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(904) 413-6480

Public Service Commission

May 3, 1996

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Mr. Ansley Watson, Jr., Esquire
MacFarlane, Ferguson, Allison & Kelly
Post Office Box 1531
Tampa, FL 33601-1531

RE: Docket No. 960404-GU; Application for approval of new depreciation rates by Peoples Gas System, Inc.

Dear Mr. Watson:

Staff is in the process of reviewing Peoples Gas System's depreciation study filed in the above-referenced docket. As a result, questions and the need for additional information have arisen and are covered on the attached.

Please provide your response no later than May 31, 1996. Should you have any questions, please feel free to contact me at (904) 413-6449.

Sincerely,

Rhonda L. Hicks

Rhonda L. Hicks
Regulatory Analyst

RH/
Attachment

cc: Division of Records & Reporting
Division of Electric and Gas (Mills)
Division of Legal Services (V. Johnson)
Office of Public Counsel
Division of Audit and Finance (Lee, Slemkewicz)

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Peoples Gas System, Inc.
Depreciation Study Initial Review
Docket No. 960404-GU

General: Please quantify the impact of your proposed depreciation rates on the amortization of investment tax credits and the flowback of excess deferred income taxes. Please provide detailed workpapers supporting the calculations.

1. Please provide the company's proposed curve shape for each plant account.

2. The Aging of Retirements schedules reflect that the following accounts had assets placed in service and subsequently retired in the same year. Please explain.

Year	Account	Amount
1991	37600 - Mains, other than plastic	$4,780.80
1991	37602 - Mains, plastic	$2,227.06
1991	39700 - Communications equipment	$2,843.10
1992	38100 - Meters	$1,101.82
1993	37500 - Structures and improvements	$394,899.03
1994	37600 - Mains, other than plastic	$2,447.94
1994	37602 - Mains, plastic	$5,273.41
1994	38100 - Meters	$ 53.19
1995	37600 - Mains, other than plastic	$ 83.49
1995	38100 - Meters	$ 354.99
1995	38200 - Meter installations	$9,260.94
1995	38400 - Regulator installations	$3,087.03

3. Please provide the projected investment and reserve balances for each account as of October 1, 1996.

4. Account 37600 - Mains, other than plastic - The study indicated a removal cost of 60% while the company proposes a removal cost of 45%. The company asserts that a reduction in costs is anticipated due to a reduction in costly surface restoration. Has the company done an analysis which indicates a removal cost of 45% is appropriate? What percent of investment in this account is under pavement versus not under pavement? Does the Department of Transportation requirement that mains be physically removed rather than abandoned in place pertain to all or certain

locations? If the requirement does not apply to all locations, what percent of the investment falls under this requirement?

5. Account 37800 - Measuring & regulating station equipment - general - A removal cost of 6.5% was indicated by the study. However, the company proposes the continued use of a removal cost of 4%. The company states that 6.5% is high due to the types of items being retired. Please explain why the company believes these types of retirements won't continue in the future?

6. Account 38000 - Service lines, other than plastic - The study indicates an average service life of 25.9 years. The company proposes an average service life of 32 years as currently prescribed. Why does the company believe that the shorter service life is not indicative of the majority of the steel lines in the system? What percent of the investment in this account is composed of steel lines?

   A removal cost of 103.5% is indicated in the study, while the company proposes the use of a removal cost of 80%. The company indicates that it expects surface restoration costs to decrease in the future. What percent of the investment in this account is under pavement. Has the company projected restoration costs or performed an analysis that shows the requested removal cost of 80% is appropriate?

   For a typical service being retired, please provide the following information for investment under pavement and investment not under pavement:

   A. The number of men on the crew.
   B. The average hourly rate.
   C. Length of time it takes to retire a service line.
   D. The cost of materials involved.
   E. Other miscellaneous costs related to the retirement.

7. Account 38002 - Service lines - plastic - Why are removal costs for plastic service lines so much lower than for steel service lines?

8. Account 38100 - Meters - The study indicates an average service life of 28 years; the current average service life is 25 years. What is the company's justification for the change in life other than the fact that it is the result of the study?

9. Account 38200 - Meter installations; Account 38400 - Regulator installations - What costs are involved in removing an installation? Other companies have taken the position that meter and regulator installations are not retired until the associated service line is retired. This would indicate a life similar to that for service lines. However, the company's study and proposal indicate a much shorter life. Please provide any information you can to explain why meter and regulator installations for Peoples are expected to experience a shorter life than the norm.

10. Account 38700 - Other distribution equipment - Please provide a general description of the assets in this account.

11. Account 39100 - Office furniture - Does the company have any modular furniture? If so, what percent of the investment in this account is related to modular purchases? How often does the company perform an inventory of this account?

12. Account 39101 - Computer equipment - Please provide a breakdown of the investment in this account by PC, Mainframe, and Software. Does the company have any past experience that indicates software living longer than the hardware?

13. Account 39102 - Office Machines ;Account 39300 - Stores equipment ;Account 397 - Communications equipment ; Account 39800 - Miscellaneous equipment - Has the company taken a physical inventory of the assets in these accounts? When was the inventory performed and how often is an inventory taken? If a physical inventory has not been taken, how does the company verify that the assets exist?