

State of Florida



Public Service Commission

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COMMISSION
CLERK

DATE: October 21, 2011
TO: Ann Cole, Commission Clerk, Office of Commission Clerk
FROM: Suzanne M. Ollila, Economic Analyst, Division of Economic Regulation *SMO*
RE: Docket No. 110232-GU – Peoples Gas Systems' Petition for Approval of its 2011 Depreciation Study

Please place the attached enclosure in the above docket file.

If you have any questions, please do not hesitate to let me know. Thank you.

Enclosure

DOCUMENT NUMBER-DATE

07734 OCT 21 =

FPSC-COMMISSION CLERK

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October 20, 2011

VIA FEDEX

Dave Dowds
Supervisor, Cost Analysis Section
Division of Economic Regulation
Florida Public Service Commission
2540 Shumard Oak Boulevard
Tallahassee, Florida 32399-0850

Re: Docket No. 110232-GU -- Peoples Gas System's Petition for Approval of its 2011 Depreciation Study

Dear Mr. Dowds:

Enclosed please find three (3) copies of Peoples Gas System's Responses to the Commission Staff's First Data Requests, the requests having been transmitted to Peoples by your letter dated September 19, 2011.

Please let me know in the event you have any questions.

Sincerely,



ANSLEY WATSON, JR.

AWjr/a
Enclosures

cc: Ms. Paula K. Brown
Ms. Kandi M. Floyd

11 OCT 21 11:11:30

DOCUMENT NUMBER-DATE

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11 OCT 21 11:11:30
COMMUNICATIONS SECTION
FLORIDA PUBLIC SERVICE COMMISSION

PEOPLES GAS SYSTEM
DOCKET NO. 110232-GU
STAFF'S FIRST DATA REQUEST
REQUEST NO. 1
PAGE 1 OF 6
FILED: OCTOBER 21, 2011

General Questions

1. Please refer to bates-stamped pages 19-23 of the 2011 depreciation study. It appears that some of the comparative analyses for Florida Public Utilities and Florida City Gas are not correct. For example, Peoples Gas System (Peoples or PGS) states that Florida Public Utilities Account 37500 - Structures & Improvements has an average remaining life of 15.1 years; Peoples cites from Order No. PSC-09-0229-PAA-GU as the source. However, staff reviewed this Order and found that the approved average remaining life for Florida Public Utilities for this account was 14.4 years.

- A. See attached. The revised comparative analysis includes both the As Filed and the Proposed Agency Action (PAA) approved results.

Peoples only compares the average service life (ASL), net salvage and depreciation rates with the other utilities. The data used to populate this schedule was based on the original filing, not the final PAA orders cited, since the PAA orders do not include the ASL disclosure.

PEOPLES GAS SYSTEM
Comparative Analysis
2011 Depreciation Rate Review

Account Number	Account Title	Comparative Analysis of Latest Rates						Peoples Gas System	
		Florida Public Utilities PSC-09-0229-PAA-GU 4/13/2009		Florida City Gas PSC-09-0835-PAA-GU 12/31/2009		FL Chesapeake Utilities PSC-08-0364-PAA-GU 6/2/2008		2006-2011	1/1/2012
		As Filed	PAA	As Filed	PAA	As Filed	PAA	Current Approved	Company Proposed
	Distribution Plant								
37402	Land Rights								
	Depreciation Rate	12.6	3.3	NA	NA	NA	NA	3.1	1.3
	Average Service Life	30		NA	NA	NA	NA	32	75
	Average Remaining Life	12.4	30.0	NA	NA	NA	NA	-	58.5
	Future Net Salvage %	0	0	NA	NA	NA	NA	0	0
	Reserve Ratio	(56.20)	0.00	NA	NA	NA	NA	-	21.96
	Curve Type	NA		NA	NA	NA	NA	-	SQ
37500	Structures & Improvements								
	Depreciation Rate	3.2	3.1	2.3	2.5	2.8	2.8	2.8	2.5
	Average Service Life	40		40				40	40
	Average Remaining Life	15.1	14.4	25.6	25.6	32.0	30.0	28.0	26.8
	Future Net Salvage %	0	0	0	0	(15)	(15)	0	0
	Reserve Ratio	51.40	55.60	39.93	36.00		29.97	21.90	32.90
	Curve Type	S4		R3				R3	R3
37600	Mains Steel								
	Depreciation Rate	2.8	2.8	3.0	3.0	3.3	3.3	4.0	4.2
	Average Service Life	45		40				40	40
	Average Remaining Life	23.2	23.0	20.7	20.7	27.0	25.0	25.0	25.4
	Future Net Salvage %	(20)	(20)	(20)	(20)	(30)	(30)	(50)	(60)
	Reserve Ratio	53.90	54.54	57.30	57.30		47.50	50.90	56.06
	Curve Type	S3		S3				R3	R3
37602	Mains Plastic								
	Depreciation Rate	2.4	2.5	3.0	3.0	3.3	3.3	2.9	3.1
	Average Service Life	45		40				40	40
	Average Remaining Life	37.5	37.0	29.1	29.1	36.0	34.0	31.0	29.6
	Future Net Salvage %	(10)	(10)	(20)	(20)	(30)	(30)	(15)	(25)
	Reserve Ratio	18.30	19.28	33.45	32.70		18.22	24.00	31.40
	Curve Type	S3		S3				R3	R3
37800	Meas & Reg Station Eq Gen								
	Depreciation Rate	5.1	3.8	NA	NA	3.5	3.5	3.3	3.4
	Average Service Life	27		NA	NA			31	31
	Average Remaining Life	15.5	19.0	NA	NA	23.0	19.9	24.0	24.9
	Future Net Salvage %	(10)	(5)	NA	NA	(5)	(5)	(5)	(6)
	Reserve Ratio	31.00	32.57	NA	NA		35.35	25.00	20.74
	Curve Type	R3		NA	NA			R1	R1
37900	Meas & Reg Station Eq City								
	Depreciation Rate	4.2	3.8	3.3	3.3	3.6	3.5	3.4	3.4
	Average Service Life	27		30				31	31
	Average Remaining Life	18.1	21.0	17.3	17.3	24.0	22.0	24.0	25.0
	Future Net Salvage %	0	(5)	0	0	(5)	(5)	(5)	(5)
	Reserve Ratio	24.20	25.23	42.64	42.64		28.57	24.40	20.28
	Curve Type	R3		S3				R1	R1
38000	Services Steel								
	Depreciation Rate	19.1	11.1	7.3	7.0	7.2	3.5	8.0	6.6
	Average Service Life	36		34				32	32
	Average Remaining Life	8.6	12.3	7.6	7.6	18.1	22.0	12.8	13.6
	Future Net Salvage %	(150)	(125)	(80)	(80)	(80)	(50)	(90)	(100)
	Reserve Ratio	86.10	89.06	124.80	126.57		73.98	87.50	110.83
	Curve Type	S2		S4				R3	R3
38002	Services Plastic								
	Depreciation Rate	3.6	3.4	3.8	3.9	3.6	3.6	5.1	5.0
	Average Service Life	36		34				32	32
	Average Remaining Life	27.5	26.0	23.1	23.1	30.0	30.0	23.0	21.3
	Future Net Salvage %	(25)	(15)	(27)	(30)	(25)	(25)	(50)	(55)
	Reserve Ratio	25.90	26.91	38.70	39.38		17.18	32.10	49.92
	Curve Type	S3		S4				R3	R3

