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# Public Service Commission

July 29, 2016

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COMMISSION  
CLERK

Ms. Kandi M. Floyd  
Manager – State Regulatory  
Peoples Gas System  
P.O. Box 111  
Tampa, Florida 33601-0111

**Re: Docket No. 160159-GU, Petition for approval of 2016 Depreciation Study by Peoples Gas System.**

Ms. Floyd,

Staff has completed its initial review regarding Peoples Gas System's 2016 Depreciation Study and we have some questions. Please provide your responses to the attached data and documents request by August 26, 2016.

Should you have any questions, or need further information, please do not hesitate to contact Jenny Wu at (850) 413-7005.

Sincerely,

A handwritten signature in black ink, appearing to be "JW".

Jenny Wu  
Economic Analyst

Attachment

cc: General Counsel (Mr. W. Trierweiler)  
Office of Commission Clerk ✓  
Office of Public Counsel  
Ms. P. Brown, Regulatory Affairs, Peoples Gas System  
Mr. Ansley Watson, Jr. Attorney for Peoples Gas System

**Staff's First Data Request**

General

1. Pursuant to Rule 25-7.045(6), F.A.C., please provide Peoples Gas System (PGS) 2011 – 2015 annual depreciation status reports in electronic format with the formulas and links intact and unlocked.
2. Please identify, and provide corresponding explanation, for all the substantiating factors utilized by PGS in the design of its proposed depreciation rates included in PGS' 2016 Depreciation Study (2016 Study) for the specific category, such as company growth, changes in technology, physical conditions, trends, etc.
3. Please identify, and provide corresponding explanation, for all the new plans and/or projects that PGS has planned to implement within 2016 – 2020, if such plan/project would result in material changes in additions, retirements, and salvage in any depreciation account included in 2016 Study.
4. For all the tangible plant assets recorded in the general plant accounts:
  - a. How often does PGS perform a physical inventory for each account?
  - b. When was the last inventory performed for each account?
  - c. What were the corresponding results of the last inventory for each account?

Account 37500 Structures & Improvements

5. Referring to page 105 of 2016 Study, please explain why the account incurred gross salvage of negative \$4,872 in 2015.

Account 37600 – Mains, Other Than Plastic

6. Please refer to the “Cast Iron and Base Steel replacement program (CIBS Replacement Program)” discussed on page 3 of 2016 Study for the following questions.
  - a. Please explain what the CIBS Replacement Program is.
  - b. Please identify when the CIBS Replacement Program commenced.
  - c. Please identify when the CIBS Replacement Program will be, has been, completed.
  - d. Please identify the dollar amount associated with the CIBS Replacement Program annually and in total, respectively.

- e. Please identify the major activities of the CIBS Replacement Program.
  - f. What percent of plant assets in Account 37600 has been replaced resulting from the CIBS Replacement Program.
  - g. What percent of plant investment remaining in this account will be replaced due to the CIBS Replacement Program.
  - h. Please explain how the CIBS Replacement Program relates to the following:
    - i. The “program to replace bare unprotected steel main replacement” that PGS formally notified the Commission on 02/28/2001, and discussed in PGS’ response to question, No. 8, in Docket No. 110232-GU PGS’ 2011 Depreciation Study (2011 Study); and
    - ii. The “bare steel and cast iron main pipeline replacement schedule” that PGS provided to the Commission by 11/20/2011 which was referred to in PGS’ response to Staff’s First Data Request, No. 8, in Docket No. 110232-GU.
7. Please refer to pages 3 and 10 of 2016 Study for the following questions:
- a. Please specify how the average service life (ASL) of Account 37600 was affected by the CIBS Replacement Program so that the ASL of the account should be increased from 40 years to 50 years.
  - b. Please provide the justifications for PGS’ proposal of increasing in ASL of Account 37600, and explain why the appropriate ASL should be 45 years as opposed to, for example, 38 years or 50 years.
8. Please complete the following table and provide your response in electronic format with the formulas intact and unlocked.

