State of Florida

Public Service Commission

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-M-E-M-O-R-A-N-D-U-M-

DATE: OCTOBER 3, 2002

TO: DIRECTOR, DIVISION OF THE COMMISSION CLERK & ADMINISTRATIVE SERVICES (BAYÓ)

FROM: DIVISION OF ECONOMIC REGULATION (GARDNER, P. LEE, KENNY)
OFFICE OF THE GENERAL COUNSEL (STERN)

RE: DOCKET NO. 010383-GU - APPLICATION FOR APPROVAL OF NEW DEPRECIATION RATES BY TAMPA ELECTRIC COMPANY d/b/a PEOPLES GAS SYSTEM.

AGENDA: 10/15/02 - REGULAR AGENDA - PROPOSED AGENCY ACTION - INTERESTED PERSONS MAY PARTICIPATE

CRITICAL DATES: RATE CASE HEARING IN DOCKET NO. 020384-GU, DECEMBER 13, 2002

SPECIAL INSTRUCTIONS: NONE

FILE NAME AND LOCATION: S:\PSC\ECR\WP\010383.RCM
R:\PSC\ECR\123\010383.123-ATTACHMENTS B-C

CASE BACKGROUND

Rule 25-7.045, Florida Administrative Code (F.A.C.), requires natural gas companies to file a comprehensive depreciation study once every five years. On April 3, 2001, Tampa Electric Company d/b/a Peoples Gas System (Peoples or company) filed its regular depreciation study in accordance with this rule. Peoples' last comprehensive depreciation study was filed on April 1, 1996.

On January 1, 1997, Peoples was acquired by Tampa Electric Company. On June 30, 1997, Peoples acquired the distribution assets of West Florida Natural Gas Company (WFNG).

The main emphasis of the current study is to establish depreciation rates for the combined assets of Peoples and WFNG and

to recognize the effects of procedural changes brought about by the acquisition by Tampa Electric Company.

Staff has completed its review of the depreciation study and presents its recommendation herein. The Commission has jurisdiction in this matter pursuant to Sections 366.04, 366.05, and 366.06, Florida Statutes.

DISCUSSION OF ISSUES

ISSUE 1: Should currently prescribed depreciation rates of Peoples Gas System be changed?

RECOMMENDATION: Yes. A comprehensive review of Peoples Gas System (Peoples or company) planning and activity since its prior depreciation filing indicates a need for a revision in the currently prescribed depreciation rates. (GARDNER, P. LEE)

STAFF ANALYSIS: Peoples' last comprehensive depreciation study was filed on April 1, 1996, with an effective date for revised depreciation rates of October 1, 1996. The company became a separate division of Tampa Electric Company on January 1, 1997. Additionally, Peoples acquired the distribution assets of West Florida Natural Gas (WFNG) on June 30, 1997.

Since Peoples is now a division of Tampa Electric Company, its planning and activities have been brought in line with the policies and procedures of Tampa Electric Company. This has included the closing of Peoples' meter shop in 1999, outsourcing the meter function, and reducing the motor vehicle fleet. Peoples notes that since the merger with Tampa Electric Company, it has doubled its annual investment in building new infrastructure and is moving toward doubling its customer growth.

Regarding the acquisition of WFNG by Peoples, separate depreciation rates have been maintained for the investments of each company since the acquisition. The depreciation rates currently applied to the WFNG investments are those approved by Order No. PSC-96-0470-FOF-EU, issued April 4, 1996, in Docket No. 959776-GU; those applied to the Peoples' investments were approved by Order No. PSC-96-1368-FOF-GU, issued November 18, 1996, in Docket No. 960404-GU. This current study affords the opportunity to address the appropriate lives, salvage values, reserves, and resulting remaining life depreciation rates for the combined company.

In summary, the resulting effects of the merger activities occurring since the last comprehensive depreciation review as well as changes in account activity and company planning indicates that currently prescribed depreciation rates should be revised.

ISSUE 2: What should be the implementation date for the new rates?

