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August 26, 2016

VIA E-PORTAL FILING

Ms. Carlotta S. Stauffer
Commission Clerk
Florida Public Service Commission
2540 Shumard Oak Boulevard
Tallahassee, Florida 32399-0850

Re: Docket No. 160159-GU – Petition for approval of 2016 depreciation study by Peoples Gas System

Dear Ms. Stauffer:

Attached for electronic filing in the above docket on behalf of Peoples Gas System, please find Peoples' response to Staff's First Data Request.

We appreciate your usual assistance.

Sincerely,


ANSLEY WATSON, JR.

AWjr/a
Attachment

cc: Parties of Record
Ms. Kandi M. Floyd

**PEOPLES GAS SYSTEM
DOCKET NO. 160159-GU
STAFF'S FIRST DATA REQUEST
REQUEST NO. 1
BATES STAMPED PAGES: 1 - 6
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General Questions

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.
 - A. See attached Excel files for 2011-2014 and revised 2015 Annual Status Report (Bates numbered Excel files BS 2 – 6).

The Company has identified errors related to the 2015 Annual Status Report for page 15 and 16 for the Accumulated Depreciation and Reserves. The column for gross salvage and the end of period will be restated. The total amounts remain unchanged.

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- 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.
 - A.** There were 2 substantiating factors utilized in the PGS 2016 Depreciation Study. These factors were related to the Cast Iron/Bare Steel Replacement ("CI/BSR") Program and the new rates requested for the CNG Station Equipment. Please see response to Question No. 7a and No. 31.

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- 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.
- A.** The following major projects are included in the PGS 5-year forecast:
- CI/BSR Projects – approximately \$12M annually. This program would have an impact on plant additions for plastic mains/newer steel technology and retirements of CI/BS.
 - CNG Projects – approximately \$5M annually. These are for new additions only.
 - East Jacksonville customer growth initiatives – approximately \$40M over the next five years. These are for new additions only.

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- 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?
- A.**
- a. PGS no longer performs physical inventory. Please see response to Question No. 30 i.
 - b. Prior to 2013 three Division sites were inventoried each year. The last inventory was conducted in 2013.
 - c. There were 2 retirements identified in the amount of \$3,727.29.

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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.

- A.** Please see response to Question No. 1. The revised 2015 Annual Status Report identifies a correction that results in \$0 Salvage in account 37500.

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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.
- A. a. From December 2000 to December 2010, Peoples replaced approximately 200 miles of cast iron and bare steel mains and

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was authorized \$1 million dollars in rate base for the 2009 projected test year (Peoples last rate case) in order to continue replacement of these facilities. This approval allowed Peoples to earn a return on and recover the depreciation and ad valorem expenses associated with the \$1 million investment through base rates.

Peoples recognized the \$1 million cast iron / bare steel replacement rate approved in its last rate case would take approximately 70 years to replace all of its cast iron / bare steel in its system and filed with the Florida Public Service Commission in December 2011 for a Cast Iron/Bare Steel Pipe Replacement Rider to recover the cost of *accelerating* the replacement of cast iron and bare steel pipes through a volumetric surcharge on customers' bills. The Company received approval and implemented its accelerated replacement plan in January 2013. The Rider allows Peoples to accelerate the replacement of cast iron and bare steel mains including service lines, and regulator stations and recover the return on, depreciation expense, and ad valorem tax expense associated with the capital expenditures for replacements in excess of \$1 million. See attached tariff sheets 7.806 – 7.806-3 that describes the program.

- b. The accelerated program approved by the Commission in Docket 110329-GU commenced January 1, 2013.
- c. The program is a 10-year replacement program, however, Peoples anticipates completion of the current program by 2021.
- d. Peoples gross CIBSR spend is as follows (\$53.7M actual / forecast):

2013 Actual		2014 Actual	2015 Actual	2016 Forecast
\$13.3		\$14.2	\$13.7	\$12.5

*Gross spend includes the \$1M annual excluded as well as the cost of removal (approximately \$1M/year)

- e. See response to Question No. 6 a.
- f. See attached Excel file (Bates numbered Excel file BS 18).

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- g. See attached Excel file (Bates numbered Excel file BS 18).
- h.
 - i. See response to Question No. 6 a.
 - ii. In September 2011, Peoples Gas received a letter from the Commission's Bureau of Safety requesting a pipeline replacement program plan outlining plans of protecting or replacing bare steel pipeline for each Peoples Gas division. In November 2011, Peoples responded to the Commission with a letter identifying its plan to file a petition with the Commission requesting a cost recovery mechanism for accelerating replacement of the Company's remaining cast iron / bare steel in its system. As such, Peoples did not provide a replacement scheduled as indicated in its response to Staff's First Data Request, No. 8 in Docket 110232-GU.

