



FILED 1/10/2025  
DOCUMENT NO. 00213-2025  
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January 10, 2025

**VIA ELECTRONIC FILING**

Mr. Adam J. Teitzman  
Commission Clerk  
Florida Public Service Commission  
2540 Shumard Oak Boulevard  
Tallahassee, FL 32399-0850

Re: Docket 20240157-GU - Petition for Approval to Establish a New Regulatory Subaccount and an Amortization Rate and to Reclassify Customer Software Investment and Reserve Balance.

Dear Mr. Teitzman:

Attached for filing on behalf of Peoples Gas System, Inc. are the company's answers to Staff's First Data Request (Nos. 1-7) served via email on December 20, 2024.

Thank you for your assistance in connection with this matter.

Sincerely,

A handwritten signature in blue ink that reads 'V. Ponder'.

Virginia Ponder

VLP/dh  
Attachment

cc: Andrew Kunkler, [akunkler@psc.state.fl.us](mailto:akunkler@psc.state.fl.us)

**CERTIFICATE OF SERVICE**

I HEREBY CERTIFY that a true and correct copy of the foregoing answers, filed on behalf of People Gas System, Inc., has been furnished by electronic mail on this 10th day of January, 2025 to the following:

Jennifer Crawford  
Zachary Bloom  
Office of General Counsel  
Florida Public Service Commission  
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ATTORNEY

**PEOPLES GAS SYSTEM, INC.  
DOCKET NO. 20240157-GU  
STAFF'S FIRST DATA REQUEST  
REQUEST NO. 1  
BATES PAGE(S): 1  
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1. Please refer to Peoples Gas System, Inc.'s (PGS) Petition for Approval to Establish a New Regulatory Subaccount and an Amortization Rate and to Reclassify Customer Software Investment and Reserve Balance (Petition) filed in the instant docket, for the questions below.
  - a. Please identify the developer of the Company's WAM software.
  - b. PGS filed its revised depreciation study in Docket No. 20220219-GU on April 4, 2023 in which it included WAM in Account 303.1 Custom Software – 15 years. Please explain how the original service life of 15 years was determined for this specific asset.
  - c. Did the developer identified in Question 1.(a.) provide an estimated service life for the software, and if so, what was that service life?
- A.
  - a. SAP.
  - b. The company "included" WAM in Account 303.1 Custom Software, in Appendix F-1, Summary of Plant in Service 2019- 2024 of its 2022 Updated Depreciation Study filed on April 4, 2023. (See Bates Page 145, PGS 2024 Annual Status Report, Forecast 2024). The company included WAM in Account 303.1 Custom Software because that was the most appropriate approved depreciation account in which to place it. The company notes that WAM was not "included" in the 2022 Updated Depreciation Study as an evaluated and analyzed asset, but rather as a 2024 forecasted addition in the most appropriate account that had a designated service life of 15 years.
  - c. No, the developer did not provide an estimated service life for the software.

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- 2.** Please refer to the Petition, Paragraph (10), for the questions below:
- a. Does the Company's WAM software carry a warranty/service contract?
  - b. If so, please specify or approximate the typical warranty/service contract period.
  - c. What protections are in place for PGS' customers if the warranty/service contract period is less than the requested 20 year service life?
- A.**
- a. Yes. The agreement with SAP included both a warranty and a service agreement.
  - b. SAP offered a limited warranty for the WAM software, which was valid for 90 days following implementation. This warranty is a standard practice among software companies, ensuring that customers receive support and remedies for any issues that may arise during the initial period.  
  

In addition to the warranty, the company secured a service contract with SAP. The company will continue to benefit from the terms of this contract without a fixed expiration date as long as our software meets SAP's vendor compliance standards. To maintain this compliance and access ongoing support, the company must stay current with our annual support fee payments. In fulfilling these obligations, SAP will provide us with vital software maintenance services as needed. These services ensure that our software remains functional, secure, and up-to-date with the latest enhancements and features available from SAP.
  - c. The company intends to meet the vendor compliance standards to ensure the service contract is continuous. Accordingly, we expect both WAM and the service agreement to be in place throughout the 20-year service life. The WAM software is an integral component of our operations, playing a critical role in delivering service to our customers. To ensure its reliability, it will need to be maintained in collaboration with the vendor to ensure safe and reliable service for our customers.