RECOMMENDATION: Staff recommends approval of the company's requested January 1, 2003, implementation date for new rates. (GARDNER, P. LEE)

STAFF ANALYSIS: Peoples originally proposed an implementation date for new depreciation rates of January 1, 2002. Subsequent to the depreciation study filing, the company filed for an increase in revenue rates in Docket No. 020384-GU. As a result, the company revised its proposed implementation date for new depreciation rates to January 1, 2003, to more closely match the increase in depreciation rates to new revenue rates.

Peoples updated supportive data and calculations matching a January 1, 2003 date. Accordingly, staff recommends approval of this date.

ISSUE 3: Should any corrective reserve allocations between accounts be made?

RECOMMENDATION: Yes. Staff recommends the reserve allocations shown on Attachment A, page 17. These allocations bring each account more in line with its theoretically correct reserve level. (GARDNER, P. LEE)

STAFF ANALYSIS: This is the first overall review of the company combined investments and reserves since the acquisition by Tampa Electric Company and the merger with WFNG. Reserve imbalances are primarily a matter of differences in current and past projections. Staff believes that such deficiencies should be recovered as fast as possible, unless such recovery prevents the company from earning a fair and reasonable return on its investments. The combined effect of prior rates and allocations results in surpluses and deficits which should be addressed.

The computer account has experienced large retirements unforeseen at the time of Peoples' last study. For the most part, the retirements were the result of equipment hardware upgrades from 1997-2000. Moreover, the computer account is now being separated between customized software and typical computer equipment, such as personal computers and servers. Prior to the acquisition by Tampa Electric Company, Peoples did not have customized software, but used either off-the-shelf software packages or a manual method. Peoples expects benefits from its customized software to be realized over a 15 year period. As a result, the apparent surplus existing in customized software is recommended to be transferred to the computer account to help correct its calculated deficiency.

The vehicles and laboratory accounts have undergone retirements due to the acquisition by Tampa Electric Company and the merger with WFNG. At the time of the last study, the vehicle account included all automobiles and trucks regardless of size. In the current study, Peoples is establishing an additional vehicle account for Autos & Trucks 3/4 ton to 1 ton. Additionally, since the acquisition by Tampa Electric Company, the company implemented a new vehicle policy to reduce the vehicle fleet size, thereby, reducing costs. As a result, surplus vehicles were retired prior to their anticipated service life. The apparent reserve surpluses existing in Account 392.2 and 392.5 as well as the apparent surplus existing in the airplane account (Account 392.3) are being recommended to be transferred to help correct the calculated

reserve deficiency existing in the vehicle account up to 3/4 ton (Account 392.1).

There is currently a negative reserve existing in laboratory equipment (Account 395). The reserve position is the result of three provers being retired after being in service for two and a half years. The retirements were due to Peoples closing its meter shops and outsourcing meter repairs. The calculated reserve surplus existing in tools, shop, and garage equipment (Account 394) can be used to correct the reserve deficiency in laboratory equipment, with the remaining surplus to be transferred to the vehicle account, Account 392.1, to help correct its calculated deficiency.

The last account for which a reserve transfer is being recommended is the stores equipment account (Account 393). This account is currently over accrued by $3,862. Recognizing that little cost of removal should be incurred from the retirement of this equipment, staff recommends that the reserve surplus be transferred to the vehicle account, Account 392.1, to help correct its deficiency.

ISSUE 4: What are the appropriate remaining lives, net salvage, reserve amounts, and resultant depreciation rates for Peoples Gas System?

RECOMMENDATION: The Staff's recommended remaining lives, net salvage value, reserves and resultant rates are shown on Attachment B, page 18. The rates, based on estimated investments as of December 31, 2002, would result in an increase in an annual expense of about $670,000 as summarized on Attachment C, page 19. (GARDNER, P. LEE)

STAFF ANALYSIS: Staff's recommendations are the result of a comprehensive review of the combined Peoples and WFNG filed depreciation study. Attachment B shows a comparison of the current and proposed rate components (lives, salvages, and reserves)and the rate components staff is recommending for final approval. For simplicity, "Current" depreciation rates and components denote those currently prescribed for Peoples. WFNG investments represent only about 8 percent of the combined company. Attachment C, page 19, shows resulting increased expenses of $670,000 based on estimated investments as of December 31, 2002 for the combined plant. The reserve position reflects the recommended reserve allocations recommended in Attachment A, page 17.

