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October 25, 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 Second 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 SECOND DATA REQUEST  
REQUEST NO. 1  
BATES STAMPED PAGES: 1 - 2  
FILED: OCTOBER 25, 2016**

1. Please refer to page 3 of Peoples Gas Systems' (PGS) 2016 Depreciation Study (2016 Study). PGS indicated that "[t]he 2016 study now indicates a total company reserve surplus of \$33,200,704" after changing the rate parameter of Account 37600 - Mains - Other Than Plastic. PGS then "proposes that this account shall carry the entire reserve surplus."
  - a. Please explain PGS' policy/philosophy with regard to reserve transfers when there is a significant amount of reserve surplus identified.
  - b. Please identify both the benefits and detriments, if any, of keeping the entire \$33 million surplus in Account 37600.
  
- A.
  - a. In the 2011 PGS Depreciation Study most of the general plant 39X plant accounts were determined to have reserve surpluses and resulted in a company-wide \$16.7 million theoretical reserve deficiency. The company chose to reset all the plant accounts to their theoretical reserve valuation per curve parameters. This allowed PGS to avoid peaks and valleys or negative depreciation rates associated with reserves that exceed the asset costs. The company prorated the \$16.7 million deficiency over the four pipe plant accounts on weighted average basis. Also, the company did not select just one heterogeneous plant account, but instead homogeneously pooled together those four pipe plant accounts to allocate the reserve deficiency due to the manner in which it was generated.

In the current Depreciation Study, the circumstances are different for how the \$33.2 million was generated. The company chose to reset all the plant accounts to their theoretical reserve valuations per curve parameters. The primary driver of rate change occurred within just the 37600 Mains – Other than Plastic plant account based on changes to the average service life and net salvage factor. As a result, the company chose to allocate 100% of company-wide \$33.2 million reserve surplus to the 37600 Mains – Other than Plastic plant account.

On October 14, 2016, the Company submitted revised pages that changed the average service life of account 37600 – Mains, Other than Plastic from the 45 years reflected in the Company's original submission to 50 years. The Company has now modified its

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proposal to spread the reserve surplus across the four pipe plant accounts (37600 – Mains, Other than Plastic, 37602 – Mains, Plastic, 38000 – Service Lines, Other than Plastic, and 38002 – Service Lines Plastic) due to the changes in the reserve surplus. The company is also proposing to change the net salvage factor for account 37600 – Mains, Other than Plastic from -50 to -40. As a result of these changes, the Theoretical Reserve Surplus is \$60,578,513. The Company will file simultaneously with its responses to this Second Data Request revised pages that supersede portions of the filing previously made on October 14, 2016 and portions of the initial Depreciation Study. Also, please see response to Staff's Second Data Request, Question No 3.

- b. The detriment to the customer of keeping the entire reserve surplus in the one account is a slight increase to depreciation expense. Due to the response in 1a, PGS is seeking to allocate the reserve surplus across the four pipe plant accounts, which would reduce depreciation expense.

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2. Please refer to PGS's response to Staff's First Data Request, No. 3. PGS identified 3 major projects included in the Company's 5-year forecast: CI/BSR projects, CNG projects, and East Jacksonville customer growth initiatives.
- a. PGS indicated that the CI/BSR projects "would have an impact on plant additions for plastic mains/newer steel technology and retirements of CI/BS."
    - i) Please confirm whether it is correct that the major impact of the projects would be significant additions to Account 37602 - Main, Plastic and significant retirements to Account 37600 - Main, Other Than Plastics. Please also provide explanations to your response.
    - ii) Please reconcile this statement with the information the Company provided in its 2016 Depreciation Study, page 4, that "[t]here have been no major changes that will impact this account [37602 - Main, Plastic]."
  - b. PGS indicated that it included in its 5-year forecast "CNG Projects - approximately \$5M annually. These are for new additions only." Please briefly discuss the scope and length of the CNG projects.
  - c. PGS indicated that it included in its 5-year forecast "East Jacksonville customer growth initiatives – approximately \$40M over the next five years. These are for new additions only." Please identify the accounts which are significantly affected by this project.
- A. a. It is correct that the statement regarding the CI/BS projects would have an impact that would affect additions to Account 37602 – Main, Plastic and that the retirements would be to Account 37600 – Main, Other Than Plastics. While PGS believes this causes a significant impact on Account 37600 – Main, Other Than Plastic, since the company would be retiring older pipe that has a lower original book cost and older technology which leaves the newer technology steel pipe remaining in this account, we do not believe it has a significant impact on the composition of Account 37602 – Main Plastic. During the normal course of business, PGS would be replacing/installing plastic pipe and does not believe the additions would be considered significant to this account.