**Account 37600 The Mains – Other Than Plastic**

Year	Beginning of Year Plant Balance	Plant Addition	Adjustment/Reclass	Retirement	End of Year Plant Balance	Retirement Rate (%)
	(1)	(2)	(3)	(4)	(5)	(6)=(4)/[(4)+(5)]
2011						
2012						
2013						
2014						
2015						
2016 (estimated)						

9. Referring to page 3, please specify how the average net salvage (NS) percentage of Account 37600 was affected by the CIBS Replacement Program so that the NS percentage of the account should be increased from negative 60 to negative 50 percent.

10. Please refer to pages 10 and 162 - 163 of 2016 Study, and page 6 of Order No. PSC-12-0217-PAA-GU for the questions below.
  - a. In its 2011 Study, PGS proposed, and the Commission approved, to decrease NS percentage from (50) to (60) for Account 37600. In its 2016 Study PGS proposed to change the current approved NS percentage from (60) back to (50). Please provide the rationale for such movement.
  - b. In its 2016 Study, pages 162 - 163, PGS indicated that Account 37600 experienced a cumulative NS (69) percent with a latest five-year band of (90) percent. Please explain why the appropriate NS should be (50) percent as opposed to, for example, (55) or (65) percent.
11. Referring to page 162 of 2016 Study, please explain why Account 37600 incurred gross salvage of negative \$11,928 in 2015.
12. Referring to page 162, please explain why the cost of removal percentage varies from (52) to (321) between 2011 – 2015 for Account 37600.
13. Referring to page 162, please explain why the gross salvage varies from negative 1 percent to positive 7 percent between 2011 – 2015 for Account 37600.

Accounts 37800 and 37900

14. Please explain whether these two accounts contain similar types of equipment that should be expected to have similar life and salvage characteristics.
15. Referring to page 283 of 2016 Study, please explain why Account 37900 incurred gross salvage of negative \$699 in 2015.

Account 38000 – Services Steel

16. Referring to page 323 of 2016 Study, please explain why this account incurred gross salvage of negative \$3,604 in 2014 and negative \$10,811 in 2015, respectively.
17. Please provide the number of steel service lines represented by the 12/31/2015 plant balance, and identify:
  - a. How many of these are considered to be inactive due to discontinuance of service, and explain how PGS determines if a service line has become inactive.
  - b. How many of these have been inactive for more than two years? More than 5 years?

- c. PGS' policy regarding inactive steel service lines, and explain what physical action is taken when a steel service line has been inactive due to discontinuance of service for two years and more than five years, respectively.
- d. The investment and the associated reserve for the steel service lines that have been inactive for more than 5 years.

Account 38002 – Services Plastic

18. Please refer to page 361 of 2016 Study for the questions below.
- a. Please explain why this account incurred gross salvage of negative \$94,189 in 2014.
  - b. Please explain why the cost of removal percentage incurred in 2015 and 2013 are much higher than that incurred in any other year throughout the account's history.
19. Please provide the number of plastic service lines represented by the 12/31/2015 plant balance, and identify:
- a. How many of these are considered to be inactive due to discontinuance of service, and explain how PGS determines if a service line has become inactive.
  - b. How many have been inactive for more than two years? More than 5 years?
  - c. PGS' policy regarding inactive plastic service lines, and explain what physical action is taken when a plastic service line has been inactive due to discontinuance of service for two years and more than five years, respectively.
  - d. The investment and the associated reserve for the plastic service lines that have been inactive for more than 5 years.
20. Please explain whether PGS performs insertions of plastic pipe in existing steel services.
- a. If your response to the above question is affirmative, please explain the accounting treatment for the steel service line that is becoming a conduit for the plastic service and the new plastic service.
  - b. If such steel service line is retired, please explain the accounting of costs associated with the retirement and those associated with installing the plastic pipe.

Account 38400 – House Regulator Installations

21. Referring to page 494 of 2016 Study, please explain why the cost of removal percentage incurred in 2015 is much higher than that incurred in each of the past 14 years.

Account 38600 – Other Property Cust Premise

22. It appears that there is no asset recorded in this account for many years.
- Does PGS have any plan for additional investment in the account for the next five year?
  - Please explain why PGS believes it is appropriate to retain this account.
  - Please explain why the Commission should set depreciation parameters for this account to address the depreciation rate PGS' requested in 2016 Study.

