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Public Service Commission

November 3, 2016

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COMMISSION
CLERK

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

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

Ms. Floyd,

Based on the of technical clarification received from Peoples Gas System's staff on November 1, staff revised its Staff Report, which is attached herein. Please provide your response to this report by November 8, 2016.

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

Sincerely,

A handwritten signature in cursive script, appearing to read "JW".

Jenny Wu
Economic Analyst

Attachment

cc: Office of Commission Clerk
Mr. Walter Trierweiler, Senior Attorney, Commission
Office of Public Counsel
Ms. P. Brown, Regulatory Affairs, Peoples Gas System
Mr. Ansley Watson, Jr., Attorney for Peoples Gas System

Peoples Gas System
2016 Depreciation Study
Docket No. 160159-GU

Revised Staff Report

This report represents Staff's initial position. The report consists of four sections:

- A. **Information** – Includes information necessary to understand staff's proposals.
- B. **Questions** – Includes specific questions about Peoples Gas System's (PGS or Company) depreciation study.
- C. **Staff's Initial Proposals** – Includes staff's proposals for which staff seeks PGS' concurrence or exceptions.
- D. **Summary Tables** – These tables provide staff's initial position on inputs, rates, reserve transfers, and resulting depreciation expense for all accounts.

A. Information

Commission Rounding Convention

Staff recalculated PGS' proposed depreciation rates for each account shown in Attachment A "Comparison of Rates and Components" based on the Commission rounding convention. These recalculated rates are what staff considers as PGS' proposal. The rounding conventions are:

Remaining lives over 20 years:	Rounded to the nearest whole year
Remaining lives less than 20 years:	Rounded to one decimal place
Net salvage %:	Rounded to the nearest whole number
Reserve %:	Rounded to two decimal places
Depreciation rates:	Rounded to one decimal place

General Statement

The only areas addressed in the staff report are those areas where staff disagrees with the Company proposals, or where there is a need for further clarification, information, input, or confirmation. In your response, please identify areas of concurrences and differences, and any additional input that PGS believes would be pertinent.

B. Questions

1. Please refer to PGS' responses to Staff's First Data Request (DR), No. 3 and Staff's Second DR, No. 2. In its response to First DR, No. 2, PGS indicated that the Company's 5-year forecast included "CNG projects – approximately \$5M annually." In its response to Second DR, No. 2b, PGS indicated that the "\$5M is for two separate proposed Compressed Natural Gas stations, [. . .] Both installations are estimated begin

construction in 2017 and be in service by the end of that year.” Please explain the discrepancy.

2. Please refer to PGS’ response to Staff’s Second DR, No. 6, a and b, page 12. Please elaborate on the statement “Plant Accounting reviews these asset classes annually and works with operations to identify assets that should be retired,” given that as of 2012, PGS has not performed physical plant inventories for the discussed assets.
3. Please refer to pages 11 and 17 of the 2nd Revised 2016 Depreciation Study filed on October 25, 2016, for the following questions.
 - a. On page 11, PGS indicated that Account 30100 – Organization Costs is a non-depreciable account. On page 17, PGS indicated that Account 30100 has depreciation reserve of \$3,116, and PGS proposed to transfer negative \$3,116 reserve to this account. Please explain why this non-depreciable Account 30100 was recorded depreciation reserve in the amount of \$3,116.
 - b. Referring to page 11, Account 30200 – Franchise & Consents, it appears that the investment in this account was fully recovered in 2014, and there was no investment in 2015 in the account. Does PGS expect to have any plan for additional investment in the account for the next five years? Can this account be closed? Please explain.

C. Staff’s Initial Proposals

On June 28, 2016, PGS filed its 2016 Depreciation Study (Study). Since then there have been two sets of Staff’s Data Requests and one set of OPC’s Data Request have been issued; and an informal information meeting between the PGS’ technical staff, the Commission staff and OPC staff. On October 14, 2016, PGS filed its Revised Study; on October 25, 2016, PGS filed its Second Revised Study; on November 1, PGS clarified certain technical details to Commission staff. Based on its review of PGS’s original and revised studies, PGS’ responses to all the data requests, as well as all the relevant information received, staff has no further concerns, apart from the aforementioned questions, at this point of time.

A depreciation study provides an opportunity to review the present positing of the investment recovery and determine whether any changes should be made to the existing pattern of recovery (depreciation rates). The remaining life depreciation rate is a fallout of several inputs including the average service life, age, remaining life, reserve percentage, and net salvage. The average service life refers to the overall period the account is expected to serve the public and is projected based on experience or estimates. The average remaining life is the remaining period of service which can be expected from the equipment or the plant asset under study. As part of the review process, staff considered the prudence of company planning, including additions and retirements, technological impacts, retirement and salvage practices, and other related activities.

