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Public Service Commission

November 21, 2006

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

Re: Docket No. 060496-GU

Dear Ms. Irizarry:

Enclosed is the Staff Report regarding your current depreciation study filed in the above-referenced docket. The Company's response to this report is due on December 15th, in order to meet the targeted recommendation date of January 10, 2007. In your response, please provide us with any concurrences, differences, and/or additional input.

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

Sincerely,

John Slemkewicz by CBS

John Slemkewicz
Public Utilities Supervisor

- BG:sc
- CMP Attachment
- COM cc: Office of General Counsel (Brown)
- CTR Division of the Commission Clerk and Administrative Services
- ECR Office of Public Counsel
- GCL Division of Economic Regulation (Devlin, Willis, Bulecza-Banks)
- OPC Macfarlane Ferguson & McMullen (Watson)
- RCA
- SCR
- SGA
- SEC
- OTH

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Peoples Gas Company
Docket No. 060694-GU

General

Only the areas where staff disagrees with Peoples Gas System's (Peoples Gas or company) depreciation study proposal or that need further clarification and information are addressed in the staff report.

The staff's recommended average service lives and average remaining lives are rounded to one decimal point up to 20 years and to the nearest whole year is used thereafter.

The company's proposed reserve transfers for the distribution accounts appears reasonable but the general plant accounts were not addressed. This issue can be further addressed by staff and the company or the company can propose additional reserve transfers in its response to this report.

Distribution Plant

Structures and Improvements (Account 375): Staff accepts as reasonable the company's proposal to continue with a 40 year average service life and zero percent net salvage. Also, using the current average age of 12.1 years and the R3 curve which was approved in the previous study, staff calculated a remaining life of 28 years which is different from the company's 28.9 years.

Mains, Other Than Plastic (Account 376): Continuation of the currently approved 40 year average service life appears reasonable. Using the current average age of 15.6 years, and the R3 curve which was approved in the last study, staff proposes a remaining life of 25 years. Also, staff accepts as appearing reasonable, the company's request to change net salvage from a negative 45 percent to negative 50 percent based upon the analysis of account data using a five year band.

Mains, Plastic (Account 376.02): Upon staff's review of plant account data, the continuation of the currently approved 40 year average service life, and the increase of negative net salvage from 10 percent to 15 percent appears reasonable. Using the current average age of 9.2 years and the R3 curve, staff is proposing a remaining life of 31 years. Also, staff recognizes that this account continues to experience early retirements due to government-required improvements.

Measuring and Regulating Station Equipment-General (Account 378): Continuation of the currently approved R1 curve, 31 year average service life, and a negative net salvage of 5 percent appears reasonable. Using the current age of 10 years and the R1 curve, staff proposes a remaining life of 24 years.

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Measuring and Regulating Station Equipment – City Gate (Account 379): Staff recognizes that this account normally consists of minor items of property retired due to upgrades, but has experienced the disposal of older injection systems. Therefore, the continuation of the previously prescribed R1 curve, 31 year average service life, and a negative net salvage of 5 percent appears reasonable. Using the current age of 10.1 years and the R1 curve, staff proposes a remaining life of 34 years.

Service Lines, Other Than Plastic (Account 380.1): The company's ongoing cast iron replacement program continues to show an increase in removal costs due mainly to labor and material costs. The activity for the depreciation period of this study indicates a removal cost of 153.2 percent due to the continuation of the cast iron replacement program. Staff accepts the company's proposed increase in negative net salvage from 80 to 90 percent as reasonable and the proposed continuation of a 32 year average service life. Using the current age of 21.7 years and the R3 curve, staff proposes a remaining life of 12.8 years.

Service Lines, Plastic (Account 380.02): The company's continued use of a 32 year average service life as prescribed in the last depreciation study appears reasonable. Using the current age of 9 years and the R3 curve, staff proposes a remaining life of 23 years.

Meters (Account 381): In the previous depreciation study, the company's meter shop was outsourced. At that time this account had a 23 year life and a negative net salvage of 5 percent because of the lack of sufficient historical data on the new program to establish life parameters. Based upon the provided account data, it appears reasonable for the company to change from the R4 to L1 curve and an average service life of 16 years. Using the current average age of 6.3 years and the L1 curve, staff is recommending an average remaining life of 11.2 years.

Meter Installation, House Regulators, and House Regulator Installations (Account 382 through 384): During the last depreciation study, the company implemented a new tracking system to track meter installations on a detailed basis. Based on the company's response to the initial review, additional time is needed to correct corrupted data and provide an updated report on these accounts. Staff has discussed the problem with the company and will not make any comments concerning this account until the corrected data has been provided.