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3. Please refer to the Petition, Paragraph (10), for the questions below:
- a. Please elaborate on the “additional modifications and improvements” PGS made to the WAM software.
  - b. Please explain whether or not the modifications/improvements detailed in Question 2.(a.) contributed to PGS’ request to extend the service life of the WAM software. If so, please explain how.
- A.
- a. From inception, the WAM project consisted of implementing 13 work types (modules). Initially, the implementation of the 13 modules was to be completed across two releases. Ultimately, the company needed three releases to fully implement the 13 modules.
    - Release 1: Release 1 included six modules and was successfully implemented in November 2022.
    - Release 2: The remaining seven modules were to be included in Release 2 in May 2023. However, prior to May 2023, the company conducted a readiness review and risk assessment that showed two of the seven modules were not ready for implementation. The company decided to defer the implementation of the two modules that were not ready, the Compliance and Damage billing modules, and move forward with the implementation of the other 5 modules. Thus, Release 2 in May 2023 included the successful implementation of five modules.
    - Release 2.1: After further configuration on the Compliance and Damage Billing modules was completed, they were implemented in Release 2.1 in September 2023. (See the table below for additional information.)

The WAM asset was placed in service in May 2023 with the completion and rollout of both Releases 1 and 2.

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Release	Work Type	Release Date
Release 1	<ul style="list-style-type: none"> <li>• Engineering and Construction</li> <li>• Service Line Retirement, Replacement and Relocation</li> <li>• Integrity Management</li> <li>• Month End Close</li> </ul>	November 2022
Release 2	<ul style="list-style-type: none"> <li>• Service Work</li> <li>• Maintenance Work</li> <li>• Emergency Work</li> <li>• Leaks</li> <li>• Locates</li> </ul>	May 2023
Release 2.1	<ul style="list-style-type: none"> <li>• Compliance</li> <li>• Damage Billing</li> </ul>	September 2023

- b. No, the modifications/improvements detailed in Question 3. (a.) above did not contribute to PGS' request to extend the service life of the WAM software. However, a fully operational work asset management system is vital for the success of our operations. The substantial costs associated with configuring and implementing a replacement system, combined with the lengthy timeline typically required for such a transition present significant obstacles to undertaking a new project. These challenges not only limit our options but also increase the chances of prolonging the life of our current assets, as we find it more feasible to continue using the existing system rather than investing in a costly and time-consuming replacement.

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- 4.** Please refer to the Petition, Paragraph (12), for the questions below:
- a. Please describe in detail the new service life information the Company became aware of related to WAM that has led the Company to propose a five year extension to the service life of this asset.
  - b. Please explain when PGS became aware of the need for a 5-year extension of the amortization period of the WAM software.
  - c. On what basis does this asset merit a longer amortization period than the other assets included in Account 303.1 Custom Software – 15 years?
  - d. Provide all related documents the Company possesses pertaining to Questions 4.a.-c. above.
- A.**
- a. As explained above, WAM's service life was based on the most appropriate approved depreciation account classification and was not evaluated and analyzed in the 2022 Updated Depreciation Study filed on April 4, 2023. Beyond the analysis described below in response to 4(b), new service life information did not lead the company to propose a five-year extension to the service life of this asset. The core enterprise resource planning (ERP) system SAP R/3 is shared by TEC, PGS, and New Mexico Gas Company (NMGC). This version has been on the market for 33 years and is scheduled to reach its end of life on December 31, 2027. For the WAM initiative, PGS chose to implement SAP's latest version of ERP, SAP S/4 HANA. This selection was based on SAP's product roadmap, as well as new user functionality, enhanced speed, and improved performance. Given that the previous version has been on the market for over three decades, we anticipate that SAP S/4 HANA will have a similar lifespan in the market.
  - b. On or about May 17, 2024, the company became aware of a peer utility's request to establish regulatory subaccounts and associated amortization rates for certain customized software. Based on this filing and an increased understanding of the WAM software, Peoples analyzed its core relevant assets in subaccount 303.01. After conducting this analysis, WAM emerged as the only asset with a significant remaining balance that warranted a request for a change from 15 years to 20 years. It was determined that other assets were

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already partially depreciated and, as a result, would have an immaterial impact, which the company did not believe warranted requesting a change. Therefore, requesting an immediate change for WAM to align the assumptions as closely as possible to the asset's service life seemed most appropriate.

- c. See b above.
- d. Please see the attached public document referenced in 4(a) entitled "The impact of 2027 on SAP customers – SAP Community."

Please see the attached analysis, which is described in 4(b). The attached analysis provided a high-level assessment of the depreciation expense impacts on the core relevant assets in subaccount 303.01 if reclassified from a 15-year life to a 20-year life. Each asset was evaluated on its residual useful life and the remaining asset balance. Once a determination was made to only pursue moving the WAM Software asset to a 20-year life, a group depreciation calculation was performed to provide a more representative estimate of the annual depreciation expense savings which was provided in the company's petition.



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What are you looking for today?