Based on the information and data provided in the docket, staff verified the appropriateness of the combination of depreciation components (i.e. age, average service life and survivor curve shape) proposed by the Company, and calculated the remaining life rate as well as the theoretical reserve.

The actual reserve was more than the theoretical reserve for most of the accounts. Staff's proposal to reallocate the positive reserve imbalance is shown below.

Staff's initial proposals listed below are either general in nature (e.g., the theoretical reserve proposal) or specific to a particular account (e.g., a proposal to close Account 38600 – Other Property Customer Premise). For each item listed below, please state whether PGS agrees with staff's proposal. If PGS does not agree with staff's proposal, please indicate why, and provide a counter proposal.

- a. Staff proposes that the Company to close Account 38600 – Other Property Customer Premise. There has been no asset recorded in this account for many years, and the Company does not anticipate any additional investment in the account for the next five years.
- b. PGS proposed to analyze Accounts 30200, 30300 and 30301 using the group depreciation method versus denoting them as amortizable per its last study filing. The Company found retirements of certain amortizable accounts were not being made timely in prior years per the "amortizable period" expiration.¹ PGS proposed to apply the group depreciation method to over recover the vintage costs of assets that were older than the number of years of the amortization period. Taking Account 30301 as an example, its current amortization period is 15 years. PGS estimated the remaining life of the account is 9.9 years with theoretical reserve surplus of approximately \$3.6 million. The Company performed a vintage survivor analysis using the SQ curve type that anticipates zero interim retirements and average service life of 15 years. PGS proposed a reserve transfer of \$3.6 million to bring the account to theoretical reserve balance. Consequently, a remaining life depreciation rate of 6.7 percent results which equals the whole life rate calculated using the current amortization period of 15 years. Staff notes that the group depreciation is the general depreciation method used for mass property assets, and it is also applied to all the accounts except the three amortization accounts in this discussion. Staff also notes that using this method, the incremental vintages identified can be recovered during the 2016 fiscal period since backdated asset retirements are processed. Staff concurs with PGS' proposal.
- c. In responding to staff's question regarding physical inventory for certain general accounts, the Company indicated that "[. . .] adoption of the Electric Utilities 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."² Staff had concern in this regard and requested the Company provide examination. PGS then clarified that the Company "follows the Gas Utility Guidance according to the Florida Administrative Code [. . .] when physical inventories were to be performed, [. . . and] PGS will continue to utilize the guidance for gas utilities as part of this depreciation study and future depreciation studies."³ Staff's concern has been resolved.
- d. Staff's proposed reserve allocation is reflected in Table 1 below. For Account 30301, PGS proposed a reserve transfer in the amount of \$3,116. Staff understands that this account is used

¹ PGS' response to Staff's First Data Request, No. 29a.

² PGS' response to Staff's First Data Request, No. 30i.

³ PGS' response to Staff's Second Data Request, Nos. 6a and 6b.

to record investment associated with the Company's merger/acquisition activities; staff concurs with PGS' proposal pending further information staff is seeking in Question 3a above.