Industrial M & R Station Equipment (385): Continuation of the previously prescribed life parameters which includes the R4 curve, 32 year average service life, and proposed negative net salvage of 3 percent appear reasonable and in line with the Florida gas industry. Using the current average age of 12 years and the R4 curve, staff is recommending an average remaining life of 20 years.

Other Equipment (Account 387): Continuation of the previously prescribed life parameters of a 16 year average service life and a net salvage of zero percent appear

reasonable and in line with the industry. Using the current average age of 7.3 years and the S2 curve, staff is recommending an average remaining life of 9.1 years.

General Plant

Structures & Improvement (Account 390): Staff accepts the company's continuation of the previously prescribed 40 year average service life and a net salvage of zero percent appears reasonable and in line with the industry. Using an average age of 11.4 years and the R3 curve with a 40 year average service life, staff is recommending an average remaining life of 29 years.

Office Equipment (Account 391.0): Staff accepts the company continuation of the previously prescribed life parameters of a 15 year average service life and a net salvage of zero percent appears reasonable and in line with the industry. Using the current average age of 9.3 years and the R1 curve, staff is recommending an average remaining life of 8.7 years. The company proposed an average remaining life of 6.9 years. Please provide staff with any additional information or corrected data the company used to support its calculations.

Computer Equipment (Account 391.1): The company stated in its response to the initial review that an asset had been transferred in from the subsidiary, TECO Gas Services, which is now a part of Peoples Gas. When did TECO Gas Services become a part of Peoples Gas? Please explain in detail. Also, in the previous study, the company moved all longer life assets to Account 303.1 and maintained in this account mostly packaged computer equipment. Please identify what will be expensed since this account has a combination of laptops, desktops, and computer servers. If the company has new technology procedures, please provide staff with a copy. Also, using the current average service life of 8 years, a current average age of 5.7 years, and the S2 curve, staff is recommending an average remaining life of 3.2 years.

Office Machines, (Account 391.2): Staff accepts the company's continuation of the previously prescribed average service life of 15 years and zero net salvage as appearing reasonable and in line with the industry. Using the R1 curve, average service life of 15 years, and an average age of 10.2 years, staff is recommending an average remaining life of 8.1 years.

Autos & Trucks ¾ Ton (Account 392.1): Staff accepts the company's continuation of the previously prescribed average service life of 8 years and zero net salvage as appearing reasonable and in line with the industry. Using the S1 curve, average service life of 8 years, and an average age of 5.2 years, staff is recommending an average remaining life of 3.9 years.

Autos & Trucks ¾ Ton to 1 Ton (Account 392.2): Staff accepts the company's proposal to make changes from an average service life of 8 to 7 years, the S4 to S1 curve, and to maintain the previously prescribed 10 percent net salvage which appears reasonable and

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in line with the industry. Using the S1 curve, an average service life of 7 years, and an average age of 3.7 years, staff is recommending an average remaining life of 4.0 years instead of the company's proposed 3.9 years due solely to staff's rounding of 3.95 years to one decimal point.

Other Transportation Equipment (Account 392.4): Staff accepts the company's change from the S5 to S3 curve which appears reasonable and in line with the industry.

Trucks over 1 Ton (Account 392.5): Staff accepts the company's change from an S3 to S4 curve appearing as reasonable and in line with the industry.

Stores Equipment (Account 393): Staff accepts as reasonable for this account, the company's proposal of continuing the use of the average service life of 25 years, net salvage of zero percent, and depreciation rate of 11.3 percent. Based upon a review of the last depreciation study, this account was fully depreciated with an account balance of \$69,060. A review of the Annual Status Reports for the activity period of 2001 through 2005, shows the occurrence of additions (in 2002) and retirements in the amount of \$4,362 and \$16,949, respectively. Staff analysis shows that the additions in the amount of \$4,362 are being depreciated at the rate of 11.3 percent resulting in \$493 of yearly depreciation expense. In the activity year of 2003, depreciation accrued in the amount of \$4,329, retirements \$3,562, and a transfer out of \$3,864. Also, of the \$56,473 plant in service there exists \$52,111 of fully depreciated plant. Please explain how in 2003 this account accrued \$4329 on an investment of \$4,362. Also, please explain in detail the transfer of plant dollars in the amount of \$3,864. Include in your explanation the plant account that received the transfer.

Laboratory Equipment (Account 395): Staff accepts the company's continuation of the previously prescribed average service life of 20 years and zero net salvage which appears reasonable and in line with the industry. Using the S1 curve, average service life of 20 years, and the current average age of 9.8 years, staff is recommending an average remaining life of 11.7 years.

Miscellaneous Equipment (Account 398): Staff accepts the company's continuation of the previously prescribed average service life of 17 years and zero net salvage which appears reasonable and in line with the industry. Using the R2 curve, current average service life of 17 years, and an average age of 8.7 years, staff is recommending an average remaining life of 9.8 years.