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Third Revised Sheet No. 7.806
Cancels Second Sheet No. 7.806

**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 January 1, 2016, 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	\$0.02137 per therm
Small General Service	\$0.01647 per therm
General Service – 1/ Commercial Standby Generator Service	\$0.00991 per therm
General Service – 2	\$0.00891 per therm
General Service – 3	\$0.00717 per therm
General Service – 4	\$0.00507 per therm
General Service – 5	\$0.00241 per therm
Commercial Street Lighting	\$0.01116 per therm
Natural Gas Vehicle Service	\$0.02223 per therm
Wholesale	\$0.00313 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.

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Original Sheet No. 7.806-1

CAST IRON/BARE STEEL REPLACEMENT RIDER
RIDER CI/BSR
(Continued)

"CI/BSR Revenue Requirements" means the pretax revenues equal to the following:

- (a) The Company's weighted average cost of capital as calculated in the most recent year-end surveillance report multiplied by the average net book value of Eligible Replacements, including recognition of accumulated depreciation associated with Eligible Replacements;
- (b) Florida and federal income taxes applicable to the income calculated in paragraph (a) of this section; and
- (c) ad valorem taxes;
- (d) depreciation expense on Eligible Replacements.

"CI/BSR Surcharge" means the surcharges determined pursuant to the procedures and subject to the qualifications set forth in this Rider.

Procedure for Establishing CI/BSR Surcharges

The CI/BSR Revenue Requirements and any changes thereto shall be calculated and implemented in accordance with the provisions contained in this Rider. CI/BSR Revenues shall be subject to refund based upon a finding and order of the Commission to the extent provided in this Rider.

The Company shall calculate its CI/BSR Revenue Requirements annually in the manner prescribed by this Rider and shall file the appropriate petitions with the Commission seeking to establish or change the CI/BSR Revenue Requirements and Surcharges. The annual filings shall include the following:

- (a) An annual final true-up filing showing the actual Eligible Replacement costs and actual CI/BSR Revenues for the most recent 12-month historical period from January 1 through December 31 that ends prior to the annual petition filing. As part of this filing, the Company shall include a summary comparison of the actual Eligible Replacement costs and CI/BSR Revenues to the estimated total Eligible Replacement costs and CI/BSR Revenues previously reported for the same period covered by the filing in paragraph (b) of this section. The filing shall also include the final over- or under-recovery of total CI/BSR Revenue Requirements for the final true-up period.
- (b) An annual estimated/actual true-up filing showing seven months actual and five months projected Eligible Replacement costs and any CI/BSR Revenues collected or projected to be collected during the estimated/actual true-up period. The filing shall also include the estimated/actual over- or under-recovery of total Eligible Replacement costs for the estimated/actual true-up period.
- (c) An annual projection filing showing 12 months projected CI/BSR Revenue Requirements for the period beginning January 1 following the annual filing hearing.

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**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); (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 calculated in the Company's most recent year-end surveillance report.

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 minus \$1Million
4	Services	\$	Eligible Replacements Services
5	Regulators	\$	Eligible Replacements Regulators
6	Gross Plant	\$	Line 3 + Line 4 + Line 5
7	Accumulated Depreciation	\$	Previous balance – Line 12
8	Construction Work In Progress	\$	Construction work not in service
9	Net Book Value	\$	Line 6 + Line 7 + Line 8
10	Average Net Book Value	\$	Line 9 + Previous balance / 2
11	Return on Average Net Book Value	\$	Line 10 x debt and equity components as calculated in most recent year-end surveillance report
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

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

(continued)

The CI/BSR Revenue Requirements determined by the Commission shall be allocated to customer classes based on the allocation of mains to customer classes in the cost of service study used in the Company's most recent base rate proceeding. The percentage share of the CI/BSR Revenue Requirements of each customer class shall be determined by dividing the portion of mains allocated to the class in the cost of service study by the total mains cost developed in such cost of service study.

The CI/BSR Surcharge for each customer class will be a per therm rate per month that is calculated by multiplying the CI/BSR Revenue Requirements by the percentage representing a class's share of such requirements, and dividing the result by the projected annual Therms for such class during the 12-month period following the effective date for the billing of such surcharge.

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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.

- A. a. The CI/BS Replacement Program is primarily replacing old cast iron and bare steel main pipe (Account 37600) with plastic main pipe (Account 37602). As a result, the surviving steel main pipe Account 37600 will eventually contain only coated and cathodically protected steel. The company acknowledges a long standing usage of a 40-year ASL for Account 37600. However, the coated and cathodically protected steel used for main pipe distribution networks has had significant technological improvements which indicate a longer ASL and the removal of the Cast Iron and Bare Steel Pipe from this account suggest a need to increase the ASL. As such, the company is not supportive of using an ASL that is less than 45 years for coated and cathodically protected steel main pipe. The company would not advocate for a shorter life based on this information.

