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COMMISSION
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Public Service Commission

September 19, 2011

Paula K. Brown
Regulatory Affairs
Peoples Gas System
P.O. Box 2562
Tampa, FL 33601-2562

Re: Docket No. 110232-GU: Peoples Gas System's Petition for Approval of its 2011 Depreciation Study

Dear Ms. Brown:

The staff is in the process of reviewing the depreciation study filed by Peoples Gas System in the above referenced docket. As a result of staff's initial review questions have arisen, which are covered on the attachment.

Please provide your response by October 21, 2011. If there are any questions, please contact Sue Ollila at (850) 413-6540.

Sincerely,

A handwritten signature in black ink, appearing to read "Dave Dowds".

Dave Dowds
Supervisor, Cost Analysis Section

Attachment

cc: Office of the Commission Clerk
General Counsel (Brown)
Office of Public Counsel
Division of Economic Regulation (Willis, Bulecza-Banks)
Ansley Watson, Jr.

DOCUMENT NUMBER - DATE

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FPSC-COMMISSION CLERK

General Questions

1. Please refer to bates-stamped pages 19-23 of the 2011 depreciation study. It appears that some of the comparative analyses for Florida Public Utilities and Florida City Gas are not correct. For example, Peoples Gas System (Peoples or PGS) states that Florida Public Utilities Account 37500 - Structures & Improvements has an average remaining life of 15.1 years; Peoples cites from Order No. PSC-09-0229-PAA-GU as the source. However, staff reviewed this Order and found that the approved average remaining life for Florida Public Utilities for this account was 14.4 years.
2. Please explain how PGS developed its forecast of 2011 plant in service and accumulated depreciation, including any assumptions used.
3. Is cost of removal treated as an asset retirement obligation (ARO)? If yes, please list the relevant accounts (where COR is treated as an ARO) and explain why cost of removal is treated as an ARO.
4. In its discussion of several accounts (see, e.g., Account 376.00 – Mains, Other than Plastic (steel mains), bates-stamped pages 3-4), PGS proposes retaining the lower prescribed life due to “lack of sufficient data” because “limited retirement data [is] available from only 1983 – 2011.” Did PGS consider using a longer study period in an effort to include more retirement data? When there is limited retirement data, should the current service life, in general, be retained? Please explain your response.
5. Please explain how limited retirement data in a study affects curve shape. For example, PGS proposes retaining its R3 curve for steel mains. Did PGS consider proposing a different curve because of the limited retirement data for this or any other account? Please explain your answer.
6. Does PGS believe that the net salvage it has seen in the last five years in accounts such as Account 380.00 – Service Lines, Other than Plastic (steel services) is a reflection of the volume of retirements? That is, if the level of retirements were to increase in steel services, does PGS believe it would gain efficiencies in removal cost that would result in a less negative cost of removal? Could this result generally be extrapolated to other accounts, such as steel mains? Please explain your answer.

Account-Specific Questions

7. Please refer to Account 374.02 - Land Rights. This Account has had one retirement in the past 28 years. The current prescribed average service life (ASL) shown on page 13 is 32 years. The Company states that the study indicates a 50-year ASL. However, the Company is proposing a 75-year ASL. Please provide more information supporting the company's proposal of a 75-year ASL, since statistical analysis is meaningless.

8. Does PGS have a program to replace steel mains? If yes, please describe the replacement program in detail, including when it began, how long it is expected to last, and the rate of replacement. If no, does PGS anticipate instituting such a replacement program? Why or why not?
9. Does PGS install new steel mains? If yes, please explain why new steel mains are installed rather than plastic ones.
10. Does PGS know the percentage of its retirements of steel mains required by the Department of Transportation to be physically removed? If yes, what is the percentage?
11. The annual net salvage analysis for steel mains (bates-stamped page 155) shows the net salvage percentage has varied from (38) to (275) percent between 2006 – 2010. What are the reasons for these year-to-year variances?
12. The current net salvage is (50) percent for steel mains, with a cumulative net salvage of (59) percent and a five-year band of (99) percent. Please explain how PGS determined that the appropriate net salvage should be (60) percent as opposed to, for example, (55) or (65) percent.
13. Between 2006 and budget year 2011, the additions to Account 376.02 – Mains, Plastic (plastic mains) were greater than the additions to steel mains, except in 2009. Please explain why 2009 was different.
14. The annual net salvage analysis for plastic mains (page 197) shows the net salvage percentage has varied from (30) to (150) percent between 2006 – 2010. What are the reasons for these year-to-year variances?
15. The current net salvage is (15) percent for plastic mains, with a cumulative net salvage of (29) percent and a five-year band of (59) percent. Please explain how PGS determined that the appropriate net salvage should be (25) percent as opposed to, for example, (20) or (30) percent.
16. In what year(s) were the retirements, cost of removal, and gross salvage booked for the special disposal of the injection systems and removal of a substation for Accounts 378 and 379 (Measuring and Regulating Station Equipment – General and City Gate, respectively)?
17. In its analysis of retirement, cost of removal, and gross salvage data for Accounts 378 and 379, did PGS adjust the data to eliminate the effect of the removal of the injection systems and substation? If yes, what were the results? If no, please explain why not.
18. Please explain why there are no additions or retirements forecast for 2011 for Account 379.

