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December 13, 2006

VIA FEDEX

Blanca S. Bayo, Director
Division of Commission Clerk & Administrative Services
Florida Public Service Commission
2540 Shumard Oak Boulevard
Tallahassee, Florida 32399-0850

RECEIVED FPSC
06 DEC 14 PM 3:10
COMMISSION
CLERK

Re: Docket No. 060496-GU -- Application for approval of new depreciation rates effective January 1, 2007, by Peoples Gas System

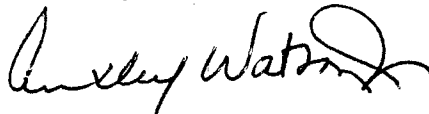
Dear Ms. Bayo:

Enclosed for filing with the Commission on behalf of Peoples Gas System, please find the original only of Peoples Gas System's response to the Staff Report regarding the Company's depreciation study in this docket, which report was transmitted to the Company via letter dated November 21, 2006.

Please acknowledge your receipt of the enclosures and the date of their filing on the enclosed copy of this letter, and return the same to me in the enclosed preaddressed envelope.

Thank you for your usual assistance.

Sincerely,



Ansley Watson, Jr.

RECEIVED & FILED

FPSC-BUREAU OF RECORDS

DOCUMENT NUMBER-DATE

11451 DEC 14 06

FPSC-COMMISSION CLERK

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- SGA _____ Enclosures
- SEC 1 cc: Mrs. Kandi M. Floyd
- OTH _____

Peoples Gas System
Docket No. 060496-GU
Response to Staff Report dated Nov 21, 2006

General

Company understands Staff's rounding process of one decimal point up to 20 years and to the nearest whole year thereafter. Company's only reply will be "Company agrees" where this is the only discrepancy.

The company has no further reserve transfer proposals. There are general plant accounts with a surplus, however, the company held off on any reserve transfers due to near future retirements being discussed that may impact the balances.

Distribution Plant

Structures and Improvements (Account 375): Company's proposed remaining life is 28.5, not 28.9 and therefore agrees with Staff's rounded remaining life of 28 years.

Mains, Other Than Plastic (Account 376): Company agrees.

Mains, Plastic (Account 37602): Company agrees.

Measuring and Regulating Station Equipment-General (Account 378): Company agrees.

Measuring and Regulating Station Equipment-City Gate (Account 379): Company believes Staff's proposed remaining life of 34 years was intended to be 24 years and would agree with Staff.

Service Lines, Other Than Plastic (Account 380): Company's proposed remaining life of 12.5 differs slightly from Staff's calculation of 12.8, but company will agree with Staff.

Service Lines, Plastic (Account 38002): Company agrees.

Meters (Account 381): Company's proposed remaining life of 11.3 differs slightly from Staff's calculation of 11.2, but company will agree with Staff.

Meter Installation, House Regulators, and House Regulator Installations (Account 382 through 384): Company is still working on correcting data for meter and regulator installations. This is a very tedious and manual process. We will forward information to Staff when complete. However, House Regulators (Account 38300) should not be included with this process. Like Meters, House Regulators are booked in its own account and does not use the report that caused the corrupt data.

Industrial M & R Station Equipment (Account 385): Company agrees.

Other Equipment (Account 387): Company's proposed remaining life of 9.2 differs slightly from Staff's calculation of 9.1, but company will agree with Staff.

General Plant

Structures & Improvement (Account 390): Company agrees.

Office Equipment (Account 39100): The R1 13 curve was used in error rather than the R1 15. Company agrees with Staff's calculation of 8.7.

Computer Equipment (Account 39101): The response in the initial review was meant to say that an asset was transferred from TECO Gas Services (the asset itself became a PGS asset, not the company). The asset was transferred in September 2003.

Software was moved to 30301. This account has packaged software, servers, printers, etc. What will be expensed are new computers (both desktops and laptops). Mainframe equipment, servers, printers, etc. will continue to be capitalized in this account.

Company's proposed remaining life of 3.1 differs slightly from Staff's calculation of 3.2 but company will agree with Staff.

Office Machines (Account 39102): Company's proposed remaining life of 8.2 differs slightly from Staff's calculation of 8.1, but company will agree with Staff.

Autos & Trucks Up To ¾ Ton (Account 39201): Company's proposed remaining life of 4.1 differs slightly from Staff's calculation of 3.9, but company will agree with Staff.

Autos & Trucks ¾ Ton to 1 Ton (Account 39202): Company agrees.

Other Transportation Equipment (Account 39204): Company agrees.

Trucks over 1 Ton (Account 39205): Company agrees.

Stores Equipment (Account 39300): Company agrees.

In 2002, the additions were in Account 106 (Completed, Not Classified). While in account 106, the plant in service receives depreciation because it is in service. In 2003, the additions were unitized (Classified). However, because of utility accounting (Group Accounting), the rate applies to the group, not just new additions. This plant account or group was fully depreciated until the assets were added, so no depreciation was accrued. Once the additions were unitized to the group, depreciation was calculated on the whole group. Our software system considers the "group" as the entire company, not the division. Since we want the depreciation to remain at the "division" level, in Oct 2003, we had the vendor change the system to look at the group as the division. There were no other assets in this account at the division where the additions were booked, so the

calculation of \$493 remains. The PSC had us transfer the excess accrual in order PSC-02-1647-CO-GU, their Attachment A.

Laboratory Equipment (Account 395): Company's proposed remaining life of 11.6 differs slightly from Staff's calculation of 11.7, but company will agree with Staff.

Miscellaneous Equipment (Account 398): Company's proposed remaining life of 9.7 differs slightly from Staff's calculation of 9.8, but company will agree with Staff.