It should be noted that the company proposal reflects a reserve position as of January 1, 2002, as this was the original proposed implementation date for new depreciation rates. While the company updated the requisite data to reflect a January 1, 2003, implementation date, its proposed rates were inadvertently not revised.

Additionally, the company's proposed depreciation rates for some accounts are not the arithmetic calculation resulting from the lives, salvage values, and reserve position indicated in the study, but reflect holding the current depreciation rate position. Staff believes that depreciation rates should not be held constant for the sake of maintaining a desired level of expenses. Depreciation rates should be the result of the appropriate life and salvage estimates along with the current reserve position as of the given point in time the analysis is performed.

The company provided aged retirement data and average age distributions of the surviving investments for each account. Investments, reserves, and activity were estimated through December

31, 2002 by the company. As a result of the review and analytical process, staff and the company agree on lives, net salvage values, and resultant depreciation rates for all accounts.

The recommended changes in depreciation rates can be attributed mainly to: (1) activity since the last depreciation study, (2) the merger with Tampa Electric Company and the acquisition of WFNG through the combining of accounts, investments, and, (3) the correction of reserves by transfers to appropriate accounts. A brief discussion of salient matters is set forth below.

Distribution Plant

Mains and Services

Mains and services comprise about 84 percent of the investment in the distribution plant function. Peoples is still in the process of completing a program of system upgrades 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 significant if the lines are under pavement. Surface restoration normally occurs at two locations for each service line retired; 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.

The recommended remaining lives for these accounts simply reflect an update of each account's age to reflect the merger of WFNG and activity since the last depreciation review. Staff recommends a slight increase in the future removal cost for plastic mains. While retirement activity has averaged less than 1 percent during the last five years, removal costs have generally averaged more than 50 percent. The lack of retirement activity necessitates reliance expectations of the analyzes of gas industry activity data in the state. Generally, negative net salvage projections range from negative 6 percent to negative 30 percent for other gas

companies. A negative 10 percent net salvage factor brings Peoples more in the range of these expectations.

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

These accounts contain similar types of equipment and therefore should be expected to have similar life and salvage characteristics. Account 378 consists of regulators and other equipment used to maintain the correct operating pressure throughout the distribution system. Account 379 is comprised of regulators and other equipment used to tie the distribution system to the transmission pipeline. The recommended lives and salvage values are in line with the expected activity for each account.

Meters and Regulators (Accounts 381 and 383)

Meters are used to measure gas consumption at the customer's premise; regulators are used to regulate the gas pressure at the customer's premise. Under Rule 25-7.0461(6), Florida Administrative Code, the accounting treatment for this equipment is cradle-to-grave. At the time a meter or regulator is purchased, the cost is capitalized. A retirement does not occur until final disposition. All costs associated with change-outs and refurbishment are expensed.

The meters account is comprised of three different types of meters: diaphragm, rotary, and turbine. Diaphragm meters comprise about 84 percent of the meter account investment and about 99 percent of the total number of meters. As of June 1999, Peoples ceased the repair of diaphragm meters and closed all meter shops. Diaphragm meter services are now outsourced to the North American Services Group (NASG). The group provides meter services under the standard intest or junk programs approved by the Commissions' safety engineers. When a diaphragm meter is removed, it is sold to NASG where the meter is either refurbished and resold or junked.

The rotary and turbine meter investment assumes status quo. These meters are not being outsourced due to size and cost; they are tested on-site with portable field provers.

In light of the meter outsourcing, the life of the diaphragm meters is more of a location life rather than a cradle-to-grave life. Cradle-to-grave measures the life from the time the meter is

purchased to the time it is junked. The movement from one location to another or from the field to the meter shop for refurbishment does not constitute a retirement.