The company considered usage of a longer ASL in this filing, but chose a conservative ASL with an intention to revisit the ASL at the time of the next depreciation study. If the Commission were to decide that an ASL greater than 45 years was reasonable at this time, the company is amenable to discuss this proposal.

- b. See response to Question No. 7 a.

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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)						

- A. See attached Excel File (Bates numbered Excel file BS 21).

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- 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.

- A.** See response to Question No. 10 a.

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- 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.
- A.**
- a. In the 2011 study filing, it was projected that the next 5 years removal activity would increase due to the CI/BS replacement program and incur higher levels of negative net salvage per the annual status report and net salvage analysis schedules. At that time, the 2011 cumulative net salvage history supported a (59) percent factor.

Net salvage analysis schedules are based on historical activity, while future costs of removal are a forward looking prediction of the level of reserve associated with negative net salvage for future asset retirements. Since the average service life of this account was extended from 40-years to 45-years, this creates a significant reserve surplus due to the accelerated recovery of the original cost of the assets. This reserve surplus due to life extension can be used to offset the theoretical reserve requirement needed for future cost of removal. The 2016 annual accrual of \$11.9M based on the requested 3.1% depreciation rate can be broken down into the following components; the amount associated with Life is \$7.9M and the amount associated with negative Net Salvage is \$4.0M

The Net Salvage Analysis schedule for this account indicates the last 5 years of elevated annual negative net salvage incurred from 2011 to 2015 has been \$1.1M, \$2.0M, \$1.1M, \$2.5M and \$2.4M respectively. Even though the 5-year historical average for 2015 indicates a negative net salvage factor of (90) percent, the reserve associated with negative net salvage is still increasing by a

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minimum of \$1.5M per year when using the requested negative net salvage factor of (50) percent. In addition, the company prefers to resolve reserve surpluses or deficiencies within 5 to 10 years, over the course of 1 or 2 future depreciation study filings. The company is in a theoretical reserve surplus position per this 2016 study filing and the usage of a negative net salvage factor of (60) percent instead of (50) percent would increase the annual accrual requested by \$924K.

- b. See response to Question No. 10 a.

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- 11.** Referring to page 162 of 2016 Study, please explain why Account 37600 incurred gross salvage of negative \$11,928 in 2015.
- A.** Please see response to Question No. 1. The revised 2015 Annual Status Report identifies a correction that results in the amount of Salvage changed to negative \$10,637.

The negative salvage in 2015 is the result from corrections of preliminary classifications discovered in the closing process. It was caused by timing issues based on the methodology for the way retirements, cost of removal and salvage are handled. Cost of Removal and Salvage can occur during different years over the life of a project which can cause skewed ratios. More normal ratios would occur when considering the average over the life of the project.

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- 12.** Referring to page 162, please explain why the cost of removal percentage varies from (52) to (321) between 2011 – 2015 for Account 37600.
- A.** The higher cost of removal percentage is caused by the timing of the methods used for retirements. When retirements are executed after the projects are complete, a larger than normal ratio of retirements versus cost of removal occurred between 2011 - 2015. Cost of removal is booked each month as the work is being done and the retirements are made later after the project is near completion.

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- 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.
- A.** Please see response to Question No 1. The revised 2015 Annual Status Report identifies a correction that results in \$0 Salvage in account 37500 from negative 1 to 0 percent in 2015.

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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.
 - A.** Account 37800 and 37900 contain similar assets. The difference between the accounts is mostly attributable to location and size. The 37800 Measuring and Reg Station Equipment – General is smaller and typically located in right of ways. The 37900 Measuring and Reg Station Equipment – City Gate is larger and PGS currently has 98 located around the state of Florida. At this time the company believes that the 31-year average service life is appropriate for both accounts.

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- 15.** Referring to page 283 of 2016 Study, please explain why Account 37900 incurred gross salvage of negative \$699 in 2015.
 - A.** Please see response to Question No. 1. The revised 2015 Annual Status Report identifies a correction that results in \$0 Salvage in account 37900.

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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.
 - A.** Please see response to Question No 1. The revised 2015 Annual Status Report identifies a correction that results in \$0 Salvage in account 38000.

