

State of Florida



Public Service Commission

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TALLAHASSEE, FLORIDA 32399-0850

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DATE: March 29, 2012

TO: Office of Commission Clerk (Cole)

FROM: Division of Economic Regulation (Ollila, Cicchetti, L'Amoreaux)
Office of the General Counsel (Brown)

RE: Docket No. 110232-GU – Petition for approval of 2011 Depreciation Study by Peoples Gas System.

AGENDA: 04/10/12 – Regular Agenda – Proposed Agency Action – Interested Persons May Participate

COMMISSIONERS ASSIGNED: All Commissioners

PREHEARING OFFICER: Balbis

CRITICAL DATES: None

SPECIAL INSTRUCTIONS: None

FILE NAME AND LOCATION: S:\PSC\ECR\WP\110232.RCM.DOC

Case Background

Rule 25-7.045, Florida Administrative Code (F.A.C.), requires natural gas companies to file a comprehensive depreciation study once every five years. Peoples Gas System (Peoples or Company) filed its 2011 depreciation study in compliance with this rule. The Company's last depreciation review was filed in 2006, with the Commission's approved revised depreciation rates and components effective January 1, 2007. The Commission has jurisdiction pursuant to Sections 350.115 and 366.05, Florida Statutes (F.S.).

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Discussion of Issues

Issue 1: Should currently prescribed depreciation rates of Peoples Gas System be revised?

Recommendation: Yes. A review of the Company's plans and activities indicates a need for a revision to the currently prescribed depreciation rates. (Ollila)

Staff Analysis: Peoples' last comprehensive depreciation study was filed in 2006. By Order No. PSC-07-0125-PAA-GU¹, the Commission approved revised depreciation rates and components, effective January 1, 2007. The Company has filed this current study in accordance with Rule 25-7.045, F.A.C., which requires natural gas companies to file a comprehensive depreciation study at least once every five years. A review of Peoples' activity data indicates the need to revise the depreciation rates.

¹Order No. PSC-07-0125-PAA-GU, issued February 12, 2007, in Docket No. 060496-GU, In re: Application for approval of new depreciation rates effective January 1, 2007, by Peoples Gas System.

Docket No. 110232-GU

Date: March 29, 2012

Issue 2: What should be the implementation date for new depreciation rates?

Recommendation: Staff recommends approval of the Company's proposed January 1, 2012, date of implementation for revised depreciation rates. (Ollila)

Staff Analysis: Rule 25-7.045(6)(b), F.A.C., requires that the data submitted in a depreciation study, including plant and reserve balances or company estimates, "should be brought to the effective date of the proposed rates." The supporting data and calculations provided by Peoples match an implementation date of January 1, 2012.

Issue 3: What are the appropriate depreciation rates?

Recommendation: The appropriate depreciation rates are contained in Attachment A. Staff recommends retaining Account 386.00 – Other Property Customer Premise with a 15-year average service life. Staff recommends closing Account 392.02 – Airplanes. (Ollila, L'Amoreaux)

Staff Analysis: Staff's recommendations are the result of a comprehensive review of Peoples' study, including staff-issued data requests. As a result of the review and analytical process, staff believes the Company-proposed lives, net salvage percentages, and the resulting depreciation rates for all accounts are appropriate. Attachment A contains a comparison of current components and rates to staff's recommended components and rates. Attachment B contains a comparison of current and proposed depreciation expense. Staff's recommended rates result in a decrease to depreciation expense of \$139,198.

Account 386.00 – Other Property Customer Premise

There is no investment in this account. Peoples proposed retaining the account in case it might be needed. The Company also proposed an increase in the average service life from 10 to 15 years. Staff believes that if it is possible that this account might be needed, then the account should be retained at least until the next depreciation study. Staff believes that it is reasonable to increase the average service life to 15 years. Staff recommends retaining this account and increasing the average service life to 15 years.

Account 392.02 – Airplanes

Peoples stated in its study that its airplane was retired in 2009. Currently, there are no assets in this account and the Company apparently has no plans for additional investment. When questioned about this account in the December 1, 2011 staff report, the Company agreed that it is appropriate to close this account and discontinue any depreciation parameters. Staff agrees with Peoples and recommends closing this account.