According to Peoples, meters are now retired at the time they are sold to NASG, regardless if NASG refurbishes them or not. Although the impact of the outsourcing program on the life of the diaphragm meters cannot be fully quantified at this time, staff believes the program will have the effect of shortening the life for these meters while, at the same time, increasing the likelihood of salvage being realized at retirement. For this reason, a reduction in life expectancy with an increase in potential salvage should be recognized. At this time, staff recommends a 23 year average service life with a 5 percent net salvage until the full effect of the new program can be determined.

The new meter program does not include regulators. The company found it would be just as costly to transport and test used regulators as to install a new regulator. There has been an increase in the retirement of regulators while changing out the failed families of meters since more new regulators are installed when installing new meters.

Meter and Regulator Installations (Accounts 382 and 384)

When a meter or regulator is placed in a location which has never before had service, or when an additional meter or regulator is added to an old location (increasing the number at the location), the installation costs are capitalized. Generally, meter and regulator installations are retired only when the meter or regulator is removed from the location and no new one is installed, or when service through the meter or regulator is cut. In other words, the life of these installations should be very similar to the life of services.

However, Peoples developed a tracking system that allows the company to track meter and regulator installations on a detailed basis. With this software, a monthly report is generated which lists all meters that have been removed for inactivity, customer loss, etc. Since the vintage when the meter was originally installed on a specific premise is included on the report, meter and regulator installations of the same vintage are retired from the corresponding plant account.

Notwithstanding this, Peoples discovered that implementing the outsourcing program resulted in account coding errors where new and retiring meter installations were inadvertently charged to the meters account rather than the installation account. According to the company, this problem has now been corrected with a revision to the internal labor tracking system.

Staff recommends an average service life of 27 years for meter and regulator installations. The life is predicated on actions permitted under Rule 25-12.045, Florida Administrative Code, Inactive Service Lines. When a service line has been inactive for two years, a company has the option of disconnecting and physically abandoning the service line, locking a valve and plugging the service line to prevent the flow of gas, or removing the meter and plugging the service line. After five years of inactivity, the service line is physically retired. Staff's recommended 27 year average service life recognizes that installations could conceivably live five years less than the life of the service, but not be less than the service life of the meter. Installations are rarely retired prior to the date the service ends or the meter is removed due to inactivity. Peoples' policy is to retire the meter and regulator installations at the time the service ends, regardless of the prospect for reuse.

General Plant Accounts

Computer Equipment (Account 391.1)

This account is comprised of desktop and laptop computers and computer servers. The company established a separate account for customized software in 1999, applying the depreciation rate approved for computer equipment until a more appropriate recovery period is approved by the Commission.

During the Staff's review, it was determined that the computer account included $9,905,374 in investment with $7,024,477 in accumulated reserve associated with customized software. Staff recommends that this investment and associated reserve be transferred to the customized software account. The investments and reserves shown on Attachment C reflect this transfer.

The life expectancy of computer equipment is technology driven. While Peoples does not expect its computers to change-out as fast as TECO's, a life shorter than the currently prescribe 8 year

service life is in order. Staff, therefore, recommends a 6 year service life, 1.6 year remaining life, and zero percent salvage as being reasonable for this type of equipment.

Autos & Trucks up to 3/4 Ton and 3/4 to 1 Ton (Accounts 392.1 and 392.2)

Initially, Account 392.1-Vehicles, included all autos and trucks regardless of size. The two changes impacting this account are the implementation of a new vehicle policy by Tampa Electric Company and the close of Peoples' Sales and Service line of business in 1998.

The new vehicle policy reflects a restructuring effort to reduce costs. Greater restrictions are now placed on the issuance of a company owned vehicle resulting in only a select number of supervisory level positions being assigned a company vehicle. The new policy has eliminated the need for a large fleet of vehicles and excess vehicles have been sold. The total Peoples' vehicle fleet has decreased from 599 vehicles in 1996 to 389 vehicles currently.