### The impact of 2027 on SAP customers



**martinstenzig**

Contributor



2022 Sep 25 7:05 PM



13 Kudos

👁 64,466

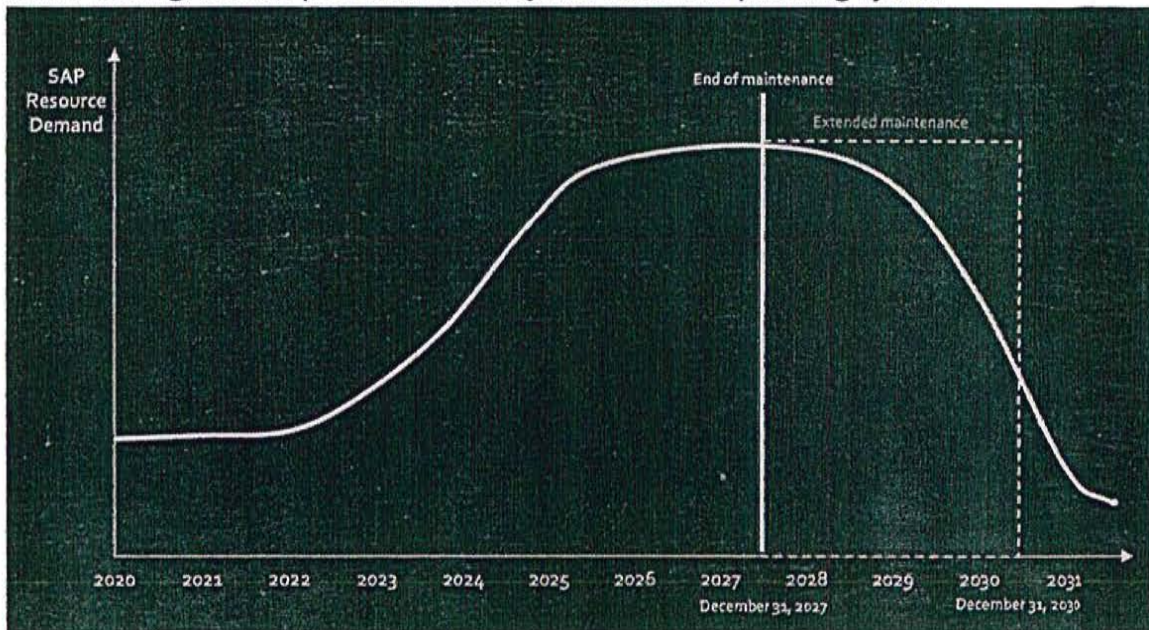
**SAP Managed Tags:** SAP ERP Central Component, SAP S/4HANA, Digital Transformation

For all of us that are working in the SAP ecosystem, December 31st, 2027, is the date that will drive us and our industry for the next years.

SAP is committed to provide mainstream maintenance for Business Suite 7—the release that a lot of our customers are still using—until the end of 2027. Companies have the option to buy a maintenance extension until 2030 for an incremental 2% in maintenance fees. The prior 2025 support deadline was pushed to 2027 after customers requested more time to move to the new release in 2020 making it unlikely that the 2027 deadline will be moved yet again.

When assessing the current installed base of Business Suite 7, Gartner estimates that 70 percent of Business Suite 7/ECC customers have yet to migrate to S/4 HANA, but SAP S/4 HANA sales are growing at record levels based on SAP latest financial results and comments from SAP CEO, Christian Klein.

Combining these factors, we will see a wave of Business Suite 7 to S/4 migrations hitting the SAP System Integrator community in the next few years. We always knew it was coming, but the pandemic took 2 years out of our planning cycles.



Projected SAP resource demand over the next 10 years

So, here we are at t-5 years with countless customers that have yet to make the move. For IT practitioners, 5 years sounds like a long time, but everyone who has been working on large enterprise initiatives knows: you must create a business case, allocate funding, work with SAP on a license agreement, select an implementation partner, perform the implementation itself, roll it out and ultimately drive adoption of the solution to collect the business benefits you originally committed to in the business case.

If you are a small organization and don't mind big bang rollouts you might be able to execute this in a year, but for most enterprises we work with, you easily look at an average 2–3-year timeline for transforming from ECC to S/4.

Working in the SAP implementation space, we are equipped to handle a steady stream of SAP projects, ranging from small add-ons to large implementations. We are also equipped to handle ebbs and flows in demand, but **the wave we see coming is more analogous to a Tsunami** hitting us on all fronts. Business process experts need to re-assess what improvements and benefits S/4 implementations can bring, functional experts need to configure S/4 and various technical teams must migrate interfaces, extensions and any other customer-specific content into the new Cloud-based paradigm.

