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May 24, 1996

IN REPLY REFER TO:

Ansley Watson, Jr.
P. O. Box 1531
Tampa, Florida 33601

VIA FEDERAL EXPRESS

Rhonda L. Hicks, Regulatory Analyst
Division of Auditing & Financial Analysis
Florida Public Service Commission
Capital Circle Office Center
2540 Shumard Oak Boulevard
Tallahassee, Florida 32399-0850

Re: **Docket No. 960404-GU -- Application for approval of new depreciation rates by PEOPLES GAS SYSTEM, INC.**

Dear Ms. Hicks:

We enclose herewith on behalf of Peoples Gas System, Inc., fifteen (15) copies of its responses to the requests for additional information which were enclosed with your letter to the undersigned dated May 3, 1996.

Should you have any further questions of the company, or require any explanation of any of the enclosed information, please do not hesitate to contact me.

I would appreciate your confirming to me your receipt of the enclosures.

Sincerely,

Ansley Watson Jr.

ANSLEY WATSON, JR.

AWjr/a
Enclosures

cc: Division of Records & Reporting (with ~~w/o~~ enclosures)
Mr. Francis J. Sivard (w/o enclosures)

DOCUMENT NUMBER-DATE
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FPSC-RECORDS/REPORTING

PEOPLES GAS SYSTEM, INC.
DOCKET NO. 960404-GU
DEPRECIATION STUDY
STAFF'S INITIAL REVIEW
QUESTION - GENERAL

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 calculation.

Answer: Please refer to the schedule below which is a copy of Page 42 of our Annual Report (PSC/AFA 20) for the year ended December 31, 1995. Our deferred investment tax credits are being amortized at a rate of $7,000 per year. This will leave a balance of only $3,568 at the beginning of our Fiscal Year 1997 when the new depreciation rates are requested to be effective. The $3,568 balance would be fully amortized during FY1997 regardless of the depreciation rates in effect.

Name of Respondent: Peoples Gas System, Inc.

For the Year Ended: Dec. 31, 1995

ACCUMULATED DEFERRED INVESTMENT TAX CREDITS (Account 255)

Report below the information applicable to Account 255. Where appropriate, segregate the balances and transactions by utility and nonutility operations. Explain by footnote any correction adjustment to the account balance shown in column (g). Include in column (i) the average period over which the tax credits are amortized.

Line No.	Account Subdivisions (a)	Balance at Beginning of Year (b)	Deferred for Year: Acct. No. (c)	Deferred for Year: Amount (d)	Allocations to Current Year's Income: Acct. No. (e)	Allocations to Current Year's Income: Amount (f)	Adjustments (g)	Balance at End Year (h)	Average Period of Allocation to Income (i)
1	Gas Utility								
2	3%	17,568			411	7,000		10,568	
3	4%								
4	7%								
5	10%								
6									
7									
8	TOTAL	17,568		0		7,000	0	10,568	
9	Other List separately and show 3%, 4%, 7%, 10% and TOTAL								

Notes

1. Use this space to explain any adjustments made in this period.
2. Use this space to list by year generated and by amount any ITCs that have not been utilized and have not expired by the end of the period.

PEOPLES GAS SYSTEM, INC.
DOCKET NO. 960404-GU
DEPRECIATION STUDY
STAFF'S INITIAL REVIEW
QUESTION NO. 1

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

A.

PLANT ACCT#	DESCRIPTION		PROPOSED CURVE
37500	STRUCTURES AND IMPROVEMENTS		R3
37600	MAINS-OTHER THAN PLASTIC		R3
37602	MAINS-PLASTIC		R3
37800	MEAS.& REG.STA.EQPT-GENERAL		R1
37900	MEAS.& REG.STA.EQPT-CITY GATE		R1
38000	SERVICES-OTHER THAN PLASTIC		R3
38002	SERVICES-PLASTIC		R3
38100	METERS		R4
38200	METER INSTALLATIONS		R4
38300	REGULATORS		R2
38400	REGULATOR INSTALLATIONS		R4
38500	INDUSTRIAL MEAS.& REG.STA.EQPT		R4
38700	OTHER DISTRIBUTION EQUIPMENT		S2
39100	OFFICE FURNITURE		R1
39101	COMPUTER EQUIPMENT		S2
39102	OFFICE MACHINES		R1
39201	AUTOS & TRUCKS THRU 1 TON		S1
39203	AIRPLANES		S4
39204	OTHER TRANSPORTATION EQPT		S1
39205	TRUCKS OVER 1 TON		S4
39300	STORES EQUIPMENT		S4
39400	TOOLS-SHOP & GARAGE EQUIPMENT		S1
39500	LABORATORY EQUIPMENT		S4
39600	POWER OPERATED EQUIPMENT		S4
39700	COMMUNICATIONS EQUIPMENT		R2
39800	MISCELLANEOUS EQUIPMENT		S2