Additionally, Peoples' Tax Department requested the separation of trucks based on weight in order to facilitate the calculation of taxes. This new requirement has created an account for trucks from 3/4 ton up to 1 ton (Account 392.2).

Airplanes (Account 392.3)

The last depreciation review reflected the cost of a single airplane which was purchased in 1985. The aircraft was retired in October 2000. A new airplane was purchased on December 27, 2000, to serve on an interim basis until Peoples received an ordered Cessna airplane in September 2001. The salvage realized from the retirement of the 1985 airplane and the interim airplane amounted to 71 percent of the combined original costs. A 15 year service life and a 75 percent salvage value is recommended for the current investment for the new Cessna aircraft as being in line with past experience, as well as, information Peoples received from the aircraft vendor.

Communication Equipment (Account 397.0)

The investment in this account is comprised mainly of telemetering equipment. A 12 year service life, 7.8 year remaining

life, and zero salvage are recommended as being in line with the expected activity of the equipment.

Customized Software (Account 303.1)

As discussed earlier, customized software has historically been recorded in the computer account. The current applied rate is based on an 8 year service life. The investment is comprised of software such as billing systems, customer information systems, and SCADA equipment customized specifically for Peoples. Customized software is generally amortized over a period of time in which the benefits are expected to be realized. According to Peoples, this type of software should be expected to provide benefits for 15 years. Recognizing the investment average age of about 7 years, an 8 year remaining amortization appears appropriate.

ISSUE 5: Should the current amortization of investment tax credits and the flowback of excess deferred income taxes be revised to reflect the approved depreciation rates and recovery schedules?

RECOMMENDATION: Yes. The current amortization of investment tax credits (ITCs) and the flowback of excess deferred income taxes (EDIT) should be revised to match the actual recovery periods for the related property. The utility should 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, 2003. (KENNY)

STAFF ANALYSIS: In earlier issues, staff recommends revisions to the Company's remaining lives, to be effective January 1, 2003. Revising a utility's book depreciation lives generally results in a change in its rate of ITC amortization and flowback of EDIT in order to comply with the normalization requirements of the Internal Revenue Code (IRC) and underlying Regulations (REGs) found in Sections 46, 167, and 168 and 1.46, 1.67, and 1.68, respectively.

Section 46(f) (6), IRC, states that the amortization of ITCs should be determined by the period of time actually used in computing depreciation expense for rate making purposes and on the regulated books of the utility. Since staff is recommending a change in remaining lives, it is also important to change the amortization of ITCs to avoid violation of the provisions of sections 46 and 1.46, IRC and REGs, respectively.

Section 203(3) of the Tax Reform Act of 1986 (the Act) prohibits rapid flowback of depreciation related (protected) EDIT. Further, Rule 25-14.013, Accounting for Deferred Income Taxes Under SFAS 109, Florida Administrative Code, generally prohibits EDIT from being written off any faster than allowed under the Act. The Act, SFAS 109, and Rule 25-14.013, Florida Administrative Code, regulate the flowback of EDIT. Therefore, staff recommends that the flowback of EDIT be adjusted to comply with the Act, SFAS 109, and Rule 25-14.013, Florida Administrative Code.

Staff, the Internal Revenue Service, and independent outside auditors look at a company's books and records and at the orders and rules of the jurisdictional regulatory authorities to determine if the books and records are maintained in the appropriate manner, and to determine the intent of the regulatory bodies in regard to normalization. Therefore, staff recommends that the current

amortization of ITCs and the flowback of EDIT be revised to reflect the approved remaining lives. In order for there to be a clear audit trail, a prudent utility will revise ITCs and EDIT amortization and produce work papers to show how the revisions were made.

ISSUE 6: Should this docket be closed?

RECOMMENDATION: If no person whose substantial interests are affected by the proposed agency action files a protest within 21 days of the issuance of the order, this docket should be closed upon the issuance of a consummating order. (STERN)

STAFF ANALYSIS: At the conclusion of the protest period, if no protest is filed, this docket should be closed upon the issuance of a consummating order.