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- b. The \$5M is for the construction of two separate proposed Compressed Natural Gas stations, one located in Dade-Broward county and the second in Charlotte county. Both installations are estimated to begin construction in 2017 and be in service by the end of that year.
  
- c. The following accounts would be affected by this project:
  - Account 37600 – Main, Other Than Plastic
  - Account 37602 – Main, Steel
  - Account 37800 – Meas & Reg Station Eqp Gen
  - Account 38002 – Services Plastic

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- 3.** Please refer to PGS' response to Staff's First Data Request, No. 10. Staff notes: (i) the 2016 study reflects a reserve surplus of \$33,200,704 after changing the rate parameter of Account 37600 - Mains - Other Than Plastic (p. 14 of PGS' 2016 Study); (ii) the Company preferred to resolve surpluses or deficiencies within 5 to 10 years (p. 24 of PGS' response); and (iii) in Florida the current gas industry average of the NS for Account 37600 is (31.4) percent with all companies, except PGS, having a NS equal to or less than (30) percent (source: prior Commission orders). Given the above, has PGS considered to further decrease its proposed NS for Account 37600 to (45) or (40) percent? Please discuss your response.
  
- A.** PGS performed an internal review as a result of the Staff's Second Data Request, and is modifying its position to move closer to the Florida state average for Account 37600 – Mains, Other than Plastic. The company is filing revised pages to its 2016 Depreciation Study supporting this change. See Response to 1a.

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4. Please refer to PGS' response to Staff's First Data Request, No. 18 a. PGS attributed the cause of negative \$94,189 gross salvage for Account 38002-Service Plastic incurred in 2014 to the timing associated with cost of removal and retirement postings. Negative \$94,189 gross salvage implies that when PGS sold a certain retired asset, instead of receiving \$94,189, the Company paid \$94,189. How is that possible? Please review your data and provide a further explanation.
- A. The negative salvage in 2014 is the result of a 2014 true-up of a 2013 estimate.

In 2013, an estimated amount was posted to account 108 resulting in cost of removal to account 38002. In 2014 upon completion, the cost of removal amount was trued-up, resulting in a debit to another 300 account and a credit to account 38002. Since the Annual Status Report only reflects removal activity in 2014, the credit was reflected as a "negative salvage".

It is important to note that the cumulative balances associated with all assets involved are correct as of 12/31/14.

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5. Please refer to PGS' 2016 Depreciation Study, pages 16-17 and PGS' revised 2015 Annual Status Report, emailed to staff on August 26, 2016. It appears that PGS reported different amounts of the ending balance of Accumulated Depreciation on Dec. 31, 2015 for certain accounts as reflected in Table 1 below. Please explain these differences and provide a reconciliation.

<u>Table 1: Comparison of the 2015 Ending Balance of Accumulated Depreciation</u>				
Acct. No	Description	2015 ASR	Dep. Study pp. 16-17	Difference
		Ending Balance	Before Reserve Transfer	
		12/31/2015	12/31/2015	
		(1)	(2)	(3) = (2) - (1)
37500	Structures & Improvements	7,928,741	7,923,869	(4,872)
37600	Mains Steel	218,020,297	218,019,006	(1,291)
37602	Mains Plastic	137,184,318	137,190,481	6,163
38000	Services Steel	51,484,453	51,480,764	(3,689)
38002	Services Plastic	134,479,130	134,483,517	4,387
39000	Structures & Improvements	10,886	21,023	10,137
39102	Office Equipment	289,367	288,940	(427)
39201	Vehicles up to 1/2 Tons	3,196,303	3,196,356	53
39202	Vehicles from 1/2 - 1 Tons	3,899,377	3,899,750	373
39400	Tools, Shop & Garage Equip	1,175,008	1,175,475	467
<b>Total</b>				<b>11,302</b>

- A. This issue is resolved as a result of the submission of the revised pages to the 2016 PGS Depreciation Study (see attached Bates-stamped pages 985-988). The 2015 Annual Status Report was revised and provided with the responses to the Staff's 1<sup>st</sup> Data Request on August 26, 2016 in Excel format.

