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Public Service Commission

September 6, 2006

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COMMISSION
CLERK

Ms. Brenda Irizarry
Regulatory Affairs
Peoples Gas System
P. O. Box 2562
Tampa, Florida 33601-2562

Re: Docket No. 060496-GU

Dear Ms. Irizarry:

Staff's initial review regarding Peoples Gas System's depreciation study filed in the above referenced docket is attached. In order to complete the review and meet a January 23, 2007, agenda date, please provide the Company's response by October 13, 2006.

CMP _____ Should you have any questions, or need further information, please do not hesitate to contact
COM _____ Betty Gardner at (850) 413-6742.

CTR _____

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OTH Attachment

Sincerely,

John Slemkewicz
Public Utilities Supervisor

DOCUMENT NUMBER - DATE
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cc: Office of General Counsel (Brown)
Office of Public Counsel
Division of Economic Regulation (Devlin, Bulecza-Banks)
Macfarlane Ferguson & McMullen (Watson)

Peoples Gas System
Docket No. 060496-GU
September 6, 2006

INITIAL REVIEW

General

For the 2004 and 2005 hurricane seasons, did Peoples Gas experience any storm damage? If so, please provide a detailed explanation as to how the company handled any storm damage to plant assets and affected accounts.

Account 303.1 Customized Software

The 2003 Annual Status Report shows an increase to this account due to a transfer in plant investment and reserve in the amount of \$9,873,755 and \$7,080,763, respectively.

1. What type of equipment was transferred and why was it necessary?
2. Please explain in detail the plant accounts impacted by the above transfer.

Account 375 Structures and Improvements

1. Please explain the nature of the 2001 retirement and salvage in the amount of \$3,938,933 and \$3,002,010, respectively.
2. What is the nature of the addition in the amount of \$4,218,211? Please explain in detail.
3. Please explain the nature of the 2004 retirement in the amount of \$2,232,687 with a corresponding salvage in the amount of \$1,570,854.
4. In 2004, a transfer of reserve in the amount of \$2,922 was made without a corresponding plant investment. Please explain.

Account 376 Mains, Other Than Plastic

1. Please explain the increase in additions for 2002 and 2003 for this account. Also, why were there less retirements for this period.
2. Please explain the nature of the 2003 and 2005 retirements for this account.
3. Please explain why the cost of removal continued to increase for the periods of 2001 through 2005 for this account.

4. In 2004, \$17,271 was transferred to the reserve without a corresponding transfer of investment. Please explain.
5. Please explain what assets were sold in 2005 that resulted in \$214,563 salvage.

Reference: Filing Requirement 6(h)

6. The company states that the cast iron, age 46.5 years, located in Jacksonville was retired in previous years, and was never removed from the books. Please provide the year the cast iron was retired, the depreciation rate at the time of retirement, and the amount, if any, depreciation expense has been incurred since the investment remained on the books.
7. For this account, please explain in detail why the retired Lake Apopka and Grande Lakes Resorts main pipes created such unusual transactions. Also, include the year of retirement pertaining to each unusual transaction.

Account 376 Mains, Plastic

1. From 2002 through 2004, this account experienced a substantial increase in additions for each of the stated years. Please explain in detail.
2. For this account, the company states that mains were retired due to government improvements. Please explain.
3. For 2003, please explain why \$47,767 was transferred out of this account.
4. Please explain what assets were sold in 2005 that resulted in a return of \$101,532 of salvage.
5. In 2004, plant investment and reserve in the amount of \$5,192 and \$8,755, respectively, was transferred out of this account. Please explain.

Reference: Filing Requirement 6 (H)

6. Please explain in detail the unusual transaction that occurred with the retirement of Lake Apopka main pipes. Please include in the explanation when the pipes were put in-service, what annual report addresses plant and reserve activity, and the date the main pipes were retired.