19. Does PGS have a program to replace steel services? If yes, please describe the replacement program in detail, including when it began, how long it is expected to last, and the rate of replacement. If no, does PGS anticipate instituting such a replacement program? Why or why not?
20. Does PGS install new steel services? If yes, please explain the reasons to install new steel services rather than new plastic services.
21. Does PGS insert plastic pipe into existing steel services? If yes, please explain the accounting treatment for the steel service line that becomes a conduit for plastic services.
22. The current net salvage is (90) percent for steel services, with a cumulative net salvage of (146) percent and a five-year band of (229) percent. Please explain how PGS determined that the appropriate net salvage should be (100) percent as opposed to, for example, (95) or (105) percent.
23. Please refer to PGS' response to the staff report from the previous study (Docket No. 060496-GU), dated October 12, 2006, pages 4-5, Account 380, steel services, for the following questions.
 - a. Has PGS continued to study the cost of removal? If yes, please explain your results. If no, is the 2006 information generally still accurate? Please explain your answer.
 - b. Has PGS implemented changes that are designed to minimize or reduce the cost of removal? Please explain your answer.
 - c. Have all of the cast iron replacements occurred? If yes, when were the replacements complete? If no, when is the expected completion?
 - d. Has PGS studied the cost of removal for other accounts, including plastic services, steel and plastic mains, meters, and regulators? If so, what are the results?
24. Please refer to PGS' response to the staff report from the previous study (Docket No. 060496-GU), dated October 12, 2006, page 5, plastic services, item number 1.
 - a. Has the information in the response been updated? If yes, please provide the update. If no, does PGS still use both employee and contractor crews to remove plastic services?
 - b. Does PGS use its employees as well as contractors to remove steel services, steel and plastic mains, meters, and regulators? If the answer is both PGS employees and contractors, please explain why and when contractors are used instead of employees. If cost information is available, please provide it.

25. The current net salvage is (50) percent for plastic services, with a cumulative net salvage of (58) percent and a five-year band of (70) percent. Please explain how PGS determined that the appropriate net salvage should be (55) percent as opposed to, for example, (60) percent.
26. Please identify the docket number and order number in which the change from cradle-to-grave to location life accounting for Account 381 – Meters (meters) was approved.
27. Is cradle-to-grave or location life accounting used for Account 383 – Regulators (regulators)?
28. Does PGS believe that the meters and regulators accounts should be handled in the same way, i.e., should they both be location life or cradle-to-grave accounting? Why or why not?
29. The current net salvage is (20) percent for Account 384 – Regulator Installations, with a cumulative net salvage of (55) percent and a five-year band of (25) percent. Please explain how PGS determined that the appropriate net salvage should remain at (20) percent as opposed to, for example, an increase to (25) percent.
30. Please refer to Account 385 - Industrial M&R Equipment. The Company is proposing a zero net salvage for this Account. Please provide justification for increasing net salvage from negative three percent to zero percent. The study states “limited retirement data”; please explain what this means.
31. The investment in Account 386 – Other Property Customer Premise was retired and the accumulated depreciation brought to \$0 in 2006. There has been no investment in this account since 2006 and no investment is anticipated in the 2011 budget year. Please explain why PGS is proposing an increase in average service life; i.e., does PGS anticipate future investment in this account? Please explain your answer.
32. Please refer to Account 390 - Structures & Improvements.
 - a. Does the Company own or lease its headquarters building?
 - b. What has retired in this account over the last five years to realize such a high salvage?
33. Please refer to Account 39200 - Vehicles. What is the Company’s policy concerning retirement of a vehicle? For example, does the Company retire after a certain mileage is reached, age is reached, or maintenance costs reach a certain level?
34. Please refer to Account 392.01- Vehicles up to ½ Ton. Bates-stamped pages 14 and 531 indicate this Account consists of vehicles up to ½ ton. However, bates-stamped page 7 indicates the Account contains vehicles up to ¾ ton. Please reconcile these statements.

35. Please refer to Account 391 - Office Furniture.
- a. How often does Peoples perform an inventory of its office furniture?
 - b. What percent of the investment in this account is modular furniture?
 - c. The Company states that statistical analysis indicates an average service life of 17 years but is based on limited retirement data. The retirement rate over the past five years has averaged 1.7%. Generally, if the retirement rate is less than 1 percent, relying on statistical analysis is meaningless. However, this is not the case for this Account. Please provide more information on why the company is choosing not to use the statistical analysis.
36. Please refer to Account 391.01 - Computer Equipment. Does the Company have plans to retire any computer equipment during the next five years? If yes, please identify the investment and related in-service year planned for retirement. If no, please explain why.
37. Please refer to Account 391.02 - Office Machines.
- a. How often does Peoples perform a physical inventory?
 - b. When was the last inventory performed?
 - c. What were the results of the last inventory?
38. Please refer to Account 393 - Store Equipment.
- a. How often does Peoples perform a physical inventory?
 - b. When was the last inventory performed?
 - c. What were the results of the last inventory?
 - d. Net salvage for the past five years has averaged 33%. What caused this high net salvage to be realized?
39. Please refer to Account 394 - Tools.
- a. How often does Peoples perform a physical inventory?
 - b. When was the last inventory performed?
 - c. What were the results of the last inventory?

40. Please refer to Account 395 - Laboratory Equipment.
 - a. How often does Peoples perform a physical inventory?
 - b. When was the last inventory performed?
 - c. What were the results of the last inventory?

41. Please refer to Account 396 – Power Operated Equipment.
 - a. How often does Peoples perform a physical inventory?
 - b. When was the last inventory performed?
 - c. What were the results of the last inventory?

42. Please refer to Account 397 - Communication Equipment.
 - a. How often does Peoples perform a physical inventory?
 - b. When was the last inventory performed?
 - c. What were the results of the last inventory?
 - d. Why does the Company believe that a 12-year life continues to be reasonable for this Account given the lack of retirements and an 8.8-year age?

43. Please refer to Account 398 – Miscellaneous Equipment.
 - a. How often does Peoples perform a physical inventory?
 - b. When was the last inventory performed?
 - c. What were the results of the last inventory?
 - d. Please explain the reasons supporting the retention of a 17-year average service life given the fact that there has been scant retirement activity and the average age is 13.4 years.