Annual Status Report - Revised									
Analysis of Plant in Service Accounts									
Company: Peoples Gas System								Page 1 of 2	
For the Year Ended December 31, 2015									
Acct. No.	Account Description	Depr. Rate	Beginning Balance*	Additions	Retirements	Reclass.	Adjustments	Transfers	Ending Balance*
<b>Amortizable General Plant Assets:</b>									
30100	Organization	0.0	12,620	-	-	-	-	-	12,620
30200	Franchise & Consents	4.0	-	-	-	-	-	-	-
30300	Misc Intangible Plant	4.0	815,325	-	-	-	-	-	815,325
30301	Custom Intangible Plant	6.7	27,122,221	4,449,609	(5,854,250)	-	-	-	25,717,580
37402	Land Rights	1.3	1,931,351	905,062	-	-	-	-	2,836,412
39002	Structures & Improve Leases	2.5	121,764	12,396	-	-	-	-	134,160
	<b>Subtotal</b>		<b>30,003,281</b>	<b>5,367,067</b>	<b>(5,854,250)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>29,516,097</b>
<b>Depreciable Assets:</b>									
37400	Land Distribution	0.0	6,922,116	7,216,783	-	-	-	-	14,138,899
37500	Structures & Improvements	2.5	18,841,526	574,457	-	-	-	-	19,415,983
37600	Mains Steel	4.2	377,052,867	10,535,829	(2,271,521)	-	-	-	385,317,174
37602	Mains Plastic	3.1	359,055,148	42,798,083	(543,219)	-	-	-	401,310,012
37800	Meas & Reg Station Eq Gen	3.4	11,408,585	1,592,633	(76,233)	-	-	-	12,924,984
37900	Meas & Reg Station Eq City	3.4	32,871,598	1,720,841	(6,131)	-	-	-	34,586,108
38000	Services Steel	6.6	44,850,041	1,824,234	(297,928)	-	-	-	46,376,347
38002	Services Plastic	5.0	231,188,304	16,713,523	(396,792)	-	-	-	247,505,036
38100	Meters	5.9	59,751,725	4,357,357	(1,076,328)	-	-	-	63,032,755
38200	Meter Installations	4.5	47,030,785	2,463,695	(319,303)	-	-	-	49,175,177
38300	House Regulators	3.6	14,143,687	554,220	(64,582)	-	-	-	14,633,325
38400	House Regulator Installs	4.5	19,104,105	889,418	(78,463)	-	-	-	19,915,060
38500	Meas & Reg Station Eq Ind	3.1	9,112,797	-	(23,703)	-	-	-	9,089,094
38700	Other Equipment	6.3	5,161,567	727,592	-	-	-	-	5,889,159
39000	Structures & Improvements	2.5	9,582	6,209	-	-	-	-	15,791
39100	Office Furniture	6.7	1,953,233	93,011	(576,000)	-	-	-	1,470,244
39101	Computer Equipment	12.5	6,029,978	197,659	(933,953)	-	-	-	5,293,685
39102	Office Equipment	6.7	842,480	79,596	-	-	-	-	922,076
39201	Vehicles up to 1/2 Tons	11.2	6,939,055	1,344,887	(248,255)	-	-	-	8,035,686
39202	Vehicles from 1/2 - 1 Tons	12.7	6,453,705	541,006	(425,515)	-	-	-	6,569,197
39203	Airplane	1.7	-	-	-	-	-	-	-
39204	Trailers & Other	4.0	1,150,048	5,739	(2,293)	-	-	-	1,153,494
39205	Vehicles over 1 Ton	7.4	1,229,801	572,827	(32,789)	-	-	-	1,769,839
39300	Stores Equipment	4.0	-	1,283	-	-	-	-	1,283
39400	Tools, Shop & Garage Equip	6.6	3,703,104	2,405,997	(10,941)	-	-	-	6,098,159
39401	CNG Stations	6.6	-	7,721	-	-	-	-	7,721
39500	Laboratory Equipment	5.0	-	-	-	-	-	-	-
39600	Power Operated Equipment	6.4	2,656,740	118,928	-	-	-	-	2,775,668
39700	Communication Equipment	8.4	5,024,054	42,035	(224,381)	-	-	-	4,841,709
39800	Miscellaneous Equipment	5.9	443,146	45,560	(20,472)	-	-	-	468,234
39900	Other Tangible Property	0.0	-	-	-	-	-	-	-