Attachment A

Reserve Allocations					
Account		Estimated 01/01/2003 Reserve	Theoretical Reserve	Recommended Allocations	Restated 01/01/2003 Reserve
		($)	($)	($)	($)
391.1	Computer Equip.	4,767,562	7,591,659	2,313,504	7,081,066
392.1	Autos & Trucks up to 3/4 Ton	1,728,758	3,943,050	1,033,659	2,762,417
392.2	Autos & Trucks 3/4 Ton to 1 Ton	474,614	187,166	(287,448)	187,166
392.3	Airplanes	533,549	21,104	(512,445)	21,104
392.5	Trucks over 1 Ton	637,891	528,077	(109,814)	528,077
393.0	Stores Equip.	60,665	56,803	(3,862)	56,803
394.0	Tools, Shop, Garage Equip.	2,026,851	1,757,000	(269,851)	1,757,000
395.0	Laboratory Equip.	(120,606)	29,155	149,761	29,155
303.1	Customized Software	8,445,857	6,132,353	(2,313,504)	6,132,353
Total		18,555,141	20,246,367	0	18,555,141

PEOPLES GAS SYSTEM
2001 STUDY
COMPARISON OF RATES AND COMPONENTS

DOCKET NO. 010383-GU
DATE: October 3, 2002

Attachment B

ACCOUNT		CURRENT AVERAGE REMAINING LIFE (YRS.)	CURRENT NET SALVAGE (%)	CURRENT REMAINING LIFE RATE (%)	COMPANY PROPOSED AVERAGE REMAINING LIFE (YRS.)	COMPANY PROPOSED NET SALVAGE (%)	COMPANY PROPOSED ESTIMATED 01/01/2002 RESERVE (%)	COMPANY PROPOSED REMAINING LIFE RATE (%)	STAFF RECOMMENDED AVERAGE REMAINING LIFE (YRS.)	STAFF RECOMMENDED NET SALVAGE (%)	STAFF RECOMMENDED ESTIMATED 01/01/2003 RESERVE (%)	STAFF RECOMMENDED REMAINING LIFE RATE (%)
DISTRIBUTION ASSETS												
375.0	Structures & Improvements	32.0	(4.0)	2.7	29.5	(4.0)	18.54	2.7	30.0	0.0	17.66	2.7
376.0	Mains - Other Than Plastic	25.0	(45.0)	4.1	27.2	(45.0)	40.47	4.1	28.0	(45.0)	41.41	3.7
376.2	Mains - Plastic	33 0	(6.0)	2.6	32.7	(7.0)	21.71	2.6	32.0	(10.0)	21.22	2.8
378.0	M&R Equipment - General	23.0	(4.0)	3.3	24.9	(3.2)	25.50	3.1	22.0	(5.0)	19.78	3.9
379.0	M&R Equipment - City Gate	24.0	(4.0)	3.1	23.9	(4.0)	31.02	3.1	24.0	(5.0)	32.69	3.0
380.0	Services - Other Than Plastic	15.6	(80.0)	6.7	14.5	(80.0)	77.93	7.0	14.6	(80.0)	83.13	6.6