Account 39000 – Structures & Improvements

23. Referring to pages 7, 10 and 696 - 717 of 2016 Study, please identify the type of assets booked in Account 390000.

Account 39102 – Office Equipment

24. Referring to page 810 of 2016 Study, please explain why this account incurred gross salvage of negative \$427 in 2015.

Account 39201 – Vehicles up to ½ Tons

25. Please refer to page 590 of 2016 Study for the questions below.
- Please explain why this account incurred positive cost of removal (i.e. credit instead of expense) of \$3,985 in 2013 and \$2,151 in 2012, respectively.
  - Please refer to page 591 of 2016 Study. It appears that both of the annual and 5-year moving average NS percentage keeps increasing annually during the last 10 years. Does PGS agree that this trend warrants an increase in the NS percentage for this account? Please explain your response.
  - Please complete the following table and provide your response in electronic format with the formulas intact and unlocked.

**Account 39201 – Vehicles up to 1/2 Tons**

Year	Beginning of Year Plant Balance	Plant Addition	Adjustment/Reclass	Retirement	End of Year Plant Balance	Retirement Rate (%)
	(1)	(2)	(3)	(4)	(5)	(6)=(4)/[(4)+(5)]
2011						
2012						
2013						
2014						
2015						
2016 (estimated)						

Account 39202 – Vehicles from ½ - 1 Tons

26. Referring to page 618 of 2016 Study, please explain why this account incurred positive cost of removal (i.e. credit instead of expense) of \$1,941 in 2012.

Account 39204 – Trailers & Others

27. Please refer to pages 649 - 650 of 2016 Study for the questions below.
- a. Please explain why PGS proposed to retain the current NS 20 percent, given that the account experienced a cumulative NS 15 percent with a latest five-year band of 18 percent and the annual NS being 2 and 0 percent in 2014 and 2015, respectively.
  - b. What is the industry average, if known to PGS, of the NS percentage for this account?

Account 39205 – Vehicles over 1 Tons

28. Please refer to pages 673 - 674 of 2016 Study for the questions below.
- a. Please explain why this account incurred positive cost of removal (i.e. credit instead of expense) of \$208 in 2013.
  - b. Please explain why PGS proposes to retain the current NS 10 percent, given that the account experienced a cumulative NS 7 percent with a latest five-year band of 3 percent and the annual NS of 5 or less each year during the period of the 2016 Study.
  - c. What is the industry average, if known to PGS, of the NS percentage for this account?

Survivor Curves for General Plant Accounts

29. Please refer to page 7 of 2016 Study regarding Accounts 30200, 30300 and 30301 for the following questions.
- a. Please explain why PGS choose to conduct its analysis using a SQ curve type for these three amortizable accounts.
  - b. Please identify the resulting difference, if any, compared with using the amortizable period to determine the depreciation rate that the company used in its previous depreciation studies.
30. Please refer to pages 11 of 2016 Study for the following questions.
- a. Account 39100: Please explain what motivates PGS to propose the change in survivor curve shape from the approved R1 to SQ, and provide justifications for such change.

- b. Account 39101: Please explain what motivates PGS to propose the change in survivor curve shape from the approved S2 to SQ, and provide justifications for such change.
- c. Account 39102: Please explain what motivates PGS to propose the change in survivor curve shape from the approved R1 to SQ, and provide justifications for such change.
- d. Account 39400: Please explain what motivates PGS to propose the change in survivor curve shape from the approved S1 to SQ, and provide justifications for such change.
- e. Account 39500: Please explain what motivates PGS to propose the change in survivor curve shape from the approved S1 to SQ, and provide justifications for such change.
- f. Account 39700: Please explain what motivates PGS to propose the change in survivor curve shape from the approved S3 to SQ, and provide justifications for such change.
- g. Account 39800: Please explain what motivates PGS to propose the change in survivor curve shape from the approved R2 to SQ, and provide justifications for such change.
- h. Please explain whether all the accounts discussed in subparts a. – g. of this question bear a same or similar retirement pattern. If your response is affirmative, please identify such pattern(s). If your response is negative, please explain why all these accounts should be prescribed the exact same type of survivor curve.
- i. Please identify the changes of company policy, if any, related to the asset retirement for each of the account discussed in subparts a. – g. of this question.