PEOPLES GAS SYSTEM
Comparative Analysis
2011 Depreciation Rate Review

Account Number	Account Title	Comparative Analysis of Latest Rates						Peoples Gas System	
		Florida Public Utilities PSC-09-0229-PAA-GU 4/13/2009		Florida City Gas PSC-09-0835-PAA-GU 12/31/2009		FL Chesapeake Utilities PSC-08-0364-PAA-GU 6/2/2008		2006-2011	1/1/2012
		As Filed	PAA	As Filed	PAA	As Filed	PAA	Current Approved	Company Proposed
38100	Meters								
	Depreciation Rate	3.4	3.4	4.5	4.5	3.9	4.0	6.6	5.9
	Average Service Life	30		25				16	16
	Average Remaining Life	18.1	17.8	16.8	16.8	14.9	16.7	11.2	11.1
	Future Net Salvage %	0	0	0	0	0	0	3	5
	Reserve Ratio	39.00	39.49	23.93	23.93		33.20	22.60	29.16
	Curve Type	R3		S3				L1	L1
38200	Meter Installations								
	Depreciation Rate	3.0	3.0	4.6	4.5	3.8	3.4	5.0	4.5
	Average Service Life	36		34				27	27
	Average Remaining Life	26.3	26.0	17.6	17.6	26.0	26.0	17.4	16.5
	Future Net Salvage %	(5)	(5)	(27)	(25)	(20)	(20)	(20)	(20)
	Reserve Ratio	26.50	26.90	46.20	46.20		31.60	32.80	46.54
	Curve Type	S2		S3				R4	R4
38300	House Regulators								
	Depreciation Rate	3.4	3.4	5.0	5.0	3.2	3.3	3.5	3.6
	Average Service Life	30		25				28	28
	Average Remaining Life	18.2	18.0	10.9	10.9	21.0	18.7	17.3	17.1
	Future Net Salvage %	0	0	0	0	0	0	0	0
	Reserve Ratio	38.30	39.29	45.98	45.98		38.29	38.60	38.98
	Curve Type	R4		S3				R2	R2
38400	House Regulator Installs								
	Depreciation Rate	3.3	3.0	3.2	3.2	NA	NA	5.1	4.5
	Average Service Life	36		34		NA	NA	27	27
	Average Remaining Life	22.6	24.0	16.4	16.4	NA	NA	18.0	16.6
	Future Net Salvage %	(5)	(5)	1	0	NA	NA	(20)	(20)
	Reserve Ratio	30.00	32.10	47.72	47.72	NA	NA	28.40	46.03
	Curve Type	S3		S3		NA	NA	R4	R4
38500	Meas & Reg Station Eqp Ind								
	Depreciation Rate	8.2	7.8	3.4	3.4	4.3	4.1	3.4	3.1
	Average Service Life	26		30				32	32
	Average Remaining Life	11.8	10.0	16.8	16.8	22.0	19.0	20.0	15.7
	Future Net Salvage %	0	0	0	0	(5)	(5)	(3)	-
	Reserve Ratio	3.20	21.96	43.55	43.55		2.70	34.40	50.91
	Curve Type	R3		R3			27.70	R4	R4
38600	Other Property Cust Premise								
	Depreciation Rate	NA	NA	NA	NA	NA	NA	10.0	6.7
	Average Service Life	NA	NA	NA	NA	NA	NA	10	15
	Average Remaining Life	NA	NA	NA	NA	NA	NA	10.0	15.0
	Future Net Salvage %	NA	NA	NA	NA	NA	NA	0	0
	Reserve Ratio	NA	NA	NA	NA	NA	NA	0	0
	Curve Type	NA	NA	NA	NA	NA	NA	R1	R1
38700	Other Equipment								
	Depreciation Rate	4.6	4.7	3.7	4.5	2.3	5.6	5.7	6.3
	Average Service Life	25		30				16	16
	Average Remaining Life	18.2	17.6	14.8	14.8	9.5	9.7	9.1	9.9
	Future Net Salvage %	0	0	0	0	0	0	0	0
	Reserve Ratio	15.80	17.54	32.93	32.93		45.43	47.70	38.01
	Curve Type	S2		S5				S2	S2