Reserve Transfers

In early 2011, the Commission approved a stipulation and settlement agreement (agreement) between Peoples and the Office of Public Counsel for possible overearnings in 2010.² That agreement included a provision that any overearnings in excess of \$3,000,000 “shall be used to correct or mitigate deficiencies in the Company’s depreciation reserves as may be agreed to by PGS and Staff.”³ The amount of overearnings in excess of \$3,000,000 was

² Order No. PSC-11-0111-PAA-GU, issued February 10, 2011, in Docket No. 100462-GU, In re: Joint Petition of Peoples Gas System and Office of Public Counsel for approval of stipulation and settlement agreement for possible overearnings for calendar year ending December 31, 2010.

³ Ibid., Attachment A, page 7, paragraph 3.

calculated by the Company to be \$6,150,000.⁴ In its proposed reserve transfers in this proceeding, Peoples has included the \$6,150,000 as ordered.

Staff has thoroughly reviewed Peoples' proposed reserve transfers (including the \$6,150,000), as well as its explanations as provided in response to staff's data requests. The proposed reserve transfers, contained in Attachment C, are acceptable to staff. Staff notes that it monitors the Company's reserve activity (additions, retirements, and adjustments) on an annual basis. The annual review includes preparation and submission of data requests as necessary

Conclusion

Staff recommends that the appropriate revised depreciation rates are contained in Attachment A. Staff recommends retaining Account 386.00 – Other Property Customer Premise with a 15-year average service life. Staff recommends closing Account 392.02 – Airplanes.

⁴ June 17, 2011 letter from Jeffrey S. Chronister to Marshall Willis, Docket No. 100462, document number 04325-11.

Issue 4: Should the current amortization of investment tax credits (ITCs) and flow back of excess deferred income taxes (EDITs) be revised to reflect the approved depreciation rates and capital recovery schedules, if any?

Recommendation: Yes. The current amortization of ITCs and the flowback of EDITs should be revised to match the actual recovery periods for the related property. The Company should file detailed calculations of the revised ITC amortization and flowback of EDITs at the same time it files its surveillance report covering the period ending December 31, 2012. (Cicchetti)

Staff Analysis: As shown in Attachment A, staff has recommended approval of revised depreciation rates for the Company which reflect changes to most accounts' remaining lives to be effective January 1, 2012. Revising a utility's book depreciation lives generally results in a change in its rate of ITC amortization and flowback of EDITs in order to comply with the normalization requirements of the Internal Revenue Code (IRC or Code) set forth in sections 168(f)(2) and (i)(9), IRC sections 167(l) and 46(f),⁵ Federal Tax Regulations under the Code sections,⁶ and section 203(e) of the Tax Reform Act of 1986 (the Act).⁷

Staff, the Internal Revenue Service (IRS), and independent outside auditors look at a company's books and records, and the orders and rules of the jurisdictional regulatory authorities to determine if the books and records are maintained in the appropriate manner. The books are also reviewed to determine if they are in compliance with the regulatory guidelines in regard to normalization. Therefore, staff recommends the current amortization of ITCs and the flowback of EDITs be revised to reflect the remaining useful lives that underlie staff's proposed depreciation rates.

Section 46(f)(6) of the Code states that "the amortization of ITC should be determined by the period of time actually used in computing depreciation expense for ratemaking purposes and on the regulated books of the utility."⁸ Since staff is recommending changes to the Company's remaining lives, it is also important to change the amortization of ITCs to avoid violation of the provisions of IRC section 46 and its underlying Treasury Regulations. The consequence of an ITC normalization violation is a repayment of unamortized ITC balances to the IRS.

Section 203(e) of the 1986 Act prohibits rapid flow back of depreciation-related (protected) EDITs to the utility's customers. Further, Rule 25-14.013, F.A.C., Accounting for Deferred Income Taxes Under SFAS 109, generally prohibits EDITs from being written off any faster than allowed under the Act. The Act, ASC 740,⁹ and Rule 25-14.013, F.A.C, regulate the flowback of EDITs. Therefore, staff recommends that the flowback of EDITs be adjusted to comply with the Act, ASC 740, and Rule 25-14.013, F.A.C.

⁵ 26 USC §§168(f)(2) and (i)(9); 26 USC §167(l); 26 USC §46(f).

⁶ Treas. Reg. §1.168; Treas. Reg. §1.167; Treas. Reg. §1.46.

⁷ Tax Reform Act of 1986, 1986-3 (Vol.1) C.B. 63, P.L. 99-514 (100 Stat. 2146) October 22, 1986.

⁸ 26 USC §46(f)(6).

