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August 31, 2018

VIA E-PORTAL FILING

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

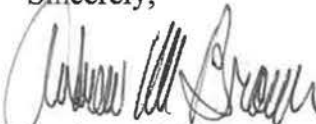
Re: DOCKET NO. 20180044-GU - In re: Consideration of the tax impacts associated with Tax Cuts and Jobs Act of 2017 for Peoples Gas System

Dear Ms. Stauffer:

Attached for electronic filing in the above docket on behalf of Peoples Gas System, please find its Response to Staff's Second Data Request (Nos. 3-7).

Your assistance in this matter is greatly appreciated.

Sincerely,


Andrew M. Brown

AB/tlk
Attachment

cc: Parties of Record
Ms. Kandi M. Floyd
Ansley Watson, Jr., Esq.

**PEOPLES GAS SYSTEM
DOCKET NO. 20180044-GU
STAFF'S SECOND DATA REQUEST
REQUEST NO. 3
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3. Please explain the rationale for changing from the currently approved depreciation rates and components to the proposed rates shown in Table 1.

Act. No.	Description	Curve Type	Current Rate - Effective 2016 - 2018				Annual Depreciation Expense (\$)	Company Proposed - Effective 1/1/2019					Difference		
			Ave. Service Life (yrs)	Ave. Remaining Life (yrs)	Reserve Ratio Approved (%)	Depreciation Rate (%)		Curve Type	Ave. Service Life (yrs)	Ave. Remaining Life (yrs)	Reserve Ratio OPC (%)	Depreciation Rate (%)	Annual Depreciation Expense (\$)	Change in Depreciation Expense (\$)	Change in Ave. Service Life (yrs)
37600	Mains Steel	R2	55	41	48.16	2.2	8,476,978	R2	55	41	66.28	1.8	6,935,709	(1,541,269)	0
37602	Mains Plastic	R3	45	34	42.75	2.4	9,631,440	R2	75	65	33.00	1.4	5,618,340	(4,013,100)	30
38000	Service Steel	R0.5	45	31	84.71	3.7	1,715,925	R0.5	50	36	106.03	2.6	1,205,785	(510,140)	5
38002	Service Plastic	R3	40	28	62.07	3.3	8,167,666	R1.5	55	45	52.88	2.3	5,692,616	(2,475,050)	15
38100	Meters	L1	16	10.8	31.17	5.9	3,718,933	R1	21	15.2	26.09	4.5	2,836,474	(882,459)	5
38200	Meter Installations	R4	27	15.3	51.87	4.5	2,212,883	R0.5	43	35	22.14	2.8	1,376,905	(835,978)	16
Total:												(10,257,996)			

Source of data: Joint Motion Seeking Commission Approval of Settlement Agreement filed 8/8/2018, Attachment 1, Exhibit B, pages 1 and 3.

- A. During the 2016 PGS Depreciation Study, PGS evaluated the reserve surplus and remaining useful lives of the existing assets. At that time, comparing to other gas utilities across the country and in Florida, PGS realized the lives were too short for some of the asset accounts. This was leading to the company's reserve surplus. At several points throughout the process, there were discussions with both Staff and OPC regarding the possibility of extending the average service lives/remaining lives on some of the accounts. A Settlement was ultimately reached for the current approved rates, which reflected a portion but not all the OPC consultant recommendations put forth in the negotiations.

PGS evaluated the OPC consultant recommendation above and believes the life extension is reasonable at this time given the current reserve surplus position. Depending on the asset activity through the next depreciation study filing, future adjustments may be warranted.

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- 4.** Referring to Table 1 above, please provide the reason that warrants the change from the approved Reserve Ratio for Account 37600.

- A.** The company utilized reserve transfers to clear the reserve surplus in most of the other accounts, isolating the remaining reserve surplus to the Mains and Services (37600) accounts. PGS will reevaluate its position, inclusive of reserve surplus and remaining lives, at the next depreciation study.