380.2	Services - Plastic	28.0	(35.0)	3.7	24.8	(35.0)	30.13	4.2	24.0	(35.0)	30.40	4.4
381.0	Meters	13.9	2.0	3.4	21.4	2.0	38.98	3.4	13.2	5.0	23.69	5.4
382.0	Meter Installations	11.6	(18.0)	8.0	11.2	(18.0)	35.73	8.0	18.0	(18.0)	40.01	4.3
383.0	House Regulators	19.0	0.0	3.5	19.0	0.0	34.21	3.5	14.1	0.0	35.83	4.6
384.0	Regulator Installations	12.6	(18.0)	7.4	11.5	(18.0)	34.87	7.4	18.4	(18.0)	36.24	4.4
385.0	Industrial M&R Station Equipment	25.0	0.0	3.0	22.6	0.0	31.43	3.0	22.0	0.0	34.35	3.0
387.0	Other Equipment	9.4	0.0	7.9	9.3	0.0	36.55	6.8	9.3	0.0	26.29	7.9
GENERAL PLANT												
390.0	Structures & Improvements	40.0	0.0	2.5	31.7	0.0	15.28	2.5	31.0	0.0	16.83	2.7
391.0	Office Furniture	10.4	1.0	6.7	9.5	1.0	13.81	6.7	9.5	0.0	8.31	9.7
391.1	Computer Equipment	4.3	2.0	9.5	3.3	2.0	48.17	12.0	1.6	0.0	68.35 *	19.8
391.2	Office Machines	9.1	4.0	4.5	7.6	0.0	100.11	4.5	7.6	0.0	49.56	6.6
392.1	Autos & Trucks up to 3/4 Ton	4.7	10.0	9.5	4.6	10.0	26.40	9.5	4.2	10.0	29.80 *	14.3
392.2	Autos & Trucks 3/4 to 1 Ton	4.7	10.0	9.5	7.0	10.0	10.17	9.5	7.1	10.0	9.77 *	11.3
392.3	Airplanes	12.0	25.0	6.3	14.5	75.0	12.34	1.0	14.5	75.0	0.35 *	1.7
392.4	Other Transportation Equipment	11.1	14.0	3.3	10.7	14.0	42.85	3.3	10.8	14.0	43.81	3.9
392.5	Trucks over 1 Ton	4.6	5.0	5.3	4.6	12.0	65.05	4.95	5.1	12.0	50.77 *	7.3
393.0	Stores Equipment	3.3	0.0	11.3	1.1	0.0	100.00	11.3				
394.0	Tools, Shop, Garage Equipment	9.4	1.0	7.9	8.0	1.0	46.64	6.6	8.0	0.0	46.40 *	6.7
395.0	Laboratory Equipment	15.7	0.0	5.4	15.7	0.0	(102.41)	9.4	15.5	0.0	22.50 *	5.0
396.0	Power Operated Equipment	6.1	5.0	6.9	6.5	5.0	57.82	5.7	6.8	5.0	51.83 *	6.3
397.0	Communication Equipment	4.0	0.0	4.6	10.5	0.0	29.18	6.7	7.8	0.0	24.06	9.7
398.0	Miscellaneous Equipment	13.2	0.0	5.5	11.1	0.0	54.80	4.1	11.1	0.0	65.00	3.2
303.1	Customized Software	4.3	2.0	9.5	15 Year Remaining Amortization				8 Year Remaining Amortization			