PEOPLES GAS SYSTEM
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2011 Depreciation Rate Review

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		As Filed	PAA	As Filed	PAA	As Filed	PAA	Current Approved	Company Proposed
Transportation Equipment									
39201	Vehicles up to 1/2 Tons								
	Depreciation Rate	21.0	13.1	5.9	7.5	11.6	12.7	10.6	11.2
	Average Service Life	8		12				8	8
	Average Remaining Life	3.7	4.2	6.2	6.3	2.9	3.0	4.0	4.8
	Future Net Salvage %	10	10	12	10	15	15	10	10
	Reserve Ratio	12.10	35.12	51.99	42.75		46.84	47.40	36.36
	Curve Type	S2		L3				S1	S1
39202	Vehicles from 1/2 - 1 Tons								
	Depreciation Rate	8.5	8.6	NA	NA	11.3	5.0	14.8	12.7
	Average Service Life	11		NA	NA			7	7
	Average Remaining Life	7.2	6.9	NA	NA	5.0	4.2	3.9	3.3
	Future Net Salvage %	10	10	NA	NA	0	0	10	10
	Reserve Ratio	28.80	30.93	NA	NA		78.80	32.20	48.06
	Curve Type	S2		NA	NA			S1	S1
39203	Airplane								
	Depreciation Rate	NA	NA	NA	NA	NA	NA	1.9	1.7
	Average Service Life	NA	NA	NA	NA	NA	NA	15	15
	Average Remaining Life	NA	NA	NA	NA	NA	NA	10.5	15.0
	Future Net Salvage %	NA	NA	NA	NA	NA	NA	75	75
	Reserve Ratio	NA	NA	NA	NA	NA	NA	5.50	0
	Curve Type	NA	NA	NA	NA	NA	NA	S4	S4
39204	Trailers & Other								
	Depreciation Rate	5.0	5.2	NA	NA	NA	NA	4.1	4.0
	Average Service Life	20		NA	NA	NA	NA	20	20
	Average Remaining Life	8.7	8.5	NA	NA	NA	NA	8.5	7.1
	Future Net Salvage %	0	0	NA	NA	NA	NA	14	20
	Reserve Ratio	56.50	56.13	NA	NA	NA	NA	14.00	51.49
	Curve Type	S5		NA	NA	NA	NA	S3	S3
39205	Vehicles over 1 Ton								
	Depreciation Rate	NA	8.2	NA	NA	NA	NA	9.9	7.4
	Average Service Life	NA		NA	NA	NA	NA	12	12
	Average Remaining Life	NA	11.0	NA	NA	NA	NA	3.7	4.7
	Future Net Salvage %	NA	10.0	NA	NA	NA	NA	10	10
	Reserve Ratio	NA	0.00	NA	NA	NA	NA	53.20	55.12
	Curve Type	NA		NA	NA	NA	NA	S4	S4
General Plant									
30100	Organization Costs								
	Depreciation Rate	NA	NA	NA	NA	NA	NA	0.0	0.0
	Average Service Life	NA	NA	NA	NA	NA	NA	-	-
	Average Remaining Life	NA	NA	NA	NA	NA	NA	Not	Not
	Future Net Salvage %	NA	NA	NA	NA	NA	NA	Depreciable	Depreciable
	Reserve Ratio	NA	NA	NA	NA	NA	NA	-	-
	Curve Type	NA	NA	NA	NA	NA	NA	-	-
30200	Franchise & Consents								
	Depreciation Rate	NA	NA	NA	NA	NA	NA	4.0	4.0
	Average Service Life	NA	NA	NA	NA	NA	NA	-	-
	Average Remaining Life	NA	NA	NA	NA	NA	NA	25 year	25 year
	Future Net Salvage %	NA	NA	NA	NA	NA	NA	Amortizable	Amortizable
	Reserve Ratio	NA	NA	NA	NA	NA	NA	-	-
	Curve Type	NA	NA	NA	NA	NA	NA	-	-

