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IN REPLY REFER TO:

Ansley Watson, Jr.  
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March 23, 2012

## VIA FEDEX

Ann Cole  
Commission Clerk  
Florida Public Service Commission  
2540 Shumard Oak Boulevard  
Tallahassee, Florida 32399-0850

RECEIVED-FPSC  
MAR 26 AM 11:45  
COMMISSION  
CLERK

**Re: Docket No. 110320-GU -- Petition for approval of Cast Iron/Bare Steel Pipe Replacement Rider (Rider CI/BSR), by Peoples Gas System**

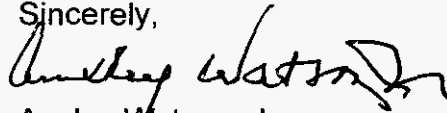
Dear Ms. Cole:

Enclosed for filing with the Commission on behalf of Peoples Gas System, please find the original and five (5) copies of Peoples' responses to the Commission Staff's Third Data Request dated March 15, 2012 in the above docket.

Please acknowledge your receipt of the enclosures 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.

AWjr/a  
Enclosures

cc: Martha C. Brown, Esquire  
Ms. Kandi M. Floyd

COM \_\_\_\_\_  
APA \_\_\_\_\_  
ECR 3  
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**PEOPLES GAS SYSTEM  
DOCKET NO. 110320-GU  
STAFF'S THIRD DATA REQUEST  
REQUEST NO. 1  
PAGE 1 OF 1  
FILED: MARCH 26, 2012**

1. In Peoples response to staff's first data request Items 12 c and 12 e, Peoples stated that the return on equity component and aggregate ad valorem tax rate utilized in the original petition should be updated. Does Peoples intend to file a revised "Original Sheet No. 7.806-2" tariff from Exhibit B on page 19 of the petition?
  - A. Yes, an updated tariff sheet is attached and will be filed with the items that need correction upon Commission approval of the rider.

**PEOPLES GAS SYSTEM  
DOCKET NO. 110320-GU  
STAFF'S THIRD DATA REQUEST  
REQUEST NO. 2  
PAGE 1 OF 6  
FILED: MARCH 26, 2012**

2. In response to item 11, Peoples stated that "The assumptions for the \$7 million annual investment to be recovered through the rider is based upon a historical review of main replacement costs and the future costs to replace facilities based on current contractor pricing for the company's east and west regions." Then, on pages 517 and 518, the Company provided a breakdown of the projected total costs for the east and west regions, respectively. Based on this information:
- a. Please explain why the total project costs for the east region, shown on page 517, are not adjusted for inflation, as indicated in note 3 of the schedule, while the cost rates for the west region, shown on page 518, are adjusted for inflation.
  - b. On page 518, please explain how the weighted average replacement costs for 2012 of \$80,000 and \$900, for mains and services, respectively, relate to the weighted averages shown for 2011, with the Company's 4% annual inflation assumption.
  - c. Please provide the assumptions, calculations, or indices used to arrive at the 4% annual inflationary rate used in the Company's calculations, as shown on page 518.
- A.
- a. The analysis was conducted independently by the east and west region project management groups based upon their respective area individual contractor pricing and review of historical cost data. The east region chose not to include an adjustment for inflation because they felt their estimate was sufficient to account for inflation. In addition, while projected costs have been determined by the best available data sources, the company will provide true-ups annually or as otherwise determined.
  - b. The \$80,000 and \$900 replacement costs for mains and services are rounded estimates utilized to account for potential contingencies as well as inflation from 2011 costs. The company will ultimately only recover the actual costs incurred for the replacement of cast iron and bare steel mains and services.
  - c. For both mains and services, PGS west region projected an inflation rate of 1.5 percent due to increases in company labor, contract renewals and material increases. The other 2.5 percent

**PEOPLES GAS SYSTEM  
DOCKET NO. 110320-GU  
STAFF'S THIRD DATA REQUEST  
REQUEST NO. 2  
PAGE 2 OF 6  
FILED: MARCH 26, 2012**

increase is due to the increasing difficulty of projects as a result of increased restoration costs and pavement avoidance by directionally drilling.

Peoples Gas System  
a Division of Tampa Electric Company  
Original Volume No. 3

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**CAST IRON/BARE STEEL REPLACEMENT RIDER  
RIDER CI/BSR**

The monthly bill for Gas Service in any Billing Period shall be increased by the CI/BSR Surcharge determined in accordance with this Rider. CI/BSR Surcharges approved by the Commission for bills rendered for meter readings taken on or after \_\_\_\_\_, 2012, are as follows with respect to Customers receiving Gas Service under the following rate schedules:

<u>Rate Schedule</u>	<u>CI/BSR Surcharge</u>
Residential/Residential Standby Generator	\$0.00139 per therm
Small General Service	\$0.00122 per therm
General Service – 1/ Commercial Standby Generator Service	\$0.00066 per therm
General Service – 2	\$0.00063 per therm
General Service – 3	\$0.00047 per therm
General Service – 4	\$0.00046 per therm
General Service – 5	\$0.00021 per therm
Commercial Street Lighting	\$0.00234 per therm
Natural Gas Vehicle Service	\$0.00108 per therm
Wholesale	\$0.00047 per therm

The CI/BSR Surcharges set forth above shall remain in effect until changed pursuant to an order of the Commission.

CI/BSR Surcharges shall be determined in accordance with the provisions of this Rider set forth below.

**Definitions**

For purposes of this Rider:

"Eligible Replacements" means the following Company plant investments that (i) do not increase revenues by directly connecting new customers to the plant asset, (ii) are in service and used and useful in providing utility service and (iii) were not included in the Company's rate base for purposes of determining the Company's base rates in its most recent general base rate proceeding:

Mains and service lines, as replacements for existing cast iron, wrought iron and bare steel facilities, and regulators and other pipeline system components the installation of which is required as a consequence of the replacement of the aforesaid facilities.