⁹ FASB ASC 740 (Topic 740 of the Financial Accounting Standards Board Accounting Standards Codification). Cross Reference: Accounting for Income Taxes, Statement of Financial Accounting Standards No. 109 (Financial Accounting Standards Board, 1992).

Docket No. 110232-GU
Date: March 29, 2012

Issue 5: Should this docket be closed?

Recommendation: Yes. If no person whose substantial interests are affected by the Commission's Proposed Agency Action files a protest within 21 days of the issuance of the order, this docket should be closed upon the issuance of a consummating order. (Brown)

Staff Analysis: If no person whose substantial interests are affected files a timely request for a hearing within 21 days, no further action will be required and this docket should be closed upon the issuance of a consummating order.

PEOPLES GAS COMPANY
2011 DEPRECIATION STUDY

ATTACHMENT A

COMPARISON OF RATES AND COMPONENTS

ACCOUNT	CURRENT					COMPANY/STAFF RECOMMENDED				
	AVERAGE SERVICE LIFE	AVERAGE REMAINING LIFE (YRS.)	NET SALVAGE (%)	12/31/2011 RESERVE (%)	REMAINING LIFE RATE (%)	AVERAGE SERVICE LIFE	AVERAGE REMAINING LIFE (YRS.)	NET SALVAGE (%)	12/31/2011 RESERVE (%)	REMAINING LIFE RATE (%)
Distribution Plant										
37402 Land Rights	32		0.0	0.00	3.1	75.0	59.0	0.0	21.96	1.3
37500 Structures & Improvements	40	28.0	0.0	21.90	2.8	40.0	27.0	0.0	32.90	2.5
37600 Mains Steel	40	25.0	(50.0)	50.90	4.0	40.0	25.0	(60.0)	56.05	4.2
37602 Mains Plastic	40	31.0	(15.0)	24.00	2.9	40.0	30.0	(25.0)	31.40	3.1
37800 M & R General	31	24.0	(5.0)	25.00	3.3	31.0	25.0	(5.0)	20.74	3.4
37900 M & R City Gate	31	24.0	(5.0)	24.40	3.4	31.0	25.0	(5.0)	20.28	3.4
38000 Services Steel	32	12.8	(90.0)	87.50	8.0	32.0	13.6	(100.0)	110.83	6.6
38002 Services Plastic	32	23.0	(50.0)	32.10	5.1	32.0	21.0	(55.0)	49.92	5.0
38100 Meters	16	11.2	3.0	22.60	6.6	16.0	11.1	5.0	29.16	5.9
38200 Meter Installations	27	17.4	(20.0)	32.80	5.0	27.0	16.5	(20.0)	46.54	4.5
38300 House Regulators	28	17.3	0.0	38.60	3.5	28.0	17.1	0.0	38.98	3.6
38400 House Regulator Installation	27	18.0	(20.0)	28.40	5.1	27.0	16.6	(20.0)	46.03	4.5
38500 M & R Station	32	20.0	(3.0)	34.40	3.4	32.0	15.7	0.0	50.91	3.1
38600 Other Prop. Cust. Prem.	10	10.0	0.0	0.00	10.0	15.0	15.0	0.0	0.00	6.7
38700 Other Equipment	16	9.1	0.0	47.70	5.7	16.0	9.9	0.0	38.01	6.3
Transportation Equipment										
39201 Vehicles up to 1/2 Ton	8	4.0	10.0	47.40	10.6	8.0	4.8	10.0	36.36	11.2
39202 Vehicles from 1/2 - 1 Ton	7	3.9	10.0	32.20	14.8	7.0	3.3	10.0	48.06	12.7
39203 Airplane ¹	15	10.5	75.0	5.50	1.9	15.0	15.0	75.0	0.00	1.7
39204 Trailers and Other	20	8.5	14.0	51.00	4.1	20.0	7.1	20.0	51.49	4.0
39205 Vehicles over 1 Ton	12	3.7	10.0	53.20	9.9	12.0	4.7	10.0	55.12	7.4
General Plant										
39000 Structures & Improvements	40	29.0	0.0	17.10	2.9	40.0	36.0	0.0	10.61	2.5
39100 Office Furniture	15	8.7	0.0	33.60	7.6	15.0	12.4	0.0	17.43	6.7
39101 Computer Equipment	8	3.1	0.0	77.70	7.2	8.0	3.1	0.0	61.18	12.5
39102 Office Equipment	15	8.1	0.0	43.70	7.0	15.0	7.8	0.0	47.70	6.7
39300 Stores Equipment	25	2.4	0.0	95.60	1.8	25.0	2.5	0.0	89.97	4.0
39400 Tools, Shop, Garage Equipment	15	6.4	0.0	61.70	6.0	15.0	7.8	0.0	48.19	6.6
39500 Laboratory Equipment	20	11.7	0.0	39.00	5.2	20.0	8.3	0.0	58.54	5.0
39600 Power Operated Equipment	15	4.1	5.0	73.60	5.2	15.0	5.8	5.0	57.96	6.4
39700 Communication Equipment	12	5.8	0.0	34.20	11.4	12.0	5.0	0.0	58.06	8.4
39800 Miscellaneous Equipment	17	9.8	0.0	57.70	4.3	17.0	7.1	0.0	58.19	5.9