PEOPLES GAS SYSTEM
Comparative Analysis
2011 Depreciation Rate Review

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		Florida Public Utilities PSC-09-0229-PAA-GU 4/13/2009		Florida City Gas PSC-09-0835-PAA-GU 12/31/2009		FL Chesapeake Utilities PSC-08-0364-PAA-GU 6/2/2008		2006-2011	1/1/2012
		As Filed	PAA	As Filed	PAA	As Filed	PAA	Current Approved	Company Proposed
30300	Misc Intangible Plant								
	Depreciation Rate	NA	NA	NA	NA	NA	NA	4.0	4.0
	Average Service Life	NA	NA	NA	NA	NA	NA	-	-
	Average Remaining Life	NA	NA	NA	NA	NA	NA	25 year	25 year
	Future Net Salvage %	NA	NA	NA	NA	NA	NA	Amortizable	Amortizable
	Reserve Ratio	NA	NA	NA	NA	NA	NA	-	-
	Curve Type	NA	NA	NA	NA	NA	NA	-	-
30301	Custom Intangible Plant								
	Depreciation Rate	NA	NA	NA	NA	NA	NA	6.7	6.7
	Average Service Life	NA	NA	NA	NA	NA	NA	-	-
	Average Remaining Life	NA	NA	NA	NA	NA	NA	15 year	15 year
	Future Net Salvage %	NA	NA	NA	NA	NA	NA	Amortizable	Amortizable
	Reserve Ratio	NA	NA	NA	NA	NA	NA	-	-
	Curve Type	NA	NA	NA	NA	NA	NA	-	-
39000	Structures & Improvements								
	Depreciation Rate	2.7	2.6	3.6	2.5	2.3	2.0	2.9	2.6
	Average Service Life	40		40				40	40
	Average Remaining Life	29.6	30.0	22.7	22.7	29.0	37.0	29.0	35.8
	Future Net Salvage %	0	0	0	0	5	5	0	0
	Reserve Ratio	20.70	20.67	19.30	43.25		19.57	17.10	10.61
	Curve Type	R3		R3				R3	R3
39100	Office Furniture								
	Depreciation Rate	4.8	4.8	7.2	5.3	4.9	5.0	7.6	6.7
	Average Service Life	21		19				15	15
	Average Remaining Life	15.4	14.7	3.6	3.6	9.5	14.5	8.7	12.4
	Future Net Salvage %	0	0	0	0	3	3	0	0
	Reserve Ratio	26.10	28.82	74.23	80.92		24.69	33.60	17.43
	Curve Type	S2		S2				R1	R1
39101	Computer Equipment								
	Depreciation Rate	10.1	11.1	6.0	7.6	10.2	12.5	7.2	12.6
	Average Service Life	10		10				8	8
	Average Remaining Life	5.4	4.7	7.1	7.1	3.2	2.6	3.1	3.1
	Future Net Salvage %	0	0	0	0	0	0	0	0
	Reserve Ratio	45.40	47.95	57.42	46.13		67.50	77.70	61.18
	Curve Type	S4		R4				S2	S2
39102	Office Equipment								
	Depreciation Rate	7.5	7.3	11.4	8.3	7.3	7.3	7.0	6.7
	Average Service Life	14		12				15	16
	Average Remaining Life	8.4	9.2	8.2	8.2	7.9	8.5	8.1	7.8
	Future Net Salvage %	0	0	0	0	0	0	0	0
	Reserve Ratio	37.40	32.69	6.65	31.94		38.25	43.70	47.70
	Curve Type	S2		S2				R1	R1
39300	Stores Equipment								
	Depreciation Rate	6.5	4.0	4.8	4.0	NA	NA	1.8	4.0
	Average Service Life	26		25		NA	NA	25	25
	Average Remaining Life	2.2	18.0	12.0	12.0	NA	NA	2.4	2.6
	Future Net Salvage %	0	0	0	0	NA	NA	0	0
	Reserve Ratio	85.70	28.58	41.61	51.99		NA	95.60	89.97
	Curve Type	S5		S4		NA	NA	S4	S4
39400	Tools, Shop & Garage Equip								
	Depreciation Rate	6.7	7.2	7.4	6.7	3.5	3.1	6.0	6.6
	Average Service Life	15		15				15	15
	Average Remaining Life	7.6	6.6	6.0	6.0	7.6	5.7	6.4	7.8
	Future Net Salvage %	0	0	0	0	0	0	0	0
	Reserve Ratio	49.10	52.45	55.49	59.80		82.23	61.70	48.19
	Curve Type	S3		S2				S1	S1

PEOPLES GAS SYSTEM
Comparative Analysis
2011 Depreciation Rate Review

Account Number	Account Title	Comparative Analysis of Latest Rates						Peoples Gas System	
		Florida Public Utilities		Florida City Gas		FL Chesapeake Utilities		2006-2011	1/1/2012
		PSC-09-0229-PAA-GU		PSC-09-0835-PAA-GU		PSC-08-0364-PAA-GU		Current Approved	Company Proposed
		4/13/2009		12/31/2009		6/2/2008			
As Filed	PAA	As Filed	PAA	As Filed	PAA				
39500	Laboratory Equipment								
	Depreciation Rate	NA	5.0	50.4	4.0	NA	NA	5.2	5.0
	Average Service Life	20		25		NA	NA	20	20
	Average Remaining Life	0	20	4.9	4.9	NA	NA	11.7	8.3
	Future Net Salvage %	0	0	0	0	NA	NA	0	0
	Reserve Ratio	NA	NA	(146.94)	80.39	NA	NA	39.00	58.54
	Curve Type	R3		S4		NA	NA	S1	S1
39600	Power Operated Equipment								
	Depreciation Rate	7.6	6.8	NA	NA	6.0	7.7	5.2	6.4
	Average Service Life	15		NA	NA			15	15
	Average Remaining Life	7.5	8.4	NA	NA	8.0	2.6	4.1	5.8
	Future Net Salvage %	5	5	NA	NA	0	0	5	5
	Reserve Ratio	38.20	37.93	NA	NA		79.98	73.60	57.96
	Curve Type	S2		NA	NA			S4	S4
39700	Communication Equipment								
	Depreciation Rate	10.5	9.2	11.8	8.3	7.6	7.1	11.4	8.4
	Average Service Life	13		12				12	12
	Average Remaining Life	8.5	8.8	1.0	1.0	10.5	8.6	5.8	5.0
	Future Net Salvage %	0	0	0	0	0	0	0	0
	Reserve Ratio	10.30	19.07	88.18	91.70		39.37	34.20	58.06
	Curve Type	S1		R2				S3	S3
39800	Miscellaneous Equipment								
	Depreciation Rate	6.4	6.0	5.8	6.7	6.7	6.7	4.3	5.9
	Average Service Life	15		15				17	17
	Average Remaining Life	12.3	14.4	10.0	10.0	8.6	3.9	9.8	7.1
	Future Net Salvage %	10	0	0	0	0	0	0	0
	Reserve Ratio	11.40	13.59	42.19	33.00		73.87	57.70	58.19
	Curve Type	R2		S3				R2	R2

**PEOPLES GAS SYSTEM
DOCKET NO. 110232-GU
STAFF'S FIRST DATA REQUEST
REQUEST NO. 2
PAGE 1 OF 1
FILED: OCTOBER 21, 2011**

2. Please explain how PGS developed its forecast of 2011 plant in service and accumulated depreciation, including any assumptions used.