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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.
- A.
- a. There were 63,394 steel service lines on the PGS Distribution system in 2015 of which 5,710 were considered inactive. An inactive service line refers to a gas line that is in-place and ready to be used, but does not have an active customer.
 - b. 3,145 steel service lines were inactive for over 2 years.
195 steel service lines were inactive for over 5 years.
 - c. PGS' policy aligns with the Florida Administrative code. After a service line has been inactive for a period of two (2) years, if there is a prospect for reuse of the service line, the Company shall verify that the service line is permanently marked to identify the Company name and phone number and shall take one of the following actions within six (6) months:
 - Disconnect the service line from all sources of gas and physically abandon or remove;
 - A valve on the service line shall be locked in the closed position and the service line plugged to prevent the flow of gas; or
 - Remove the meter and plug the end of the service line to prevent the flow of gas.

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After a service line has been inactive for a period of five years, if the inactive service line is constructed of bare steel or cast iron or does not comply with current materials standards in 49 CFR 192 (2011), the inactive service line shall be retired and physically abandoned within six (6) months.

- d. Until the pipe is physically retired from the system, the vintage is not identified. The Company leverages estimates to provide this information. The approximate plant investment is \$66,113. The approximate allocated reserve is \$73,390.

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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.
- A.**
- a. The negative salvage 2014 is attributable to the removal of assets. This item can be explained by considering the timing associated with cost of removal and retirement postings. It is normal for the company to incur cost of removal charges both during the construction phase of a project and after the in service date. When a project is placed in service, the company executes the retirement transaction. Since the Depreciation Study Report reflects activity for a specific year, cost of removal charges (activity) can occur in a year other than the year the retirement transaction was posted.
 - b. Please see response to Question No. 1. The revised 2015 Annual Status Report identifies a correction resulting in a lower cost of removal percent in 2015.

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- 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.
- A.**
- a. There were 304,842 plastic service lines on the PGS Distribution system in 2015 of which 12,184 were considered inactive. An inactive service line refers to a gas line that is in-place and ready to be used, but does not have an active customer.
 - b. 6,535 plastic service lines were inactive for over 2 years.
526 plastic service lines were inactive for over 5 years.
 - c. PGS' policy aligns with the Florida Administrative code. After a service line has been inactive for a period of two (2) years, if there is a prospect for reuse of the service line, the Company shall verify that the service line is permanently marked to identify the Company name and phone number and shall take one of the following actions within six (6) months:
 - Disconnect the service line from all sources of gas and physically abandon or remove;
 - A valve on the service line shall be locked in the closed position and the service line plugged to prevent the flow of gas; or
 - Remove the meter and plug the end of the service line to prevent the flow of gas.

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After a service line has been inactive for a period of five years, if the inactive service line is constructed of bare steel or cast iron or does not comply with current materials standards in 49 CFR 192 (2011), the inactive service line shall be retired and physically abandoned within six (6) months.

After ten (10) years of inactivity, service lines shall be retired and physically abandoned within six (6) months.

- To physically abandon a service line, the service line must be disconnected from all sources of gas at the nearest point to the gas main. Where the appropriate governmental authority prohibits cutting pavement, the service line shall be disconnected at the nearest point not under a paved surface. The stub of the service line, the short section of the remaining service line to the main, shall be disconnected closer to the main or at the main, if at some later date it becomes accessible during normal operations.
 - Records must be kept of the size, material, and location of all remaining service line stubs. These records must be readily available to personnel assigned to pipeline locating activities.
- d. Until the pipe is physically retired from the system, the vintage is not identified. The Company leverages estimates to provide this information. The approximate plant investment is \$373,848. The approximate allocated reserve is \$203,133.

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- 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.
- A.**
- a. In unique circumstances, construction conditions may require the plastic pipe to be inserted into an existing steel service. During a service replacement activity where new plastic pipe is inserted into the buried steel pipe, the steel pipe is first disconnected from any source of gas and purged. In this case, the plastic pipe would be treated as a new asset addition to account 38002. The existing steel service would be retired at original book cost from account 38000 as it is no longer pressurized with natural gas.
 - b. See response to Question No. 20 a.

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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.
 - A.** The higher cost of removal percentage is caused by the timing of the methods used for retirements. When retirements are executed after the projects are complete, a larger than normal ratio of retirements versus cost of removal occurred between 2011 - 2015. Cost of removal is booked each month as the work is being done and the retirements are made later after the project is near completion.

Account 38600 – Other Property Cust Premise

- 22.** It appears that there is no asset recorded in this account for many years.
- a. Does PGS have any plan for additional investment in the account for the next five year?
 - b. Please explain why PGS believes it is appropriate to retain this account.
 - c. Please explain why the Commission should set depreciation parameters for this account to address the depreciation rate PGS' requested in 2016 Study.
- A.**
- a. PGS does not anticipate any additional investment in the account for the next five years.
 - b. PGS proposed an average service life of 15 years in the last depreciation study in 2011 and deferred to the Staff recommendation related to retaining the 386 account and rate. PGS is agreeable to removing this account if requested by Staff.
 - c. See response to Question No. 22 b.