PEOPLES GAS COMPANY
2011 DEPRECIATION STUDY

ATTACHMENT B

COMPARISON OF EXPENSES

ACCOUNT	CURRENT			
	As of 12/31/2011 INVESTMENT (\$)	As of 12/31/2011 RESERVE ¹ (\$)	REMAINING LIFE RATE (%)	EXPENSES (\$)
Distribution Plant				
37402 Land Rights	\$2,576,369	\$565,700	3.1	\$79,867
37500 Structures & Improvements	18,431,728	6,064,814	2.8	516,088
37600 Mains Steel	314,118,682	176,078,117	4.0	12,564,747
37602 Mains Plastic	309,948,972	97,320,087	2.9	8,988,520
37800 M & R General	8,624,202	1,789,055	3.3	284,599
37900 M & R City Gate	18,849,587	3,822,462	3.4	640,886
38000 Services Steel	40,331,991	44,701,297	8.0	3,226,559
38002 Services Plastic	194,766,424	97,222,117	5.1	9,933,088
38100 Meters	47,683,261	13,902,204	6.6	3,147,095
38200 Meter Installations	42,190,612	19,637,263	5.0	2,109,531
38300 House Regulators	12,215,576	4,761,181	3.5	427,545
38400 House Regulator Installation	16,396,044	7,547,522	5.1	836,198
38500 M & R Station	9,526,945	4,849,718	3.4	323,916
38600 Other Prop. Cust. Prem.	0	0	10.0	0
38700 Other Equipment	3,680,913	1,399,168	5.7	209,812
Total	\$1,039,341,306	\$479,660,705		\$43,288,451
Transportation Equipment				
39201 Vehicles up to 1/2 Ton	\$8,097,623	\$2,944,147	10.6	\$858,348
39202 Vehicles from 1/2 - 1 Ton	5,315,853	2,554,819	14.8	786,746
39203 Airplane	0	0	1.9	0
39204 Trailers and Other	270,367	139,215	4.1	11,085
39205 Vehicles over 1 Ton	1,155,098	636,652	9.9	114,355
Total	\$14,838,941	\$6,274,833		\$1,770,534
General Plant				
39000 Structures & Improvements	\$80,558	\$8,547	2.9	\$2,336
39100 Office Furniture	7,903,408	1,377,357	7.6	600,659
39101 Computer Equipment	7,551,267	4,619,936	7.2	543,691
39102 Office Equipment	530,536	253,074	7.0	37,138
39300 Stores Equipment	48,913	44,005	1.8	880
39400 Tools, Shop, Garage Equipm	4,792,761	2,309,504	6.0	287,566
39500 Laboratory Equipment	46,445	27,189	5.2	2,415
39600 Power Operated Equipment	2,009,238	1,164,572	5.2	104,480
39700 Communication Equipment	6,451,401	3,745,491	11.4	735,460
39800 Miscellaneous Equipment	451,918	262,983	4.3	19,432
Total	\$29,866,445	\$13,812,658		\$2,334,057
Grand Total	\$1,084,046,692	\$499,748,196		\$47,393,042