A. Capital expenditures are budgeted monthly for existing open and in-service projects. New 2011 projects are created and budgeted with capital expenditures.

Also, monthly retirements are projected for depreciation purposes based on history.

Monthly depreciation accrual calculations simulate the actual depreciation methods and rates configured in the fixed assets system for each plant account.

These mechanics of the budget process historically have proven to be accurate and within a tolerable range of variance to actuals. Variances between budgeted and actual depreciation accruals result from timing differences between the estimated and actual in-service date of the assets and when the retirements are posted.

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- 3.** Is cost of removal treated as an asset retirement obligation (ARO)? If yes, please list the relevant accounts (where COR is treated as an ARO) and explain why cost of removal is treated as an ARO.
 - A.** No, cost of removal is not treated as an asset retirement obligation.

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4. In its discussion of several accounts (see, e.g., Account 376.00 – Mains, Other than Plastic (steel mains), bates-stamped pages 3-4), PGS proposes retaining the lower prescribed life due to “lack of sufficient data” because “limited retirement data [is] available from only 1983 – 2011.” Did PGS consider using a longer study period in an effort to include more retirement data? When there is limited retirement data, should the current service life, in general, be retained? Please explain your response.

- A. Peoples only has electronic retirement records going back to 1983. Historical hardcopy CPR ledger retirements were not readily available for this study since the data has not been converted to an electronic format.

Over time, existing small gas distribution companies were acquired and integrated into the distribution system as divisions of Peoples. During those acquisitions, the surviving CPR vintage assets were converted to the Peoples fixed asset system. Vintage retirement records are not included in the 1983-2011 historical retirement data provided in this study, since the records were either not maintained or not available due to the conversions, thus a longer study period was not considered.

Due to limited retirement data that partially exists from 1983-2011 the life analysis indicates a longer ASL than the currently approved life.

When there is limited retirement data, Peoples reviews industry comparisons with other gas distribution companies in Florida. In addition, Peoples considers similar plant account comparisons, such as Account 376.02 – Mains Plastic, which is newer technology and less susceptible to the historical 1983-2011 retirements impact on ASL and curve type.

Previous Peoples depreciation studies have been approved with minimal changes in average service lives and curve types. Statistical analysis is only one tool used in estimating service lives. Peoples finds no reason to change the currently approved ASL.

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5. Please explain how limited retirement data in a study affects curve shape. For example, PGS proposes retaining its R3 curve for steel mains. Did PGS consider proposing a different curve because of the limited retirement data for this or any other account? Please explain your answer.

A. See the response to Request No. 4.

The R lowa curve remains an appropriate guideline for this plant account. The study indicates curve types ranging from R2 to R4. Based on the limited historical data, Peoples finds no reason to change the R3 curve that is currently approved.

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- 6.** Does PGS believe that the net salvage it has seen in the last five years in accounts such as Account 380.00 – Service Lines, Other than Plastic (steel services) is a reflection of the volume of retirements? That is, if the level of retirements were to increase in steel services, does PGS believe it would gain efficiencies in removal cost that would result in a less negative cost of removal? Could this result generally be extrapolated to other accounts, such as steel mains? Please explain your answer.
- A.** No, the volume of retirements alone is not a factor. Generally, each retirement decision of existing gas distribution assets differs on a case-by-case basis for both the amount of removal costs as well as the collection of salvage. Since results vary based on the particular circumstances, comparisons should not be extrapolated to other accounts. Peoples attempts to gain efficiencies in removal costs, when possible.

Account-Specific Questions

7. Please refer to Account 374.02 - Land Rights. This Account has had one retirement in the past 28 years. The current prescribed average service life (ASL) shown on page 13 is 32 years. The Company states that the study indicates a 50-year ASL. However, the Company is proposing a 75-year ASL. Please provide more information supporting the company's proposal of a 75-year ASL, since statistical analysis is meaningless.

- A. For Peoples, land rights are almost exclusively acquired for the initial installation of gas distribution assets. Even in cases where Peoples may have retired the original installed asset associated with the land right, the asset was most likely replaced, although the land right remained in place. The proposed 75-year ASL reflects the Commission decision for FPL and PEF regarding electric transmission land rights ASL and is consistent with Tampa Electric's proposal for electric transmission land rights ASL.

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8. Does PGS have a program to replace steel mains? If yes, please describe the replacement program in detail, including when it began, how long it is expected to last, and the rate of replacement. If no, does PGS anticipate instituting such a replacement program? Why or why not?
- A. Peoples has a program to replace bare unprotected steel mains; however, it does not have a program to replace bare steel services. Peoples formally notified the Commission on February 28, 2001 of plans to establish a bare unprotected steel main replacement program and prioritized the replacement schedule based on the highest risk areas and segments of pipe. Areas have been identified within Peoples' system that contain unprotected bare steel and cast/wrought iron main.

Additionally, the Commission has requested a bare steel and cast iron main pipeline replacement schedule by November 20, 2011. Peoples will provide additional details about this replacement program in the response to that request.