Account 378 Measuring & Regulating Station Equipment General

1. For this account, please provide, the retirement date, cost of removal, and salvage, if any, for the two odorant injection systems.
2. Please explain in detail the closing of the Jacksonville substation to include the date closed, assets removed or sold, cost of removal and salvage. Also, was the negative net salvage experienced in this account due to the closing of the substation and disposal of the odorant injections systems or some other action by the company?

Reference: Filing requirement 6(h)

3. Please explain in detail the retirement of Lake Apopka Regulating Station which created the unusual transaction that distorted salvage and age in the amount of \$745 cost and salvage of \$499.20

Account 380 Service Lines, Other Than Plastic

1. Peoples' last depreciation study data reflected a removal cost of 163.7% and the company requested a removal cost of 80%. For the current study, the removal cost has decreased to 153.2%, which is a 10.5% decrease, and the company is requesting a removal cost of 90%. Please provide a detailed explanation why an increase in removal cost to 90% should be considered, when the data of the current depreciation study reflects a decline.

Account 380-02 Service Lines, Plastic

1. 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.
2. What are the specific services that are susceptible to higher removal costs?
3. For the total services provided for the current study, please provide the percentage of services that incurred high removal costs.

4. As staff reviewed the trends of this account, there occurred an upward spike in removal costs for the current study during 2001 through 2003, which was followed by a downward turn in 2004 and 2005. This is in contrast to the last depreciation study where a downward turn occurred for the last three years (1998-2000). The company requested to maintain a 35% removal cost. Based upon the stated information, are the fluctuations in removal costs due to internal scheduling of services for the cast iron replacement program? Please explain.

Account 381 Meters

1. For this account, Peoples Gas' current study indicates salvage of 0%, but states it is incorrect due to programming of a 2003 enhancement made to the software that stopped the salvage from clearing to the reserve. This problem was corrected and the additional salvage unitized in April 2006.
 - a. Based upon the annual status reports for 2001, 2002, and 2003, the reported salvage dollars were \$234,946, \$56,424, and \$79,653, respectively. The indicated salvage for the current study is appropriately four percent (4%). Please explain why the company chose 0% salvage.
 - b. If salvage was corrected and unitized in 2006, please provide the correct salvage amount for each affected year. Also, if the data in the annual status reports are in error, please provide the corrections based upon how it should be reported.

Account 382 and 384 Meter and Regulator Installations

1. Peoples Gas states that the new tracking system is working correctly but the report written from the system is incorrect. This caused the asset records to be corrupt. The company requested permission to recreate the aged records since the necessary information is now available.
 - a. Has Peoples corrected all the corrupt data?
 - b. How long will it take for Peoples to recreate the aged records?
 - c. Are the life parameters proposed for this account based upon any current data or data from the last study? Please explain.

Account 385 Industrial Measuring & Regulating Station Equipment

1. In 2003, a transfer of investment occurred in the amount of \$171,723 from this account with no corresponding transfer of reserve. Please explain.

Account 391.1 Computers Equipment

1. For this account, please explain in detail the nature of the 2003 transfer of investment and reserve in the amount of \$9,647,813 and \$6,897,750, respectively.
2. The aging of retirements schedule, on page 11 of 13, shows negative retirements in the amount of \$1,893.92 and 4 cents for 2000 and 2002, respectively. Please explain why this occurred and submit any supporting documentation for clarification.
3. The last depreciation study shows an approved average service life of 6 years for computer equipment and 8 years remaining amortization for customized software. The change in service life was based upon the life expectancy of computer equipment that is technologically driven.
 - a. Have there been any substantial changes to this account since the last depreciation study to necessitate the change in the average service life to 8 years instead of the Commission approved 6 years?

Account 393 Stores Equipment

1. Please provide a description of the new assets added to this account.
2. When were the first assets added to this account?
3. Please explain why you propose the same life parameters that were used in studies prior to 1996?

PRODUCTON OF DOCUMENTS

1. For Account 391.1, please provide a list of all computer equipment. Please include the total investment, date acquired, amortization rate, and the retirement date.
2. For Account 303.1, please provide a list of all computer software. Please include the total investment, date acquired, amortization rate, and the retirement date.