.56	6.6	15	8.1	0.0	43.7	7.0
392.1 - Autos & Trucks 3/4 Ton	8	4.2	10.0	29.80	14.3	8	4.0	10.0	47.4	10.6
392.2- Autos & Trucks 3/4 to 1 Ton	8	7.1	10.0	9.77	11.3	7	3.9	10.0	32.2	14.8
392.3-Airplanes	15	14.5	75.0	0.35	1.7	15	10.5	75.0	5.5	1.9
392.4 Other Transportation Equipment	20	10.8	14.0	43.81	3.9	20	8.5	14.0	51.0	4.1
392.5-Trucks over 1 Ton	12	5.1	12.0	50.77	7.3	12	3.7	10.0	53.2	9.9
393.0-Stores Equipment	25	NA	NA	NA	11.3	25	2.4	0.0	95.6	1.8
394 - Tools, Shop & Garage Equipment	15	8.0	0.0	46.40	6.7	15	6.4	0.0	61.7	6.0
395.0-Laboratory Equipment	20	15.5	0.0	22.50	5.0	20	11.7	0.0	39.0	5.2
396 - Power Operated Equipment	15	6.8	5.0	51.83	6.3	15	4.1	5.0	73.6	5.2
397 - Communication Equipment	12	7.8	0.0	24.06	9.7	12	5.8	0.0	34.2	11.4
398 - Miscellaneous Equipment	17	11.1	0.0	65.00	3.2	17	9.8	0.0	57.7	4.3

\*Denotes restated reserves after transfers.



PEOPLES GAS COMPANY.  
 2006 DEPRECIATION STUDY

COMPARISON OF EXPENSES

ACCOUNT	CURRENT				COMPANY PROPOSED		COMMISSION APPROVED			CHANGE IN EXPENSES
	1/1/2007	1/1/2007					ESTIMATED			
	INVESTMENT	RESERVE	RATE	EXPENSES	RATE	EXPENSES	RATE	EXPENSES		
	(\$)	(\$)	(%)	(\$)	(%)	(\$)	(%)	(\$)	(\$)	
<b>DISTRIBUTION PLANT</b>										
375.0 Structures & Improvements	14,518,513	3,173,228	2.7	392,000	2.7	392,000	2.8	406,518	14,518	
376.1 Mains Other Than Plastic	249,579,780	127,025,771	*	9,234,452	3.9	9,733,611	4.0	9,983,191	748,739	
376.2 - Mains - Plastic	244,375,429	58,535,386		6,842,512	2.9	7,086,887	2.9	7,086,887	244,375	
378 - Measuring and Regulating Ept. - General	5,858,413	1,464,692	*	228,478	3.9	199,186	3.3	193,328	-35,150	
379 - Measuring and Regulating Ept. - City Gate	8,361,921	2,038,242	*	250,858	3.0	284,305	3.4	284,305	33,447	
380.0 - Services - Other Than Plastic	37,221,547	32,574,935		2,456,622	6.6	3,052,167	8.0	2,977,724	521,102	
380.2 - Services - Plastic	154,668,842	49,599,583		6,805,429	4.4	7,733,442	5.1	7,888,111	1,082,682	
381 - Meters	33,466,693	7,576,454	*	1,807,201	5.4	2,208,802	6.6	2,208,802	401,601	
382 - Meter Installations	34,614,235	11,335,017		1,488,412	4.3	1,730,712	5.0	1,730,712	242,300	
383 - House Regulators	9,643,901	3,722,461	*	443,619	4.6	347,180	3.5	337,537	-106,082	
384 - House Regulator Installations	12,762,371	3,623,764		561,544	4.4	625,356	5.1	650,881	89,337	
385 -Industrial M & R Station Equip	9,366,913	3,224,033		281,007	3.0	318,475	3.4	318,475	37,468	
387 - Other Distribution Equipment	1,737,703	828,902		137,279	7.9	99,049	5.7	99,049	-38,230	
<b>TOTAL DISTRIBUTION PLANT</b>	<b>816,176,261</b>	<b>304,722,468</b>		<b>30,929,413</b>		<b>33,811,172</b>		<b>34,165,520</b>	<b>3,236,107</b>	
<b>GENERAL PLANT</b>										
390.0 Structures & Improvement	1,176,285	201,029		31,760	2.7	34,112	2.9	34,112	2,352	
391.0 -Office Furniture	3,105,726	1,042,960		301,255	9.7	298,150	9.6	236,035	-65,220	
391.1 - Computer Equipment	9,605,498	7,461,279		1,901,889	19.8	691,596	7.2	691,596	-1,210,293	
391.2 - Office Machines	651,777	284,486		43,017	6.6	44,973	6.9	45,624	2,607	
392.1 - Autos & Trucks 3/4 Ton	7,370,626	3,496,478		1,054,000	14.3	766,545	10.4	781,286	-272,714	
392.2- Autos & Trucks 3/4 to 1 Ton	3,682,379	1,183,702		416,109	11.3	544,992	14.8	544,992	128,883	
392.3- Airplanes	6,029,716	328,692		102,505	1.7	114,565	1.9	114,565	12,060	
392.4 - Other Transportation Equipment	271,562	138,431		10,591	3.9	11,134	4.1	11,134	543	
392.5- Trucks Over 1 Ton	1,048,986	558,528		76,576	7.3	103,850	9.9	103,850	27,274	
393.0 - Stores Equipment	56,473	54,008		6,381	11.3	1,073	1.9	1,017	-5,364	
394 - Tools, Shop & Garage Equipment	3,912,405	2,411,938		262,131	6.7	234,744	6.0	234,744	-27,387	
395.0 Laboratory Equipment	129,578	50,482		6,479	5.0	6,868	5.3	6,738	259	
396 - Power Operated Equipment	1,886,714	1,389,199		118,863	6.3	98,109	5.2	98,109	-20,754	
397 - Communication Equipment	5,641,583	1,927,246		547,234	9.7	643,140	11.4	643,140	95,906	
398 - Miscellaneous Equipment	391,519	226,082		12,529	3.2	17,227	4.4	16,835	4,306	
<b>TOTAL GENERAL PROPERTY</b>	<b>44,960,827</b>	<b>20,754,540</b>		<b>4,891,319</b>		<b>3,611,078</b>		<b>3,563,777</b>	<b>-1,327,542</b>	
<b>TOTAL Distribution &amp; General Plant</b>	<b>861,137,088</b>	<b>325,477,008</b>		<b>35,820,732</b>		<b>37,422,250</b>		<b>37,729,297</b>	<b>1,908,565</b>	
<b>TOTAL PLANT</b>	<b>861,137,088</b>	<b>325,477,008</b>		<b>35,820,732</b>		<b>37,422,250</b>		<b>37,729,297</b>	<b>1,908,565</b>	

\*Denotes restated reserves after transfers.