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9. Does PGS install new steel mains? If yes, please explain why new steel mains are installed rather than plastic ones.

A. The leading factor in using today's coated and cathodically protected steel pipe remains gas pressure requirements. Steel pipe is still required whenever the gas pressure exceeds the capacity of plastic. Peoples will use plastic pipe over steel pipe, whenever possible. This practice is true whether installing new or replacing existing steel pipe.

Coated and cathodically protected steel pipe is primarily used, in lieu of polyethylene (plastic) pipe, in the following situations:

- Where end use demand, demonstrates a need for higher delivery volumes and pressures, than polyethylene pipe can deliver (i.e.: exceeds design allowable factors, physical sizing demand of the available material type)
- Where the placement of polyethylene pipe is unpractical for operational or safety reasons (i.e.: third party damage risks, environmental conditions)
- Where the use of polyethylene pipe would hinder or limit Peoples ability to maintain cathodic protection systems on other system assets

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- 10.** Does PGS know the percentage of its retirements of steel mains required by the Department of Transportation to be physically removed? If yes, what is the percentage?
- A.** No. Peoples is not required and does not track main retirement activity by the requesting party or whether the job requires the existing main be physically removed or abandoned in place.

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11. The annual net salvage analysis for steel mains (bates-stamped page 155) shows the net salvage percentage has varied from (38) to (275) percent between 2006 – 2010. What are the reasons for these year-to-year variances?

A. The main reason for these variances is the timing of retirement work order processing. When looking at Account 376.00 - Steel Mains for a specific year, the data for that year includes the sum of all instances of original cost retirements across all vintages performed that year. These retirements are performed using a retirement construction work order. The asset is retired as soon as it is taken out of service, even if the related removal costs continue to be collected. For the same year, the data for cost of removal and salvage is the sum of all retirement work orders that were unitized during the year, regardless of how much earlier the related asset may have been retired. Although this process correctly associates all costs with the related asset being retired within the retirement work order, the impact on the related plant accounts is that the asset retirement and the related cost of removal frequently cross years. An example using the 2010 data: retirement construction work order 010481004205 has not been unitized, so the removal costs have not yet affected this plant account. However, a retirement amount of \$96,803 was processed in 2010 when the asset was taken out of service.

Additionally, for each retirement construction work order, the original cost of the asset being retired is not a factor for the cost to retire the asset. The two can vary significantly in either direction – high original costs with low cost of removal or low original cost with high cost of removal. An example using 2009 data: retirement construction work order 010480804206 resulted in the retirement of \$18 original cost for a 1959 vintage asset, yet the cost of removal was \$3,100.

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- 12.** The current net salvage is (50) percent for steel mains, with a cumulative net salvage of (59) percent and a five-year band of (99) percent. Please explain how PGS determined that the appropriate net salvage should be (60) percent as opposed to, for example, (55) or (65) percent.
- A.** Peoples considers cumulative net salvage less susceptible to hyperinflation when retiring extremely old vintages in today's removal dollars.

Peoples chose a rounded (60) percent, which is the closest whole number to the stated cumulative net salvage of (59) percent.

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- 13.** Between 2006 and budget year 2011, the additions to Account 376.02 – Mains, Plastic (plastic mains) were greater than the additions to steel mains, except in 2009. Please explain why 2009 was different.
 - A.** In 2009, there were twelve gas main construction work orders that went in-service affecting Account 376 in an amount greater than \$1 million. Ten of the twelve were steel main construction projects. Steel pipe was required in each case due to gas system pressures.

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- 14.** The annual net salvage analysis for plastic mains (page 197) shows the net salvage percentage has varied from (30) to (150) percent between 2006 – 2010. What are the reasons for these year-to-year variances?
- A.** See the response to Request No. 11.

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- 15.** The current net salvage is (15) percent for plastic mains, with a cumulative net salvage of (29) percent and a five-year band of (59) percent. Please explain how PGS determined that the appropriate net salvage should be (25) percent as opposed to, for example, (20) or (30) percent.
 - A.** Peoples chose (25) percent, rather than the stated cumulative net salvage of (29) percent, to minimize the increase.

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16. In what year(s) were the retirements, cost of removal, and gross salvage booked for the special disposal of the injection systems and removal of a substation for Accounts 378 and 379 (Measuring and Regulating Station Equipment – General and City Gate, respectively)?

A. These injection system removals were cited in the previous 2006 Depreciation Study, since the retirements, cost of removal, and salvage transactions were posted between 2000 and 2005. This caused net salvage analysis outliers in the annual percent analysis.

Peoples chose to include all historical data as booked in the current 2011 Depreciation Study analysis of net salvage. The injection systems are now outside the 5-year historical average from 2006 to 2010, yet are included in the cumulative average from 1983 to 2010.

Both Accounts 378 and 379 have annual retirement ratios of 1.5 percent or less. Also, the two accounts have a cumulative negative net salvage factor greater than (20) percent.

Peoples proposed no change in the existing negative net salvage of (5) percent. This is consistent with other Florida utilities.

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17. In its analysis of retirement, cost of removal, and gross salvage data for Accounts 378 and 379, did PGS adjust the data to eliminate the effect of the removal of the injection systems and substation? If yes, what were the results? If no, please explain why not.

A. No. See the response to Request No. 16.

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- 18.** Please explain why there are no additions or retirements forecast for 2011 for Account 379.
- A.** Budgeted capital expenditures were assigned to the activity Measuring and Regulator Station Equipment. This activity covers both Accounts 378 and 379. During the process of budget unitization of converting capital expenditures into plant account assets, Peoples defaulted all of the amounts to Account 378. As a result, budgeted retirements follow the account additions and were posted solely to Account 378.