"CI/BSR Revenues" means the revenues produced through CI/BSR Surcharges, exclusive of revenues from all other rates and charges.

Peoples Gas System  
a Division of Tampa Electric Company  
Original Volume No. 3

**CAST IRON/BARE STEEL REPLACEMENT RIDER**  
**RIDER CI/BSR**

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<u>Rate Schedule</u>	<u>CI/BSR Surcharge</u>
<u>Residential/Residential Standby Generator</u>	<u>\$0.0013953 per therm</u>
<u>Small General Service</u>	<u>\$0.0012234 per therm</u>
<u>General Service – 1/ Commercial Standby Generator Service</u>	<u>\$0.0006673 per therm</u>
<u>General Service – 2</u>	<u>\$0.0006370 per therm</u>
<u>General Service – 3</u>	<u>\$0.0004754 per therm</u>
<u>General Service – 4</u>	<u>\$0.000468 per therm</u>
<u>General Service – 5</u>	<u>\$0.000212 per therm</u>
<u>Commercial Street Lighting</u>	<u>\$0.002344 per therm</u>
<u>Natural Gas Vehicle Service</u>	<u>\$0.0010800 per therm</u>
<u>Wholesale</u>	<u>\$0.000479 per therm</u>

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Mains and service lines, as replacements for existing cast iron, wrought iron and bare steel facilities, and regulators-stations and other pipeline system components the installation of which is required as a consequence of the replacement of the aforesaid facilities.

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Peoples Gas System  
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Original Volume No. 3

**CAST IRON/BARE STEEL REPLACEMENT RIDER**  
**RIDER CI/BSR**  
(continued)

- (d) An annual petition setting forth proposed CI/BSR Revenue Requirements and Surcharges to be effective for the 12-month period beginning January 1 following the annual hearing. Such proposed CI/BSR Revenue Requirements and Surcharges shall take into account the data filed pursuant to paragraphs (a), (b), and (c) of this section.

The Company shall establish separate accounts or subaccounts for each Eligible Replacement for purposes of recording the costs incurred for each project. The Company shall also establish a separate account or subaccount for any revenues derived from CI/BSR Surcharges.

**Calculation of the CI/BSR Revenue Requirements and CI/BSR Surcharges**

In determining the CI/BSR Revenue Requirements, the Commission shall consider only (a) the net original cost of Eligible Replacements (i.e., the original cost less associated retirements of existing infrastructure); (b) the applicable depreciation rates as determined and approved by the Commission based on the Company's most recent depreciation study; (c) the accumulated depreciation associated with the Eligible Replacements; and (d) the current state and federal income and ad valorem taxes; and (e) the Company's weighted average cost of capital as determined during the Company's most recent base rate proceeding.

The CI/BSR Revenue Requirements and CI/BSR Surcharges for each rate class shall be calculated as follows:

Line	Description	Value	Source
1	Revenue Expansion Factor	1.6280	As calculated in most recent base rate proceeding, using current tax rates
2	Ad Valorem Tax Rate	1.79%	Property Tax Rate
3	Mains	\$	Eligible Replacements - Mains
4	Services	\$	Eligible Replacements - Services
5	Regulators	\$	Eligible Replacements - Regulators
6	Gross Plant	\$	Line 3 + Line 4 + Line 5
7	Accumulated Depreciation	\$	Line 12 + Previous balance
8	Construction Work In Progress	\$	Construction work not in service
9	Net Book Value	\$	Line 6 - Line 7 + 8
10	Average Net Investment	\$	Line 9 + Previous balance / 2
11	Return on Average Net Investment	\$	Line 10 x debt and equity components as calculated in most recent base rate proceeding
12	Depreciation Expense	\$	(Line 3 x mains rate) + (Line 4 x services rate) + (Line 5 x regulators rate)
13	CI/BSR Revenue Requirements	\$	(Line 11) + (Line 12) + Property Taxes

Issued By: G. L. Gillette, President  
Issued On: December 14, 2011

Effective:

Peoples Gas System  
a Division of Tampa Electric Company  
Original Volume No. 3

**CAST IRON/BARE STEEL REPLACEMENT RIDER**  
**RIDER CI/BSR**  
(continued)

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The CI/BSR Revenue Requirements and CI/BSR Surcharges for each rate class shall be calculated as follows:

<u>Line</u>	<u>Description</u>	<u>Value</u>	<u>Source</u>
1	Revenue Expansion Factor	1.6280435	As calculated in most recent base rate proceeding, using current tax rates
2	Ad Valorem Tax Rate	1.7935%	Property Tax Rate
3	Mains	\$	Eligible Replacements - Mains
4	Services	\$	Eligible Replacements - Services
5	Regulator Stations	\$	Eligible Replacements - Regulator Stations
6	Gross Plant	\$	Line 3 + Line 4 + Line 5
7	Accumulated Depreciation	\$	Line 120 + Previous balance
8	Construction Work In Progress	\$	Construction work not in service
98	Net Book Value	\$	Line 6 - Line 7 + 8
109	Net Operating Income Average Net Investment	\$	Line 98 + x Previous balance / 2 weighted average cost of capital allowed in most recent rate proceeding
11	Return on Average Net Investment	\$	Line 10 x debt and equity components as calculated in most recent base rate proceeding
120	Depreciation Expense	\$	(Line 3 x mains rate) + (Line 4 x services rate) + (Line 5 x regulators rate)
134	CI/BSR Revenue Requirements	\$	(Line 110 x Line 1) + (Line 120) + Property Taxes