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

A. There are many reasons why items placed in service might be retired within the same year. Governmental action, customer request, lost customer business, theft, damage caused by external forces, and sale of the asset are the most common reasons.

1991 - Mains, steel - $4,780.80
This was a revenue main extension that was completed in early FY1991, then due to a governmental road widening project, the entire main had to be retired and a new one installed at a greater depth.

1991 - Mains, plastic - $2,227.06
A temporary 3/4" plastic main was installed to serve customers while a major upgrade was in progress to serve a shopping mall. Upon completion of the new 2" main, the 3/4" main was retired.

1991 - Communications Equipment - $2,843.10
A rectifier component for one of our telephone systems was damaged beyond repair.

1992 - Meters - $1,101.82
Two new meters were sold to an outside company. Salvage was posted to the account.

1993 - Structures - $394,899.03
The two structures involved were portions of a major improvement project at our Fulford Operation Center in North Miami. This project, which involved construction on both sides of Dixie Highway, was started in 1984 but major problems related to environmental issues delayed completion until 1993. Continued environmental issues with the property on the west side of Dixie Highway forced the demolition of the two structures located on that side. The company was eventually able to utilize the property for an employee parking lot.

1994 - Mains, steel - $2,447.94
A by-pass was built according to D.O.T. specification but later had to be rebuilt due to incorrect sewer sizing. The original by-pass was retired.

1994 - Mains, plastic - $5,273.41
A by-pass was installed to facilitate uninterrupted service to customers during extensive governmental improvements. The by-pass was abandoned at the completion of the project. ($2,372.41)

A revenue main was installed in early FY1994 that had to be retired later that year due to a 36" sewer project by the county. ($2,901.00)

1994 - Meters - $53.19
One meter was damaged beyond repair.

1995 - Mains, steel - $83.49
This main was damaged by outside forces after completion.

1995 - Meters - $354.99
Seven meters were damaged beyond repair.

1995 - Meter Installations - $9,260.94
1995 - Regulator Installations - $3,087.03
Several meter and regulator installations of FY1995 vintage were removed due to inactivity, customer loss, etc. (Please refer to question no. 9 for additional information.)

PEOPLES GAS SYSTEM, INC.
DOCKET NO. 960404-GU
DEPRECIATION STUDY
STAFF'S INITIAL REVIEW
QUESTION NO. 3

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

A.