Annual Status Report Analysis of Plant in Service Accounts									
Company: Peoples Gas System For the Year Ended December 31, 2015								Page 2 of 2	
Acct. No.	Account Description	Depr. Rate	Beginning Balance*	Additions	Retirements	Reclass.	Adjustments	Transfers	Ending Balance*
(Continued)									
Capital Recovery Schedules:									
<b>Total Account 101 and 106 *</b>			1,302,933,057	102,797,990	(13,483,052)	-	-	-	1,392,247,995
10500	Property Held for Future Use	0.0	2,984,634	(1,045,082)	-	-	-	-	1,939,552
11400	Acquisition Adjustment	3.0	5,031,897	-	-	-	-	-	5,031,897
<b>Subtotal</b>			8,016,531	(1,045,082)	-	-	-	-	6,971,449
<b>Total Utility Plant **</b>			1,310,949,588	101,752,908	(13,483,052)	-	-	-	1,399,219,444
Note: * The total of ending balances must agree to acct. 101 and 106, Plant in Service, Line 3 and Line 6, Page 12. Note: ** The total of ending balances must agree to Line 11, Page 12.									

Annual Status Report - Revised										
Analysis of Entries in Accumulated Depreciation & Amortization										
Company: Peoples Gas System										Page 1 of 2
For the Year Ended December 31, 2015										
Acct. No.	Account Description	Beginning Balance*	Depreciation Accruals	Retirements	Cost of Removal	Gross Salvage	Reclass.	Adjustments	Transfers	Ending Balance*
<b>Amortizable General Plant Assets:</b>										
30100	Organization	3,116	-	-	-	-	-	-	-	3,116
30200	Franchise & Consents	0	-	-	-	-	-	-	-	0
30300	Misc Intangible Plant	724,878	32,613	-	-	-	-	-	-	757,491
30301	Custom Intangible Plant	16,495,213	1,696,895	(5,854,250)	-	-	-	-	-	12,337,858
37402	Land Rights	621,780	32,886	-	-	-	-	-	-	654,666
39002	Structures & Improve Leases	7,067	3,070	-	-	-	-	-	-	10,137
	<b>Subtotal 108 - 404 *</b>	<b>17,852,054</b>	<b>1,765,463</b>	<b>(5,854,250)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>13,763,268</b>
<b>Items necessary to reconcile the total amortization accrual amount to Acct. 404.3, Amortization Expense, shown on Line 7, Page 8.</b>										
<b>Depreciable Assets:</b>										
37400	Land Distribution	-	-	-	-	-	-	-	-	-
37500	Structures & Improvements	7,452,718	476,023	-	-	-	-	-	-	7,928,741
37600	Mains Steel	206,745,844	15,969,078	(2,271,521)	(2,412,467)	(10,637)	-	-	-	218,020,297
37602	Mains Plastic	126,680,259	11,723,953	(543,219)	(677,922)	1,248	-	-	-	137,184,318
37800	Meas & Reg Station Eqp Gen	2,786,057	401,586	(76,233)	(31,075)	-	-	-	-	3,080,334
37900	Meas & Reg Station Eqp City	6,507,150	1,142,582	(6,131)	(5,882)	-	-	-	-	7,637,719
38000	Services Steel	50,389,426	3,006,009	(297,928)	(1,613,138)	84	-	-	-	51,484,453
38002	Services Plastic	124,309,897	11,878,741	(396,792)	(1,313,550)	834	-	-	-	134,479,130
38100	Meters	19,327,065	3,582,097	(1,076,328)	(24,118)	66,485	-	-	-	21,875,201
38200	Meter Installations	24,199,188	2,159,999	(319,303)	(210,018)	-	-	-	-	25,829,866
38300	House Regulators	6,065,954	516,510	(64,582)	-	-	-	-	-	6,517,882
38400	House Regulator Installs	9,270,617	879,123	(78,463)	(167,548)	-	-	-	-	9,903,729
38500	Meas & Reg Station Eqp Ind	5,169,258	282,189	(23,703)	(730)	-	-	-	-	5,427,013
38700	Other Equipment	1,837,412	351,230	-	-	-	-	-	-	2,188,642
39000	Structures & Improvements	10,590	296	-	-	-	-	-	-	10,886
39100	Office Furniture	1,156,788	101,696	(576,000)	-	-	-	-	-	682,484
39101	Computer Equipment	4,470,520	667,907	(933,953)	-	-	-	-	-	4,204,474
39102	Office Equipment	231,711	57,656	-	-	-	-	-	-	289,367
39201	Vehicles up to 1/2 Tons	2,596,486	795,656	(248,255)	(5,200)	57,615	-	-	-	3,196,303
39202	Vehicles from 1/2 - 1 Tons	3,435,959	808,623	(425,515)	(2,970)	83,280	-	-	-	3,899,377
39203	Airplane	(0)	-	-	-	-	-	-	-	(0)
39204	Trailers & Other	167,461	46,002	(2,293)	-	50	-	-	-	211,220
39205	Vehicles over 1 Ton	585,830	116,292	(32,789)	-	515	-	-	-	669,848
39300	Stores Equipment	(4,615)	47	-	-	-	-	-	-	(4,568)
39400	Tools, Shop & Garage Equip	850,578	335,371	(10,941)	-	-	-	-	-	1,175,008
39401	CNG Stations	-	467	-	-	-	-	-	-	467
39500	Laboratory Equipment	(14,417)	-	-	-	-	-	-	-	(14,417)
39600	Power Operated Equipment	1,138,250	171,999	-	-	-	-	-	-	1,310,249
39700	Communication Equipment	2,881,688	407,238	(224,381)	-	-	-	-	-	3,064,545
39800	Miscellaneous Equipment	314,496	26,115	(20,472)	-	-	-	-	-	320,139
39900	Other Tangible Property	-	-	-	-	-	-	-	-	-