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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.
- A.** See attached Excel file. For purposes of the PGS Depreciation Study, Account 39000 and 39002 are combined.

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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.
 - A.** Please see response to Question No. 1. The revised 2015 Annual Status Report identifies a correction that results in \$0 Salvage in account 39102.

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Account 39201 – Vehicles up to ½ Tons

25. Please refer to page 590 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 \$3,985 in 2013 and \$2,151 in 2012, respectively.
 - b. 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.
 - c. 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)						

- A.
 - a. The positive COR is the result of the timing of processing in-service, completion, and true-up entries. It is normal for the company to incur cost of removal charges both during the construction phase of a project and after the in service date. When a project is placed in service, the company executes the retirement transaction. Since the Annual Status Report reflects activity for a specific year, cost of removal charges (activity) can occur in a year other than the year the retirement transaction was posted. A positive COR is an increase to the reserve and attributable to the removal of assets.
 - b. Based on the Comparative schedule filed in 2016 study, the average is 10-20 percent, (refer to page 990 of 2016 study) and the cumulative annual net salvage is an average of 9 percent (refer to page 592 of the 2016 study).

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- c. See attached Excel file (Bates numbered Excel file BS 44).

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.
- A. The positive COR is the result of the timing of processing in-service, completion, and true-up entries. It is normal for the company to incur cost of removal charges both during the construction phase of a project as well as after the in-service date. When a project is placed in service, the company executes the retirement transaction. Since the Annual Status Report reflects activity for a specific year, cost of removal charges (activity) can occur in a year other than the year the retirement transaction was posted.

A positive COR is an increase to the reserve and attributable to the removal of assets.

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?
- A.
- a. This account is comprised of various sizes, makes and models of trailers. Using a NS 20 percent is optimistic, but is within the range of the comparative schedule NS factors.
 - b. Based on the comparative schedule filed in 2016 study, the average is 10-20 percent, (refer to page 990 of 2016 Study).

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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?
- A.**
- a. The positive COR is the result of the timing of processing in-service, completion, and true-up entries. It is normal for the company to incur cost of removal charges both during the construction phase of a project and after the in service date. When a project is placed in service, the company executes the retirement transaction. Since the Annual Status Report reflects activity for a specific year, cost of removal charges (activity) can occur in a year other than the year the retirement transaction was posted. A positive COR is an increase to the reserve and attributable to the removal of assets.
 - b. This account is comprised of various sizes, makes and models of vehicles. Using a NS 10 percent is optimistic, but within the range of the comparative schedules for NS Factor.
 - c. Based on the comparative schedule filed in 2016 study, the average is 10-15 percent, (refer to page 990 of 2016 study).

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.
- A.
- a. The company chose to analyze the three accounts identified above versus denoting them as amortizable per the last 2011 study filing. The company found these accounts are using the Group Depreciation method and in the case of 30301, retirements were not being made timely in prior years per the “amortizable period” expiration. As a result, the group depreciation method has been over recovering the vintage costs of assets that were older than 15 years of age. Performing a vintage survivor analysis using the SQ curve type that anticipates 0 interim retirements and an average service life of 15-years was sufficient to estimate a \$3.6M theoretical reserve surplus and is the requested reserve transfer. Based on the SQ curve type results, the average remaining service life and post transfer accumulated reserve ratio used to derive the requested depreciation rate of 6.7% equals the whole life rate of amortization $1/15 = 6.7\%$. The company has identified incremental vintages subsequent to this filing that will over recover during the 2016 fiscal period unless backdated asset retirements are processed due to the usage of Group Depreciation.
 - b. See response to Question No. 29 a.

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- 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.
- A.** a. See response to Question No. 30 i.

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- b. See response below to Question No. 30 i.
- c. See response below to Question No. 30 i.
- d. See response below to Question No. 30 i.
- e. See response below to Question No. 30 i.
- f. See response below to Question No. 30 i.
- g. See response below to Question No. 30 i.
- h. See response below to Question No. 30 i.
- i. TECO Services, Inc. (TSI) is the shared services organization that now supports both Florida divisions of Tampa Electric (TEC) and Peoples Gas System (PGS) facilities and information technologies. Prior to the creation of TSI in 2014, when TECO Energy, Inc. (TECO) acquired New Mexico Gas Company (NMGC) in 2014, the majority of TECO shared services support was embedded within the TEC electric division. Then TEC and now TSI, shared services for facilities and information technologies uses the policy guidance found within the rule 25-6.0142 List of Retirement Units - Electric Utilities for General Plant Accounts 391, 394, 395, 397 and 398.