	ESTIMATED BALANCES	ESTIMATED	ESTIMATED
	AS OF OCTOBER 01, 1996	F/Y 96	F/Y 96
PLANT	DESCRIPTION	PLANT IN	DEPRECIATION
ACCT#		SERVICE	RESERVE
========	============================	==============	===============
37500	STRUCTURES AND IMPROVEMENTS	15,240,336.13	(2,717,184.23)
37600	MAINS-OTHER THAN PLASTIC	134,503,857.77	(57,794,003.92)
37602	MAINS-PLASTIC	71,323,917.61	(15,202,186.61)
37800	MEAS.& REG.STA.EQPT-GENERAL	1,930,207.30	(548,711.87)
37900	MEAS.& REG.STA.EQPT-CITY GATE	3,407,093.64	(1,005,620.75)
38000	SERVICES-OTHER THAN PLASTIC	30,836,008.30	(23,360,653.84)
38002	SERVICES-PLASTIC	55,323,945.24	(18,148,640.62)
38100	METERS	16,285,017.49	(8,308,319.85)
38200	METER INSTALLATIONS	13,352,361.63	(3,426,869.89)
38300	REGULATORS	5,141,588.61	(1,752,983.69)
38400	REGULATOR INSTALLATIONS	4,184,362.63	(1,026,684.45)
38500	INDUSTRIAL MEAS.& REG.STA.EQPT	6,361,620.23	(1,654,743.36)
38700	OTHER DISTRIBUTION EQUIPMENT	965,538.52	(251,593.65)
39100	OFFICE FURNITURE	2,827,208.42	(843,442.87)
39101	COMPUTER EQUIPMENT	14,624,912.83	(8,371,448.99)
39102	OFFICE MACHINES	599,574.19	(331,420.89)
39201	AUTOS & TRUCKS THRU 1 TON	10,674,559.58	(4,857,951.00)
39203	AIRPLANES	1,356,102.70	(1,031,108.84)
39204	OTHER TRANSPORTATION EQPT	211,369.09	(104,574.71)
39205	TRUCKS OVER 1 TON	1,088,403.42	(769,692.12)
39300	STORES EQUIPMENT	93,068.20	(58,514.50)
39400	TOOLS-SHOP & GARAGE EQUIPMEN	3,242,753.88	(796,969.64)
39500	LABORATORY EQUIPMENT	181,467.99	(27,316.73)
39600	POWER OPERATED EQUIPMENT	1,677,039.20	(885,585.75)
39700	COMMUNICATIONS EQUIPMENT	2,440,115.75	(1,993,670.23)
39800	MISCELLANEOUS EQUIPMENT	216,547.63	(57,948.72)
		398,088,977.98	(155,327,841.72)

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?

A. Yes, our data showed certain anomalies taking place in some of our divisions that drove the removal percentage up. Taking these into consideration and using historical data from our previous study, we find that a 45% removal cost applied to the total investment to be appropriate.

Approximately 46% of the investment in this account is under pavement at this time. This percentage is being reduced as our growth pattern continues into suburbs.

The Florida D.O.T. requirement that mains be physically removed pertains to only certain locations. Approximately 10% of the investment does fall into locations where the D.O.T. may require the company to physically remove the pipe.

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?

A. The company beleives these types of retirements will continue in the future to some degree. However, these are only minor items of property and represent only a small portion of the overall investment in this account. We believe that a 4% removal factor applied to the overall investment in this account will be more than sufficient to cover our cost of removal.

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 live is not indicative of the majority of steel lines in the system? What percent of 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.

A. The company believes that the shorter service life is not indicative of the majority of steel lines in the system because service lines of recent vintage have been retired in some of our divisions due to demolition, upgrades and inactivity. The retirements for two of our divisions make up 52% of the total retirements for this account and 56% of these retirements are of a recent vintage. Their investment, however, represents only 25% of the total plant investment. Their retirement activity anomalies have had an undue effect in the service life of the remaining eleven divisions or 75% of the total investment in this account. The company therefore proposed the continued use of 32 years as an average service life which has proven to be the norm for this account.

The investment in this account is composed 100% of steel service lines.

Approximately 30% of the investment in this account is under pavement at this time. This percentage is being reduced as our growth pattern continues into the suburbs. Approximately 70% of the services retired in this study were under pavement.

In reference to our proposed removal cost of 80%, we based this on our growth pattern which will reduce the percentage of costly surface restorations in urban areas. It is not the cost of surface restoration itself that will be reduced, but rather the percentage of removals requiring costly surface restoration. As our percentage of investment in urban areas decreases, so will the removal cost percentage of the overall investment in this account.

For a typical service line, the following costs apply:

		Under Pavement	Not Under Pavement
A.	Number of men on the crew.	2	2
B.	The average hourly rate.	$21.00	$21.00
C.	Length of time it take to retire a service line.	2 hr.	1 hr.
D.	The cost of materials involved.	$20.00	$20.00
E.	Other miscellaneous costs related to the retirement. (Surface restoration)	$60.00	$20.00
	Total Cost	$164.00	$82.00

A nontypical service line would have a higher removal cost.

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

A. The cost to remove a steel service line is approximately 25% higher than the cost to remove a plastic service line. A plastic line is squeezed off with a squeeze off tool and a cap is fused on the end. However, a steel line must be cut in 2 places, the end is threaded and capped.

The following is an example using information contained in the current depreciation study. This example assumes ground conditions are equal, the most common size of pipe is used, and the high cost of surfaces restoration in urban areas is not considered.