Annual Status Report										
Analysis of Entries in Accumulated Depreciation & Amortization										
Company: Peoples Gas System										Page 2 of 2
For the Year Ended December 31, 2015										
Acct. No.	Account Description	Beginning Balance*	Accruals	Retirements	Cost of Removal	Gross Salvage	Reclass.	Adjustments	Transfers	Ending Balance*
(Continued)										
	108 RWIP Unallocated	-	-	-	-	-	-	-	-	-
<b>Capital Recovery Schedules:</b>										
<b>Subtotal 108 - 403 *</b>		626,414,223	57,669,949	(13,483,052)	(6,464,618)	199,473	-	-	-	664,335,975
Items necessary to reconcile the total depreciation and amortization accrual amount to Acct. 403, Depreciation Expense, shown on Line 6, Page 8.										
10500	Property Held for Future Use	-	-	-	-	-	-	-	-	-
11500	Acquisition Adjustment	4,111,754	149,146	-	-	-	-	-	-	4,260,900
<b>Subtotal</b>		4,111,754	149,146	-	-	-	-	-	-	4,260,900
<b>Total Accumulated Reserve**</b>		630,525,978	57,819,095	(13,483,052)	(6,464,618)	199,473	-	-	-	668,596,875
Note: * The total of ending balances must agree to Line 17, Page 12. Note: ** The total of ending balances must agree to Line 32, Page 12. Per rule 25-7.045(9), there has been no change of plans or utility experience requiring a change of rates, amortization or capital recovery schedule.										

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6. Please refer to PGS' response to Staff's First Data Request No. 30 for the following questions.
- a. Please elaborate on the Company's statement on page 51 that "the Electric Utility Guidance is applied to the gas utility for those General Plant Accounts 391, 394, 395, 397 and 398."
  - b. Please identify the approach PGS used for Accounts Nos. 391, 394, 395, 397 and 398 in its 2016 Study: the group depreciation method or treating these accounts as the amortizable accounts.
  - c. Please explain how the SQ curve can appropriately reflect the characteristics and activities of the aforementioned accounts.
- A.
- a.-b. PGS follows the Gas Utility Guidance according to the Florida Administrative Code. Accounts 391, 394, 395, 397 and 398 are utilizing the group depreciation methodology within the PGS accounting system. As of 2012, PGS has not performed physical plant inventories for these assets as the costs and administrative burden outweigh the benefits. Plant Accounting reviews these asset classes annually and works with operations to identify assets that should be retired. If Physical inventories were to be performed, PGS was seeking to utilize consistent application between both utilities; however, PGS will continue to utilize the guidance for gas utilities as part of this depreciation study and future depreciation studies.
  - c. Assets retired early, require the acceleration of the average remaining life used to derive the depreciation rate causing an increase in expense accruals and can generate reserve deficiencies due to the net book value loss contained in the reserve that lower the accumulated reserve ratio used to derive the depreciation rate causing an increase in expense accruals. Usage of the SQ curve type anticipates 0 interim (early) retirements, thus no acceleration of the average remaining life. The assumption is the asset cost is fully depreciated over the average service life and helps to stabilize the annual expense accrual by avoiding peaks and valleys in the deprecation rate calculation that eventually travel through revenue requirements. Any net book value reserve loss due to an asset being retired early that cause theoretical reserve

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deficiencies are eliminated when practicing reserve transfers to further stabilize the depreciation rate and reduces the need to monitor activities in those plant accounts.