COMPANY/STAFF RECOMMENDED		
REMAINING LIFE RATE (%)	EXPENSES (\$)	CHANGE IN EXPENSES (\$)
1.3	\$33,493	(\$46,374)
2.5	460,793	(55,295)
4.2	13,192,985	628,238
3.1	9,608,418	619,898
3.4	293,223	8,624
3.4	640,886	0
6.6	2,661,911	(564,648)
5.0	9,738,321	(194,767)
5.9	2,813,312	(333,783)
4.5	1,898,578	(210,953)
3.6	439,761	12,216
4.5	737,822	(98,376)
3.1	295,335	(28,581)
6.7	0	0
6.3	231,898	22,086
	\$43,046,736	(\$241,715)
Distribution Plant		
11.2	\$906,934	\$48,586
12.7	675,113	(111,633)
1.7	0	0
4.0	10,815	(270)
7.4	85,477	(28,878)
	\$1,678,339	(\$92,195)
Transportation Equipment		
2.5	\$2,014	(\$322)
6.7	529,528	(71,131)
12.5	943,908	400,217
6.7	35,546	(1,592)
4.0	1,957	1,077
6.6	316,322	28,756
5.0	2,322	(93)
6.4	128,591	24,111
8.4	541,918	(193,542)
5.9	26,663	7,231
	\$2,528,769	\$194,712
	\$47,253,844	(\$139,198)

¹ After reserve allocations.

**PEOPLES GAS COMPANY
2011 DEPRECIATION STUDY**

Attachment C

RESERVE ALLOCATIONS*

ACCOUNT	EST. BOOK RESERVE 12/31/2011 (\$)	THEORETICAL RESERVE (\$)	RESERVE TRANSFER (\$)	RESTATE RESERVE (\$)
DISTRIBUTION PLANT				
37402 Land Rights	\$1,232,891	\$565,700	(\$667,191)	\$565,700
37500 Structures & Improvements	5,473,810	6,064,814	591,004	6,064,814
37600 Mains Steel	179,473,976	183,163,910	(3,395,859)	176,078,117
37602 Mains Plastic	89,649,405	101,236,474	7,670,682	97,320,087
37800 M & R General	1,997,742	1,789,055	(208,687)	1,789,055
37900 M & R City Gate	4,769,071	3,822,462	(946,609)	3,822,462
38000 Services Steel	43,566,123	46,500,181	1,135,173	44,701,297
38002 Services Plastic	91,679,729	101,134,561	5,542,388	97,222,117
38100 Meters	16,528,447	13,902,204	(2,626,243)	13,902,204
38200 Meter Installations	17,956,213	19,637,263	1,681,050	19,637,263
38300 House Regulators	5,512,199	4,761,181	(751,018)	4,761,181
38400 House Reg. Install.	6,371,179	7,547,522	1,176,343	7,547,522
38500 M & R Station	4,887,430	4,849,718	(37,712)	4,849,718
38600 Other Prop. Cust. Prem.	0	0	0	0
38700 Other Equipment	1,670,466	1,399,168	(271,298)	1,399,168
<i>Subtotal</i>	\$470,768,681	\$496,374,213	\$8,892,023	\$479,660,705
TRANSPORTATION EQUIPMENT				
39201 Vehicles up to 1/2 Ton	\$3,527,826	\$2,944,147	(\$583,679)	\$2,944,147
39202 Vehicles from 1/2 - 1 Ton	3,574,150	2,554,819	(1,019,331)	2,554,819
39203 Airplane	(3,512,118)	0	3,512,118	0
39204 Trailers and Other	117,152	139,215	(37,937)	139,215
39205 Vehicles over 1 Ton	769,330	636,652	(132,678)	636,652
<i>Subtotal</i>	\$4,476,340	\$6,274,833	\$1,738,493	\$6,274,833
GENERAL PLANT				
39000 Structures & Improvements	\$42,259	\$8,547	(\$33,712)	\$8,547
39100 Office Furniture	1,438,351	1,377,357	(60,994)	1,377,357
39101 Computer Equipment	7,045,697	4,619,936	(2,425,761)	4,619,936
39102 Office Equipment	261,921	253,074	(8,847)	253,074
39300 Stores Equipment	49,739	44,005	(5,734)	44,005
39400 Tools, Shop & Garage Equipment	3,016,859	2,309,504	(707,355)	2,309,504
39500 Laboratory Equipment	(13,696)	27,189	40,885	27,189
39600 Power Operated Equipment	1,488,663	1,164,572	(324,091)	1,164,572
39700 Communication Equipment	4,634,813	3,745,491	(889,322)	3,745,491
39800 Miscellaneous Equipment	328,570	262,983	(65,587)	262,983
<i>Subtotal</i>	\$18,293,176	\$13,812,658	(\$4,480,518)	\$13,812,658
<i>Total</i>	\$493,538,197	\$516,461,704	\$6,150,000	\$499,748,196

* Some numbers may not total exactly because of rounding.