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- 19.** Does PGS have a program to replace steel services? If yes, please describe the replacement program in detail, including when it began, how long it is expected to last, and the rate of replacement. If no, does PGS anticipate instituting such a replacement program? Why or why not?
- A.** See the response to Request No. 8. Peoples generally replaces bare steel services in parallel with the replacement of connected bare steel mains.

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- 20.** Does PGS install new steel services? If yes, please explain the reasons to install new steel services rather than new plastic services.
- A.** See the response to Request No. 9.

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- 21.** Does PGS insert plastic pipe into existing steel services? If yes, please explain the accounting treatment for the steel service line that becomes a conduit for plastic services.
- A.** Yes. During a service replacement activity, where new plastic pipe is inserted into the buried steel pipe, the steel pipe is first disconnected from any source of gas and purged. The accounting treatment is retirement, since the section of steel pipe is removed from service.

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- 22.** The current net salvage is (90) percent for steel services, with a cumulative net salvage of (146) percent and a five-year band of (229) percent. Please explain how PGS determined that the appropriate net salvage should be (100) percent as opposed to, for example, (95) or (105) percent.
- A.** Peoples chose (100) percent to move toward the actual net salvage percentage while minimizing the impact of the change.

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- 23.** Please refer to PGS' response to the staff report from the previous study (Docket No. 060496-GU), dated October 12, 2006, pages 4-5, Account 380, steel services, for the following questions.
- a. Has PGS continued to study the cost of removal? If yes, please explain your results. If no, is the 2006 information generally still accurate? Please explain your answer.
 - b. Has PGS implemented changes that are designed to minimize or reduce the cost of removal? Please explain your answer.
 - c. Have all of the cast iron replacements occurred? If yes, when were the replacements complete? If no, when is the expected completion?
 - d. Has PGS studied the cost of removal for other accounts, including plastic services, steel and plastic mains, meters, and regulators? If so, what are the results?
- A.**
- a. Peoples continues to monitor cost of removal for appropriateness across all accounts. This monitoring continues to support the 2006 information that indicates the major factor affecting the net salvage percentages is the significantly higher cost of current construction compared to the lower original cost of the aged vintage assets being retired.
 - b. Peoples continues to take steps to minimize all construction related costs. Peoples collects reimbursements, whenever possible. Peoples utilizes contractor bidding for construction projects. Peoples reviews preliminary Department of Transportation (DOT) projects to minimize conflicts. Peoples will retire assets in place, whenever possible. Peoples will insert new pipe into existing, whenever possible.
 - c. See the response to Request No. 8. All cast iron pipe in the Peoples distribution system has not been replaced to date. Peoples will provide a replacement plan on November 20, 2011.
 - d. See the response to Request No. 23.a.

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- 24.** Please refer to PGS' response to the staff report from the previous study (Docket No. 060496-GU), dated October 12, 2006, page 5, plastic services, item number 1.
- a. Has the information in the response been updated? If yes, please provide the update. If no, does PGS still use both employee and contractor crews to remove plastic services?
 - b. Does PGS use its employees as well as contractors to remove steel services, steel and plastic mains, meters, and regulators? If the answer is both PGS employees and contractors, please explain why and when contractors are used instead of employees. If cost information is available, please provide it.
- A.**
- a. The updates to the 2006 responses are as follows:
 - a) Same response
 - b) The average hourly rate is \$52. The contractor crew would be based on time & equipment (T&E). The standard T&E rate is \$65 per-man-hour, and therefore a four-man crew is charged out at \$260 per hour.
 - Labor rate includes fringe at 40 percent
 - Transportation is \$2 per labor hour
 - Equipment is \$1 per labor hour
 - Non-productive time is 25 percent
 - Overhead (admin & supv) is 15 percent
 - c) Average time is 2-3 hours
 - d) Material charges are typically less than \$80 (not including restoration materials).
 - e) Asphalt replacement: \$ 300 (minimum charge, 4x4 bell hole)
Concrete replacement: \$ 350 (minimum charge, 4x4 bell hole)
Dirt, Sod and/or Seed: \$ 1.75 per square foot
Permits: Average: \$75.00 (charges vary by city, when applicable)
Barricades & Traffic Control: \$300 approximately (varies by job type, when applicable)
 - b. Peoples typically uses employees to remove meters and regulators. Contractors are utilized to remove all mains and service lines based on the equipment and manpower requirements. Removal of mains is required on some road improvement projects and the costs range from \$10 - \$20 per foot.

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- 25.** The current net salvage is (50) percent for plastic services, with a cumulative net salvage of (58) percent and a five-year band of (70) percent. Please explain how PGS determined that the appropriate net salvage should be (55) percent as opposed to, for example, (60) percent.
- A.** Peoples chose a rounded (55) percent, not the stated cumulative net salvage of (58) percent, to minimize the increase.

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26. Please identify the docket number and order number in which the change from cradle-to-grave to location life accounting for Account 381 – Meters (meters) was approved.

A. Docket No. 010383-GU
Final Order PSC-02-1492-PAA-GU

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- 27.** Is cradle-to-grave or location life accounting used for Account 383 – Regulators (regulators)?
- A.** Cradle-to-grave.

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- 28.** Does PGS believe that the meters and regulators accounts should be handled in the same way, i.e., should they both be location life or cradle-to-grave accounting? Why or why not?
- A.** Peoples believes that meters and regulators should not be handled in the same way. The primary basis for the distinction is Florida Administrative Code, 25-7.063, which requires that a meter be tested each time it is removed from a customer premise, but that a house regulator can be removed and reused without testing.