New Account 39401 – CNG Station Equipment

31. Please refer to page 11 of 2016 Study for the following questions.
  - a. Please explain what “CNG” stands for.
  - b. Please identify the type of assets are/will be recorded in this account.
  - c. Please provide the basis for proposing ASL of 20 years for this account.
32. Please refer to pages 985 - 988 of 2016 Study which contains 2015 Depreciation Annual Status Report for the questions below.
  - a. Referring to page 987, “Analysis of Entries in Accumulated Depreciation & Amortization for the Year Ending December 31, 2015,” please explain on what basis the amount of \$467 was booked as the depreciation accruals for Account 39401 CNG Stations.



- b. Referring to page 985, "Analysis of Plant in Service Accounts for the Year Ending December 31, 2015," please explain why 6.6 percent is assigned to Account CNG Station, given that the Commission has not prescribed any depreciation rate to this new account.

Depreciation Reserve

33. Please refer to pages 14 - 15 and 985 - 987 of 2016 Study and its corresponding "2016 PGS Depreciation Study Excel Master File.xlsx" that Ms. Floyd emailed to staff on June 28 (2016 Excel File) for the following questions.
  - a. Referring to the Plant & Reserve tab of the 2016 Excel File, please explain how the Theoretical Reserve Amounts recorded in column (G) were derived.
  - b. Referring to the Plant & Reserve tab of the 2016 Excel File, please provide an updated Excel file of which all the formulas and links underneath column (G) Theoretical Reserve Amounts in the Plant & Reserve tab were restored.
  - c. Please refer to the Plant & Reserve tab of the 2016 Excel File. Column (E) Total Plant Cost 12/31/2015 shows \$6,105,880 for Account 39400 – Tools, Shop & Garage Equip. However, page 985 of 2016 Study shows \$6,098,159 as the 2015 Ending Balance for the same account. Please explain the variance and provide reconciliation.
  - d. Please refer to the Plant & Reserve tab of the 2016 Excel File. In column (Q) Before Reserve Transfers 12/31/2015, it shows \$21,023 for Account 39000 – Structures & Improvements. However, on page 987 of 2016 Study it shows \$10,886 as the 2015 reserve ending balance for the same account. Please explain why and provide reconciliation.
34. On page 3, second paragraph, of 2016 Depreciation Study, PGS stated "[t]he 2016 preliminary review yielded a total company reserve surplus of \$807,117 before changes in rate parameters."
  - a. Please identify the pages on which the back-up information for the stated \$807,117 reserve surplus is contained from 2016 Study and/or the 2016 Excel File.
  - b. Please elaborate on the phrase "before changes in rate parameters."
  - c. Please provide detail explanation how the amount of \$807,117 reserve surplus was derived, and provide corresponding Excel file, with formula and link intact, to support your response.
35. On page 3, second paragraph, of 2016 Study, PGS stated "[t]he 2016 study now indicates a total company reserve surplus of \$33,200,704. This is the result of the rate parameter changes made to the Mains - Other Than Plastic account for average service life and

negative net salvage. The company proposes that this account shall carry the entire reserve surplus.”

- a. Please elaborate on the statement that the reserve of surplus of \$33,200,704 “is the result of the rate parameter changes made to [Account 37600] Mains - Other Than Plastic account for average service life and negative net salvage.”
  - b. Please refer to the Plant & Reserve tab of the 2016 Excel File. It appears that PGS calculated the reserve imbalance as of 12/31/2015 based on the currently depreciation rate, then PGS made reserve transfers to bring the reserve level of each depreciable or amortizable account to its theoretical reserve level but left an imbalance of \$33,200,704 reserve surplus for Account 37600. Given that there was no new depreciation rate and/or parameters involved in the process, please explain why PGS believes the \$33,200,704 reserve imbalance in Account 37600 “is the result of the rate parameter changes made to” this account.
  - c. Please explain in detail why Account 37600 should carry the entire reserve surplus.
36. Please explain the relationship between the amount of \$807,117 total reserve surplus discussed in Question No. 34 and the amount of \$33,200,704 discussed in Question No. 35, and provide Excel file with formula and link intact, to support your response.