The following URL is the published Electric Utilities guidance
<http://www.psc.state.fl.us/Files/PDF/Publications/Reports/Electricgas/retirementunits.pdf>

FPSC guidance for those Electric Utility General Plant Accounts is as follows; 1) such costs should be amortized over a X year period and 2) no property records maintained except as a vintage group.

As a result, TEC & TSI have long practiced the minimization of the administrative burdens associated with asset tracking, physical inventories and retirement communications. Tampa Electric's asset costs booked to those General Plant Accounts are amortized over the FPSC approved period until the remaining net book value is \$0 and are subsequently retired, regardless if the asset is still in-service or not.

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FPSC rule 25-7.0461 guidance for the same Gas Utility General Plant Accounts 391, 394, 395, 397 and 398 is limited and is interpreted to be one of group depreciation requiring burdensome asset management.

The following URL is the published Gas Utilities guidance [http://www.flrules.org/gateway/readRefFile.asp?refId=4833&filename=List of Retirement Units Gas Utilities.doc](http://www.flrules.org/gateway/readRefFile.asp?refId=4833&filename=List_of_Retirement_Units_Gas_Utilities.doc)

Then TEC and now TSI adoption of the Electric Utility guidance is applied to the gas utility for those General Plant Accounts 391, 394, 395, 397 and 398. Therefore tracking of assets, performing physical inventories and ultimately communicating asset retirements is not effectively monitored nor expected.

When asset retirements are not communicated timely, where the plant account uses the Group Depreciation method, the concern and risk for excess depreciation and surplus reserves comes into play. Usage of the SQ curve type anticipates 0 interim retirements and thus does not require the acceleration of the remaining service life used to derive the depreciation rate. Setting of the average service life becomes the primary focal point. This allows gas utilities to adopt a simpler amortization technique and eases administrative burdens without an official policy revision by the FPSC.

In addition, the FPSC approval of prior depreciation studies filed by PGS and other gas utilities has taken into consideration the life analysis of those General Plant Accounts 391, 394, 395, 397 and 398.

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.
- A.**
- a. CNG stands for Compressed Natural Gas.
 - b. The assets include compressors, storage vessels, gas dryers, controls, piping, vehicle fueling equipment, and other related appurtenances related to providing compressed natural gas to natural gas vehicle customers.
 - c. The equipment manufacturer is recommending the use of a minimum 20-year service life with the recommended maintenance. Due to the new technology and limited historic data, PGS utilized the recommended manufacturer’s service life.

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- 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.
- A.**
- a. Per Florida Administrative Code 25-7.046(2)(a)1 Subcategories of Gas Plant for Depreciation, Account 39401 was created as a subaccount to 39400 to track new technology. The company is required to use the same depreciation rate that was previously approved for account 39400. Per Bates Stamp Page 8 of the PGS Depreciation Study, Account 39401 CNG Station Equipment narrative states a new depreciation rate is requested for this account. The average service life for Account 39400 is 15 years. The requested new rate for Account 39401 for CNG Station Equipment is based on an average service life of 20 years.
 - b. See response to Question No. 32 a.

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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.
- A.**
- a. Theoretical Reserve Amount is not a derived formula. This amount is entered directly from the actual depreciation study curve analytics found on Bates Stamped Pages 18 - 966. For an example, please see Bates Stamp Page 19 for account 37402 Schedule Determination of Original Cost Values at 12/31/2015, and Column V Calculated Depreciation Reserve. The total amount of \$592,695 is entered directly into Column (H) on the Summary Schedule for Theoretical Reserve Amount. This is not a formula, therefore there is no additional electronic file necessary.
 - b. See response to Question No. 33 a.

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- c. The Company determined that the amount that was included in the Annual Status Report needed to be transferred back to 39400. This transfer will occur in 2016 and is not related to the CNG Station Equipment.
- d. Account 39000 and Account 39002 are combined for depreciation rate making purposes. Account 39002 is a subaccount for Account 39000 for accounting purposes.

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- 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.
- A.**
- a. There were no pages filed. This was the preliminary review of information through 12/31/2015. Previously approved average service lives and net salvage factors were used to generate the preliminary review answer. The depreciation study program was updated with the vintage survivors as of 12/31/2015 and annual retirement information since the 2011 depreciation study for the years 2011-2015. As a result, a theoretical reserve surplus of \$807,117 was calculated. Please see the attached excel file with the data included.
 - b. See response to Question No. 34 a. This information was prior to the change in average service life and net salvage factor for 37600.
 - c. See response to Question No. 34 a. See the attached schedule for the preliminary review.