Table 1: Reserve Allocation - Staff's Initial Proposal					
DISTRIBUTION PLANT		Reserve	Theoretical	Reserve	Restated
Account	Account Title	12/31/2015	Reserve	Transfer	Reserve
		(\$)	(\$)	(\$)	(\$)
37402	Land Rights	654,666	660,884	(61,971)	592,695
37500	Structures & Improvements	7,928,741	7,766,393	(244,185)	7,684,556
37600	Mains Steel	218,020,297	161,833,213	(34,075,299)	183,944,998
37602	Mains Plastic	137,184,318	140,859,814	18,705,272	155,889,590
37800	Meas & Reg Station Eqp Gen	3,080,334	2,584,997	(307,265)	2,773,069
37900	Meas & Reg Station Eqp City	7,637,719	5,741,294	(1,170,882)	6,466,837
38000	Services Steel	51,484,453	51,556,585	6,480,107	57,964,560
38002	Services Plastic	134,479,130	134,147,729	17,759,064	152,238,194
38100	Meters	21,875,201	19,716,646	(2,228,238)	19,646,963
38200	Meter Installations	25,829,866	25,905,483	(322,391)	25,507,475
38300	House Regulators	6,517,882	5,888,450	(585,835)	5,932,047
38400	House Regulator Installs	9,903,729	10,140,748	117,069	10,020,798
38500	Meas & Reg Station Eqp Ind	5,427,013	5,454,366	(6,334)	5,420,679
38600	Other Property Customer Premise	0	0	0	0
38700	Other Equipment	2,188,642	2,104,785	(56,030)	2,132,612
TOTAL DISTRIBUTION PLANT:		632,211,992	574,361,387	4,003,080	636,215,072
TRANSPORTATION PLANT					
Account	Account Title				
39201	Vehicles up to 1/2 Tons	3,196,303	3,145,971	(68,950)	3,127,353
39202	Vehicles from 1/2 - 1 Tons	3,899,377	3,115,770	(800,600)	3,098,777
39204	Trailers & Other	211,220	207,629	(2,517)	208,703
39205	Vehicles over 1 Ton	669,848	663,690	(12,047)	657,801
GENERAL PLANT					
Account	Account Title				
30100	Organization Costs	3,116	0	(3,116)	0
30200	Franchise & Consents	0	0	0	0
30300	Misc Intangible Plant	757,491	668,567	(89,489)	668,002
30301	Custom Intangible Plant	12,337,858	8,659,109	(3,599,775)	8,738,083
39000	Structures & Improvements	21,023	22,493	(182)	20,841
39100	Office Furniture	682,484	898,907	214,463	896,947
39101	Computer Equipment	4,204,474	4,102,606	(84,876)	4,119,598
39102	Office Equipment	289,367	396,954	111,032	400,399
39300	Stores Equipment	-4,568	154	4,748	180
39400	Tools, Shop & Garage Equip	1,175,475	1,564,937	401,897	1,577,372
39401	CNC Station Equipment	0	0	0	0
39500	Laboratory Equipment	-14,417	0	14,417	0
39600	Power Operated Equipment	1,310,249	1,237,948	(71,556)	1,238,693
39700	Communication Equipment	3,064,545	2,993,144	(58,690)	3,005,855
39800	Miscellaneous Equipment	320,139	363,256	42,160	362,299
TOTAL TRANSPORTATION & GENERAL PLANT:		32,123,983	28,041,135	(4,003,080)	28,120,903
GRAND TOTAL:		664,335,975	602,402,522	0	664,335,975

D. Summary Tables

Summary tables for staff's proposed inputs, rates, and resulting depreciation expense follow. Overall, staff's initial position results in a decrease to expense of \$8,453,153 for depreciation rates effective January 1, 2016.

Account Number	Account Title	Current			Staff Recommended				
		Average Remaining Life (yrs)	Future Net Salvage (%)	Remaining Life Rate (%)	Average Reserve (%)	Future Net Salvage (%)	Remaining Life Rate (%)		
37402	Land Rights	59	0	1.3	59	20.90%	*	0	1.3
37500	Structures & Improvements	27	0	2.5	24	39.58%	*	0	2.5
37600	Mains Steel	25	(60)	4.2	35	47.74%	*	(40)	2.6
37602	Mains Plastic	30	(25)	3.1	29	38.85%	*	(25)	3.0
37800	Meas & Reg Station Eq Gen	25	(5)	3.4	25	21.46%	*	(5)	3.3
37900	Meas & Reg Station Eq City	25	(5)	3.4	26	18.70%	*	(5)	3.3
38000	Services Steel	13.6	(100)	6.6	14.1	124.99%	*	(100)	5.3
38002	Services Plastic	21	(55)	5.0	21	61.51%	*	(55)	4.5
38100	Meters	11.1	5	5.9	10.8	31.17%	*	5	5.9
38200	Meter Installations	16.5	(20)	4.5	15.3	51.87%	*	(20)	4.5
38300	House Regulators	17.1	0	3.6	16.6	40.54%	*	0	3.6
38400	House Regulator Installs	16.6	(20)	4.5	15.7	50.32%	*	(20)	4.4
38500	Meas & Reg Station Eq Ind	15.7	0	3.1	12.9	59.64%	*	0	3.1
38600	Other Property Customer Premise	15.0	0	6.7	close the account				
38700	Other Equipment	9.9	0	6.3	10.2	36.21%	*	0	6.3
39201	Vehicles up to 1/2 Tons	4.8	10	11.2	4.5	38.92%	*	10	11.4
39202	Vehicles from 1/2 - 1 Tons	3.3	10	12.7	3.3	47.17%	*	10	13.0
39204	Trailers & Other	7.1	20	4.0	15.5	18.09%	*	20	4.0
39205	Vehicles over 1 Ton	4.7	10	7.4	7.0	37.17%	*	10	7.5
30100	Organization Cost	not depreciable			not depreciable			*	
30200	Franchise & Consents	25 year amortizable			25	0.00%		0	4.0
30300	Misc Intangible Plant	25 year amortizable			4.5	81.93%	*	0	4.0
30301	Custom Intangible Plant	15 year amortizable			9.9	33.98%	*	0	6.7
39000	Structures & Improvements	36	0	2.5	34	13.90%	*	0	2.5
39100	Office Furniture	12.4	0	6.7	5.8	61.01%	*	0	6.7
39101	Computer Equipment	3.1	0	12.5	1.8	77.82%	*	0	12.3
39102	Office Equipment	7.8	0	6.7	8.5	43.42%	*	0	6.7
39300	Stores Equipment	2.5	0	4.0	22	14.03%	*	0	3.9
39400	Tools, Shop & Garage Equip	7.8	0	6.6	11.1	25.83%	*	0	6.7
39401	CNC Station Equipment	new rate requested			20	0.00%		0	5.0
39500	Laboratory Equipment	8.3	0	5.0	20	0.00%	*	0	5.0
39600	Power Operated Equipment	5.8	5	6.4	8.0	44.63%	*	5	6.3
39700	Communication Equipment	5.0	0	8.4	4.6	62.08%	*	0	8.2
39800	Miscellaneous Equipment	7.1	0	5.9	3.8	77.38%	*	0	6.0