1/2" Plastic Service: Average length 82ft.		Original Cost	= $304.22
Average Age: 15 years - 1980 vintage		Removal Cost	= $112.34
Average Cost Per Foot	$3.71		
Average Removal Cost Per Foot	$1.37	Percentage	= 37%
3/4" Steel Service: Average length 82ft.		Original Cost	= $163.1[illegible]
Average Age: 26 years - 1969 vintage		Removal Cost	= $140.22
Average Cost Per Foot	$1.99		
Average Removal Cost Per Foot	$1.71	Percentage	= 86%

This results in a difference in removal cost percentage of approximately 49%.

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?

A. The study accurately indicates an average service life for meters to be 28 years. There were no anomalies in the study that would unduly alter the average service life. Therefore, we can not justify any reason not to use the 28 years indicated in the study.

9. Account 38200 - Meter installations; Account 38400 - Regulator installations - What costs are invo:.ved in removing an installation? Other companies have taken t.1e 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.

A. The costs involved in removing an installation are a one man crew at an average rate of $21.00 per hour taking an average of 3/4 of an hour to complete = $15.75.

In the past, we also took the position that meter and regulator installations were not retired until the associated service line was retired. However, our company has developed enhancements to existing software which now allows us to track meter and regulator installations on a detailed basis. This new procedure was implemented in FY1995. A report is generated monthly that lists all meters that have been removed for inactivity, customer loss, etc. The vintage when the meter was originally installed on a specific premise is included on the report. Meter and regulator installation are retired from our corresponding plant accounts for these vintages on a monthly basis.

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

A. Assets included in this account are as follows:

Combustible Gas Indicators

Carbon Monoxide Sensors

Gas Analyzers

Leak Detectors

Short Detectors

Pipe Locators

Valve Box Locators

Test Meters - Various Types

Breathing Apparatus, Masks, Fire Suites, Etc.

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?

A. Yes, the company has modular furniture. Approximately 44% of the investment in this account is related to modular purchases.

Physical inventories of all assets are taken on a divisional basis at least every five years. The last inventories were taken during our fiscal years 1994 and 1995.

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?

A. The breakdown of the investment in this account is as follows:

Mainframe (leased)	0%
Mainframe - Peripherals	20.93%
Mainframe - Software	56.47%
Telemetering Computer Equipment	5.99%
Printers for PCs	2.20%
Personal Computers including operating software and monitors	14.41%
	100.00%

Yes, the company does have past experience that indicates software living longer than the hardware. The following information relates to the current depreciation study:

	RETIREMENTS		INVESTMENT	
	Average Age/Yrs.	Percent of Retirements	Percent Retired	Percent of Total
Mainframe - Peripherals	7.3	51.84	20.40	5.3
Mainframe - Software	**7.8**	**13.33**	**2.70**	**1.3**
Telemetering Computer Equip.	7.3	5.75	11.00	0.5
Printers for PCs	8.6	1.42	7.41	0.1
Personal Computers including operating software & monitors	6.7	27.65	18.01	2.8

Our major software systems are especially designed for our company's specific needs. They represent over 56% of the total investment in this account, however, less than 3% of this investment was retired in the past 5 years. Approximately 46% of this investment is over 7 years old and 24% is over 10 years old. We have no plans to retire any major portion of this investment in the near future.

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?

A. Yes, the company has taken a physical inventory of the assets in these accounts. Physical inventories of all assets are taken on a divisional basis at least every five years. The last inventories were taken during our fiscal years 1994 and 1995. The following is a schedule of those inventories:

DIVISION	LAST INVENTORY	PREVIOUS INVENTORY
North Miami	April, 1995	April, 1991
Tampa	August, 1994	February, 1992
St. Petersburg	March, 1995	May, 1991
Orlando	April, 1995	March, 1991
Triangle	March, 1995	January, 1991
Jacksonville	February, 1995	February, 1991
Miami	April, 1995	April, 1991
Lakeland	September, 1994	January, 1991
Daytona	February, 1995	February, 1991
Highlands	February, 1995	March, 1991
Sarasota	September, 1994	March, 1990
Palm Beach	August, 1994	April, 1991
Corporate	September, 1995	September, 1991