DEPRECIATION/VALUATION SYSTEM

PGS - 2016 CASE

ACCOUNT NO. 37600. Mains Steel

DETERMINATION OF ORIGINAL COST VALUES AT 12/31/15

DEPRECIATION: ALG LIFE: 40.0 YRS CURVE: IOWA

R3

O.C. SALVAGE %: -60.

I YEAR	II AGE AT 12/31/15	III ORIGINAL COST AT 12/31/15	IV DEPRECIATION RESERVE RATIO	V CALCULATED DEPRECIATION RESERVE	VI ORIGINAL COST LESS CALCULATED DEPRECIATION
2015	0.50	6668021.	0.012309	82074.	6585947.
2014	1.50	17346600.	0.036860	639392.	16707208.
2013	2.50	36459850.	0.061327	2235965.	34223885.
2012	3.50	15207289.	0.085691	1303130.	13904159.
2011	4.50	13122313.	0.109954	1442853.	11679460.
2010	5.50	28496989.	0.134089	3821127.	24675862.
2009	6.50	25385637.	0.158090	4013208.	21372429.
2008	7.50	5150015.	0.181936	936972.	4213043.
2007	8.50	3643115.	0.205625	749114.	2894001.
2006	9.50	6066988.	0.229138	1390179.	4676809.
2005	10.50	3620456.	0.252457	914011.	2706445.
2004	11.50	3649801.	0.275574	1005791.	2644010.
2003	12.50	6722219.	0.298473	2006401.	4715818.
2002	13.50	7496866.	0.321139	2407536.	5089330.
2001	14.50	18296363.	0.343560	6285906.	12010457.
2000	15.50	17330203.	0.365733	6338224.	10991979.
1999	16.50	29122741.	0.387635	11288999.	17833742.
1998	17.50	13076391.	0.409260	5351644.	7724747.
1997	18.50	5370323.	0.430603	2312477.	3057846.
1996	19.50	3546532.	0.451649	1601788.	1944744.
1995	20.50	7480831.	0.472390	3533872.	3946959.
1994	21.50	3535358.	0.492819	1742293.	1793065.
1993	22.50	4159082.	0.512930	2133317.	2025765.
1992	23.50	3295834.	0.532709	1755721.	1540113.
1991	24.50	13981345.	0.552150	7719799.	6261546.
1990	25.50	3746580.	0.571241	2140201.	1606379.
1989	26.50	3376494.	0.589968	1992024.	1384470.
1988	27.50	5573469.	0.608317	3390435.	2183034.
1987	28.50	3262606.	0.626275	2043288.	1219318.
1986	29.50	8079785.	0.643824	5201961.	2877824.
1985	30.50	2269624.	0.660941	1500089.	769535.
1984	31.50	3018347.	0.677609	2045259.	973088.
1983	32.50	2633048.	0.693800	1826809.	806239.
1982	33.50	2471746.	0.709500	1753703.	718043.
1981	34.50	4304203.	0.724683	3119182.	1185021.
1980	35.50	2643173.	0.739322	1954156.	689017.
1979	36.50	3298881.	0.753407	2485400.	813481.
1978	37.50	3279738.	0.766916	2515282.	764456.
1977	38.50	1588096.	0.779838	1238458.	349638.
1976	39.50	1811773.	0.792168	1435229.	376544.
1975	40.50	2438703.	0.803899	1960471.	478232.

DEPRECIATION/VALUATION SYSTEM

PGS - 2016 CASE

ACCOUNT NO. 37600. Mains Steel

DETERMINATION OF ORIGINAL COST VALUES AT 12/31/15

DEPRECIATION: ALG LIFE: 40.0 YRS CURVE: IOWA

R3

O.C. SALVAGE %: -60.