For SAP customers that means you should start the journey as soon as possible, build

your business case, estimate your implementation duration and certainly find and lock in your implementation partner as resources will get sparse and potentially more expensive as demand will undoubtedly outpace supply. Depending on your estimated implementation duration, you might have an alternative to delay the implementation and use the option of paying a premium to SAP. Most companies will likely want to use the 2027–30 timeline as a contingency, though.

To make the S/4 business case more attractive, the industry is continuously working on improving both factors (benefits and cost) of the equation.

New SAP applications and technologies open additional areas of benefit realization, but our teams, as well as our customers, must be equipped to see the potential, implement the changes in the system, processes and most important of all, take their people on the journey to increased efficiency.

Compared to the standard, consultative approach used in the past, cost reductions in the implementation effort can be achieved by standardizing and harmonizing business processes while following and utilizing best practices.

In the SAP implementation space, we are working hard to add capacity and ensure our implementation resources are trained up and ready for the hard work and long hours.

Tags:

2027

2030

## 1 Comment



**Impechardo77**

Explorer



2024 Apr 18 1:52 AM



1 Kudo

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- 5.** Please list all the Commission orders by which the same amortization period was approved for a similar plant account and/or plant asset, if known. Please also identify any other companies in other jurisdictions that utilize this software, and the approved amortization periods, if known.
- A.** The company is aware of the following two orders, where the Commission approved a 20-year amortization rate.
- Order No. PSC-2024-0366-PAA-GU, issued on August 19, 2024, in Docket No. 20240060-GU, In re: Petition for approval to establish new regulatory subaccounts, amortization rates, and reclassification of associated investment and reserve balances, by Florida Public Utilities Company at 5.
  - Order No. PSC-2020-0489-PAA-GU, issued December 11, 2020, in Docket No. 20200191-GU, In re: Petition for approval of amortization rate for Starnik customer information system and other software accounting adjustments, by Florida City Gas at 5.

The company does not have knowledge of other companies in different jurisdictions approved amortization rates. The company is generally aware of the following utilities using WAM: Hawaiian Electric Company, UGI, NiSource, Liberty Utilities, and Chesapeake Utilities. While there may be others, these are the companies that Peoples is aware of.

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- 6.** The Petition at Paragraph 12 indicates the change in annual expense associated with changing the amortization period from 15 years to 20 years is a reduction in expense of \$650,159. If the Company's request is approved, what is the expected impact of the change in service life for the WAM software on the Company's earnings in 2025 (in dollars and basis points ROE), assuming it were in effect for the entire calendar year? Please provide all calculations.
  
- A.** Please see the attached analysis. For 2025, the estimated net after-tax impact on earnings is \$485,376, with an ROE impact of 4 basis points, which would not push the company outside of its allowed ROE range.

Peoples Gas System, Inc.

Staff Question #6

Impact of New WAM Sub-account on 2025 Earnings and ROE

Line			
1	Reduction in Depreciation Expense	\$	650,159
2	Income Tax Rate	25.345%	
3	Less: Increase in Income Taxes		164,783
4	Net After Tax Impact to Earnings	\$	<u>485,376</u>
5			
6	2025 Approximate 13-Month Average Rate Base	\$	2,625,000,000
7	2025 Approximate Equity Ratio (All Sources)		48.00%
8	2025 Approximate 13-month Average Equity	\$	1,260,000,000
9			
10	ROE Impact		0.04%
11	ROE Impact - Basis Points		4

7. Please refer to the Petition, Paragraph (12).
- a. Is it correct that, for various assets, PGS may become aware of different average service life expectations following the Commission's decision setting depreciation rates subsequent to the Company filing of a depreciation study?
  - b. What is the process by which PGS becomes aware of changes in service lives between depreciation studies?
  - c. What is/are PGS's key criterion/criteria for choosing to seek an immediate change in depreciation service lives during the period between depreciation rates being set based on a full depreciation study and the filing of the next full depreciation study, typically filed four years after the prior study?
  - d. How did PGS's WAM asset meet such criteria?
- A.**
- a. Yes. In this instance, as explained above, the WAM asset was not a fully evaluated asset in the company's last depreciation study. Rather, it was a forecasted addition listed in Appendix F-1.
  - b. The process by which a possible change to service life is identified between depreciation studies is exception-based. In other words, when the company acquires additional information about a particular asset that may have a material impact to the service life, it will conduct a re-analysis to determine if a change should be made.
  - c. The key criteria for seeking a change to service life include: (a) material change from the approved service life, (b) the timing of and the findings of the last filed depreciation study, and (c) increased understanding of an asset's capabilities.
  - d. Because WAM was a forecasted addition in the last depreciation study, WAM did not go through the process described in 7b nor the full criteria analysis in 7c. Instead, as explained in answer 4b above, the peer filing and the company's increased understanding of WAM led the company to conduct an analysis that supported the change in service life.