* Restated reserve after corrective reserve allocations.

PEOPLES GAS SYSTEM
2001 STUDY
COMPARISON OF EXPENSES

DOCKET NO. 010383-GU
DATE: October 3, 2002

Attachment C

ACCOUNT	ESTIMATED 1/1/03 INVESTMENT ($)	ESTIMATED 1/1/03 RESERVE ($)		CURRENT RATE (%)	CURRENT EXPENSES ($)	COMPANY PROPOSED RATE (%)	COMPANY PROPOSED EXPENSES ($)	COMPANY PROPOSED CHANGE IN EXPENSES ($)	STAFF RECOMMENDED RATE (%)	STAFF RECOMMENDED EXPENSES ($)	STAFF RECOMMENDED CHANGE IN EXPENSES ($)
DISTRIBUTION ASSETS											
375.0 Structures & Improvements	16,487,058	2,912,217		2.7	445,151	2.7	445,151	0	2.7	445,151	0
376.0 Mains - Other Than Plastic	254,304,002	105,317,711		4.1	10,426,464	4.1	10,426,464	0	3.7	9,409,248	(1,017,216)
376.2 Mains - Plastic	178,382,691	37,859,354		2.6	4,637,950	2.6	4,637,950	0	2.8	4,994,715	356,765
378.0 M &R Equipment- General	6,265,798	1,239,230		3.3	206,771	3.1	194,240	(12,531)	3.9	244,366	37,595
379.0 M&R Equipment - City Gate	5,466,723	1,786,872		3.1	169,468	3.1	169,468	0	3.0	164,002	(5,466)
380.0 Services - Other Than Plastic	36,132,621	30,035,268		6.7	2,420,886	7.0	2,529,283	108,397	6.6	2,384,753	(36,133)
380.2 Services - Plastic	112,498,827	34,200,267		3.7	4,162,457	4.2	4,724,951	562,494	4.4	4,949,948	787,491
381.0 Meters	25,335,604	6,003,267		3.4	861,411	3.4	861,411	0	5.4	1,368,123	506,712
382.0 Meter Installations	25,106,561	10,045,716		8.0	2,008,525	8.0	2,008,525	0	4.3	1,079,582	(928,943)
383.0 House Regulators	9,115,435	3,265,706		3.5	319,040	3.5	319,040	0	4.6	419,310	100,270
384.0 Regulator Installations	8,770,542	3,178,044		7.4	649,020	7.4	649,020	0	4.4	385,904	(263,116)
385.0 Industrial M&R Station Equipment	8,808,184	3,025,280		3.0	264,246	3.0	264,246	0	3.0	264,246	0
387.0 Other Equipment	2,129,927	560,064		7.9	168,264	6.8	144,835	(23,429)	7.9	168,264	0
TOTAL DISTRIBUTION	688,803,973	239,428,996			26,739,653		27,374,584	634,931		26,277,612	(462,041)
GENERAL PLANT											
390.0 Structures & Improvements	922,204	155,178		2.5	23,055	2.5	23,055	0	2.7	24,900	1,845
391.0 Office Furniture	3,008,675	249,926		6.7	201,581	6.7	201,581	0	9.7	291,841	90,260
391.1 Computer Equipment	10,359,796	7,081,066	*	9.5	984,181	12.0	1,243,176	258,995	19.8	2,051,240	1,067,059
391.2 Office Machines & Equipment	464,362	230,144		4.5	20,896	4.5	20,896	0	6.6	30,648	9,752
392.1 Autos & Trucks up to 3/4 Ton	9,269,040	2,762,417	*	9.5	880,559	9.5	880,559	0	14.3	1,325,473	444,914
392.2 Autos & Trucks 3/4 to 1 ton	1,915,721	187,166	*	9.5	181,993	9.5	181,993	0	11.3	216,476	34,483
392.3 Airplanes	6,029,716	21,104	*	6.3	379,872	1.0	60,297	(319,575)	1.7	102,505	(277,367)
392.4 Other Transprotation Equipment	253,189	110,915		3.3	8,355	3.3	8,355	0	3.9	9,874	1,519
392.5 Trucks Over 1 Ton	1,040,135	528,077	*	5.3	55,127	4.95	51,487	(3,640)	7.3	75,930	20,803
393.0 Stores Equipment	56,803	56,803	*	11.3	6,419	11.3	6,419	0	NA	0	(6,419)
394.0 Tools, Shop, Garage Equipment	3,786,639	1,757,000	*	7.9	299,144	6.6	249,918	(49,226)	6.7	253,705	(45,439)
395.0 Laboratory Equipment	129,578	29,155	*	5.4	6,997	9.4	12,180	5,183	5.0	6,479	(518)
395.6 Power Operated Equipment	2,132,619	1,105,430		6.9	147,151	5.7	121,559	(25,592)	6.3	134,355	(12,796)
397.0 Communication Equipment	3,520,218	846,946		4.6	161,930	6.7	235,855	73,925	9.7	341,461	179,531
398.0 Miscellaneous Equipment	312,839	203,346		5.5	17,206	4.1	12,826	(4,380)	3.2	10,011	(7,195)
TOTAL GENERAL PLANT	43,201,534	15,324,673			3,374,466		3,310,156	(64,310)		4,874,898	1,500,432
303.0 Customized Software	13,216,278	6,132,353	*	9.5	1,255,546	12.0	1,585,953	330,407	8 Yr. Amortization	885,491	(370,055)
GRAND TOTAL	745,221,785	260,886,022			31,369,665		32,270,693	901,028		32,038,001	668,336

* Restated reserve after corrective reserve allocations.