I YEAR	II AGE AT 12/31/15	III ORIGINAL COST AT 12/31/15	IV DEPRECIATION RESERVE RATIO	V CALCULATED DEPRECIATION RESERVE	VI ORIGINAL COST LESS CALCULATED DEPRECIATION
1974	41.50	3304470.	0.815035	2693258.	611212.
1973	42.50	3011007.	0.825586	2485845.	525162.
1972	43.50	1962441.	0.835567	1639751.	322690.
1971	44.50	1912444.	0.844998	1616010.	296434.
1970	45.50	1689746.	0.853909	1442889.	246857.
1969	46.50	1719894.	0.862338	1483129.	236765.
1968	47.50	3557823.	0.870325	3096461.	461362.
1967	48.50	1729454.	0.877915	1518313.	211141.
1966	49.50	897930.	0.885166	794817.	103113.
1965	50.50	1088172.	0.892138	970799.	117373.
1964	51.50	1020173.	0.898887	917021.	103152.
1963	52.50	770057.	0.905477	697269.	72788.
1962	53.50	648565.	0.911962	591467.	57098.
1961	54.50	641400.	0.918391	589056.	52344.
1960	55.50	2604002.	0.924791	2408157.	195845.
1959	56.50	2247318.	0.931178	2092654.	154664.
1958	57.50	1705593.	0.937561	1599097.	106496.
1957	58.50	348676.	0.943926	329124.	19552.
1956	59.50	256224.	0.950240	243474.	12750.
1955	60.50	106394.	0.956473	101763.	4631.
1954	61.50	138688.	0.962629	133505.	5183.
1953	62.50	152429.	0.968650	147650.	4779.
1952	63.50	124438.	0.974664	121285.	3153.
1951	64.50	90969.	0.980808	89223.	1746.
1950	65.50	83542.	0.989111	82632.	910.
1949	66.50	22840.	1.000000	22840.	0.
1948	67.50	88952.	1.000000	88952.	0.
1947	68.50	270273.	1.000000	270273.	0.
1946	69.50	152131.	1.000000	152131.	0.
1945	70.50	23802.	1.000000	23802.	0.
1944	71.50	9533.	1.000000	9533.	0.
1943	72.50	32977.	1.000000	32977.	0.
1942	73.50	50709.	1.000000	50709.	0.
1941	74.50	77140.	1.000000	77140.	0.
1940	75.50	197268.	1.000000	197268.	0.
1939	76.50	29338.	1.000000	29338.	0.
1938	77.50	22029.	1.000000	22029.	0.
1937	78.50	59149.	1.000000	59149.	0.
1936	79.50	35747.	1.000000	35747.	0.
1935	80.50	1109.	1.000000	1109.	0.
1934	81.50	156144.	1.000000	156144.	0.

DEPRECIATION/VALUATION SYSTEM

PGS - 2016 CASE

ACCOUNT NO. 37600. Mains Steel

DETERMINATION OF ORIGINAL COST VALUES AT 12/31/15

DEPRECIATION: ALG LIFE: 40.0 YRS CURVE: IOWA

R3

O.C. SALVAGE %: -60.

I YEAR	II AGE AT 12/31/15	III ORIGINAL COST AT 12/31/15	IV DEPRECIATION RESERVE RATIO	V CALCULATED DEPRECIATION RESERVE	VI ORIGINAL COST LESS CALCULATED DEPRECIATION
1933	82.50	831.	1.000000	831.	0.
1932	83.50	1272.	1.000000	1272.	0.
1931	84.50	2753.	1.000000	2753.	0.
1930	85.50	8685.	1.000000	8685.	0.
1929	86.50	4399.	1.000000	4399.	0.
1928	87.50	8405.	1.000000	8405.	0.
1927	88.50	99780.	1.000000	99780.	0.
1926	89.50	117700.	1.000000	117700.	0.
1925	90.50	4931.	1.000000	4931.	0.

SUBTOTAL :			0.360680	138976288.	246340886.
NET SALVAGE: -60.0%				83385773.	-83385773.
TOTAL :		385317174.	0.577088	222362060.	162955114.

WEIGHTED AGE: 16.8 YEARS
REMAINING LIFE: 25.6 YEARS

**PEOPLES GAS SYSTEM
DOCKET NO. 160159-GU
STAFF'S FIRST DATA REQUEST
REQUEST NO. 35
BATES STAMPED PAGE: 61
FILED: AUGUST 26, 2016**

- 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.
- A.**
- a. In the Preliminary Review, (see response to Question No. 34), the initial reserve transfers were performed to bring the reserve level of each depreciable or amortizable account to its theoretical reserve level resulting in a company-wide surplus of \$807,117 and was parked into the 37600 Account. The 2 rate parameter changes on the 37600 Account related to the Average Service Life and Net Salvage generated a Theoretical Reserve Surplus of \$32,393,587. In total, this results in a Total Theoretical Reserve Surplus of \$33,200,704. The Company maintained the full Theoretical Reserve Surplus in account 37600 since that was the major driver of the Theoretical Reserve Surplus changes.
 - b. See response to Question No. 35 a.
 - c. See response to Question No. 35 a.

**PEOPLES GAS SYSTEM
DOCKET NO. 160159-GU
STAFF'S FIRST DATA REQUEST
REQUEST NO. 36
BATES STAMPED PAGE: 62
FILED: AUGUST 26, 2016**

- 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.
- A.** Please see responses to Questions No. 34 and No. 35. Excel file provided in Question No. 34.