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5. As shown in Table 2 below, the average service lives (ASLs) of five of the six accounts for which PGS is seeking a change in depreciation rates at this time are considerably longer than the current Commission-approved ASLs. Also, most of the proposed ASLs are at the high end or exceed the range of the industry averages.
- a. Please explain why it is appropriate to substantially change depreciation rates in 2019 as proposed in the Settlement Agreement without the benefit of a supporting depreciation study.
 - b. Please explain whether the proposed changes in depreciation components and rates are, or are not, consistent with the Commission's practice of gradualism

Table 2. Comparison of Depreciation Components with Industry Range.

Act No.	Description	Current Rate Effective 2016 - 2018		Company Proposed Effective 1/1/2019		Change in Ave. Service Life (yrs)	Comparison	
		Curve Type	Ave. Service Life (yrs)	Curve Type	Ave. Service Life (yrs)		Approved Ave. Service Life for Florida's gas utilities	
							Arithmetic Mean (yrs)	Range (yrs)
37600	Mains Steel	R2	55	R2	55	0	48.0	40 - 55
37602	Mains Plastic	R3	45	R2	75	30	46.0	40 - 55
38000	Service Steel	R0.5	45	R0.5	50	5	46.2	40 - 53
38002	Service Plastic	R3	40	R1.5	55	15	44.2	40 - 54
38100	Meters	L1	16	R1	21	5	22.8	20 - 28
38200	Meter Installations	R4	27	R0.5	43	16	34.2	27 - 40

Source of data: Order No. PSC-14-0698-PAA-GU, Issued December 18, 2014, in Docket No. 140016-GU, In re: 2014 depreciation study by Florida Public Utilities Company; Order No. PSC-17-0066-AS-GU, Issued February 28, 2017, in Docket No. 160159-GU, In re: Petition for approval of settlement agreement pertaining to Peoples Gas System's 2016 depreciation study, environmental reserve account, problematic plastic pipe replacement, and authorized ROE; Order No. PSC-16-0574-PAA-GU, Issued December 19, 2016, in Docket No. 160174-GU, In re: Request for approval of 2016 depreciation study by Sebring Gas System, Inc.; Order No. PSC-2018-0190-FOF-GU, Issued April 20, 2018, in Docket No. 20170179-GU, In re: Petition for rate increase by Florida City Gas, and Order No. PSC-2018-0368-PAA-GU, Issued July 25, 2018, in Docket No. 20170265-GU, In re: Application for approval of new depreciation rates effective January 1, 2018, by St. Joe Natural Gas Company, Inc.

- a. The analysis by the OPC consultant was performed at the time PGS filed its Depreciation Study approximately two years ago. It is the company's opinion that the information contained in that study has not changed significantly enough to result in further changes to the rates.
- b. While the company agrees most of the ASL's are at the high end of Florida LDC averages it also notes that a significant theoretical depreciation reserve surplus has been built up and should be reduced. PGS believes that a reserve surplus will still be available at the time of its next depreciations study where the practice of gradualism can be employed to mitigate significant rate change.

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- 6.** PGS's proposed changes in depreciation components and rates will result in \$10.3 million dollar decrease in depreciation expense annually throughout the period of the Settlement Agreement. Please explain how PGS's customers would benefit from the proposed changes in depreciation components/rates and the resulting annual depreciation expense reduction of \$10.3 million.

- A.** As previously noted, Peoples' existing depreciation rates have resulted in a theoretical depreciation reserve surplus. The reduction in depreciation rates will reduce depreciation expense and reduce the existing surplus. Customers benefit because the proposed reduction in depreciation rates along with other aspects of the proposed Settlement, including the base rate reduction to customers, are anticipated to allow the company to remain within its allowed ROE range over the term of its current Settlement Agreement.

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7. What is PGS's expected return on equity for 2019 both with and without the proposed change in depreciation rates?
 - A. With the change in depreciation rates as well as the proposed MGP amortization treatment and tax reform base rate reductions in the proposed Settlement, Peoples expects to earn at or around the midpoint of its allowed ROE range in 2019. If the proposed Settlement did not include a provision to change Peoples' depreciation rates for 2019, the company anticipated to earn slightly below its allowed ROE floor of 9.25% agreed upon in the existing Settlement Agreement.