*Denotes a Reserve Transfer

Table 3: Comparison of Expenses

Account Number	Account Title	Current		Staff Proposed		Change In Expense (\$)
		Depreciation Rate (%)	Annual Expense (\$)	Depreciation Rate (%)	Annual Expense (\$)	
37402	Land Rights	1.3	36,873	1.3	36,873	0
37500	Structures & Improvements	2.5	485,400	2.5	485,400	0
37600	Mains Steel	4.2	16,183,321	2.6	10,018,247	(6,165,075)
37602	Mains Plastic	3.1	12,440,610	3.0	12,039,300	(401,310)
37800	Meas & Reg Station Eq Gen	3.4	439,449	3.3	426,524	(12,925)
37900	Meas & Reg Station Eq City	3.4	1,175,928	3.3	1,141,342	(34,586)
38000	Services Steel	6.6	3,060,839	5.3	2,457,946	(602,893)
38002	Services Plastic	5.0	12,375,252	4.5	11,137,727	(1,237,525)
38100	Meters	5.9	3,718,933	5.9	3,718,933	0
38200	Meter Installations	4.5	2,212,883	4.5	2,212,883	0
38300	House Regulators	3.6	526,800	3.6	526,800	0
38400	House Regulator Installs	4.5	896,178	4.4	876,263	(19,915)
38500	Meas & Reg Station Eq Ind	3.1	281,762	3.1	281,762	0
38600	Other Property Customer Premise	6.7	0	close the account		
38700	Other Equipment	6.3	371,017	6.3	371,017	0
39201	Vehicles up to 1/2 Tons	11.2	899,997	11.4	916,068	16,071
39202	Vehicles from 1/2 - 1 Tons	12.7	834,288	13.0	853,996	19,708
39204	Trailers & Other	4.0	46,140	4.0	46,140	0
39205	Vehicles over 1 Ton	7.4	130,968	7.5	132,738	1,770
30100	Organizatoin Cost					
30200	Franchise & Consents	4.0	0	0.0	0	0
30300	Misc Intangible Plant	4.0	32,613	4.0	32,613	0
30301	Custom Intangible Plant	6.7	1,723,078	6.7	1,723,078	0
39000	Structures & Improvements	2.5	3,749	2.5	3,749	0
39100	Office Furniture	6.7	98,506	6.7	98,506	0
39101	Computer Equipment	12.5	661,711	12.3	651,123	(10,587)
39102	Office Equipment	6.7	61,779	6.7	61,779	0
39300	Stores Equipment	4.0	51	3.9	50	(1)
39400	Tools, Shop & Garage Equip	6.6	402,988	6.7	409,094	6,106
39401	CNC Station Equipment	0.0	0	5.0	0	0
39500	Laboratory Equipment	5.0	0	5.0	0	0
39600	Power Operated Equipment	6.4	177,643	6.3	174,867	(2,776)
39700	Communication Equipment	8.4	406,704	8.2	397,020	(9,683)
39800	Miscellaneous Equipment	5.9	27,626	6.0	28,094	468
Total			59,713,084		51,259,931	(8,453,153)