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- 29.** The current net salvage is (20) percent for Account 384 – Regulator Installations, with a cumulative net salvage of (55) percent and a five-year band of (25) percent. Please explain how PGS determined that the appropriate net salvage should remain at (20) percent as opposed to, for example, an increase to (25) percent.
- A.** Peoples chose not to change from the current net salvage (20) percent for Account 384 – Regulator Installations. During this evaluation, Peoples reviewed the current net salvage of (20) percent for Account 382 - Meter Installations, which is a comparable plant account to Account 384.

Both Accounts 382 and 384 are related to installations. The recent 5-year averages for Account 382 were between (20) and (25) percent. Peoples chose (20) percent for both accounts to produce consistency between comparable accounts and minimize the increase.

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30. Please refer to Account 385 - Industrial M&R Equipment. The Company is proposing a zero net salvage for this Account. Please provide justification for increasing net salvage from negative three percent to zero percent. The study states "limited retirement data"; please explain what this means.

A. See the response to Request No. 4.

The annual retirement ratio is less than 0.5 percent and recent 5-year averages indicate zero net salvage or a (1) percent negative net salvage.

Peoples chose to propose zero net salvage, since the removal activity is immaterial and would not cause a significant theoretical reserve deficiency. This proposal is consistent with other Florida utilities.

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31. The investment in Account 386 – Other Property Customer Premise was retired and the accumulated depreciation brought to \$0 in 2006. There has been no investment in this account since 2006 and no investment is anticipated in the 2011 budget year. Please explain why PGS is proposing an increase in average service life; i.e., does PGS anticipate future investment in this account? Please explain your answer.

A. Peoples does not expect to use this account in the future.

Peoples chose to propose an ASL of 15 years thinking that 10 years was too short of a life. Peoples will accept maintaining the existing 10-year life for Account 386.

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- 32.** Please refer to Account 390 - Structures & Improvements.
- a. Does the Company own or lease its headquarters building?
 - b. What has retired in this account over the last five years to realize such a high salvage?
- A.**
- a. Peoples leases its headquarters building located in Tampa, FL.
 - b. Peoples Panama City division sold and retired the Maple Ave building in 2008 and recognized the cost of removal and salvage in 2009. The high net salvage percent is the result of the sale proceeds in excess of the net book value of the assets sold. The remainder in Account 390 is related to leasehold improvements.

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33. Please refer to Account 39200 - Vehicles. What is the Company's policy concerning retirement of a vehicle? For example, does the Company retire after a certain mileage is reached, age is reached, or maintenance costs reach a certain level?

A. The following criteria is used when evaluating the proper time to retire a fleet vehicle: mechanical condition, maintenance costs, identified future repairs needed, mileage, age, appearance, make and model, based on current specification for assignment use.

A single condition is not used to determine the retirement point for the fleet vehicles. The overall condition of the vehicle is considered in the retirement decision.

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34. Please refer to Account 392.01- Vehicles up to ½ Ton. Bates-stamped pages 14 and 531 indicate this Account consists of vehicles up to ½ ton. However, bates-stamped page 7 indicates the Account contains vehicles up to ¾ ton. Please reconcile these statements.

A. The Bates-stamped page number 7 description should read as Account 392.01 - Vehicles Up to ½ Ton.

The Bates-stamped page number 8 description should read as Account 392.02 - Vehicles ½ to 1 Ton.

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35. Please refer to Account 391 - Office Furniture.
- a. How often does Peoples perform an inventory of its office furniture?
 - b. What percent of the investment in this account is modular furniture?
 - c. The Company states that statistical analysis indicates an average service life of 17 years but is based on limited retirement data. The retirement rate over the past five years has averaged 1.7%. Generally, if the retirement rate is less than 1 percent, relying on statistical analysis is meaningless. However, this is not the case for this Account. Please provide more information on why the company is choosing not to use the statistical analysis.

- A. a. Prior to 2011, two or three division sites were inventoried every year resulting in all divisions being inventoried every three to four years.

During 2010, two divisions performed inventory reviews and retirements were posted to the continuing property record by the end of 2010. Below were the results.

	01 Dade-Broward	90 Corporate
Gross Cost at 1-1-2010		
39100 Office Furniture	\$578,057	\$1,133,722
39101 Computer Equipment	\$418,501	\$7,522,727
2010 Retirements		
39100 Office Furniture	\$72,485	\$0
39101 Computer Equipment	\$65,171	\$158,104
Ratio		
39100 Office Furniture	13%	0%
39101 Computer Equipment	16%	2%

During production of the 2011 Depreciation Study, Peoples inventoried all general plant equipment (excluding the transportation accounts). The inventory results are not yet complete at this time.

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- b. Peoples continuing property record is not categorized into modular furniture versus non modular furniture. The individual asset records descriptions would indicate modular. There is no reasonable method to calculate the percentage that is modular.
- c. Peoples finds no reason to change from the currently approved 15 year ASL. The statistical analysis may indicate 17 years, but old vintages in this account may be outliers that are not indicative of the life of most of the assets in the account, which contributes to this indication.

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- 36.** Please refer to Account 391.01 - Computer Equipment. Does the Company have plans to retire any computer equipment during the next five years? If yes, please identify the investment and related in-service year planned for retirement. If no, please explain why.
- A.** Yes. Peoples will have computer equipment retirements during the next five years. However, these retirements are not identified in advance.

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- 37.** Please refer to Account 391.02 - Office Machines.
- a. How often does Peoples perform a physical inventory?
 - b. When was the last inventory performed?
 - c. What were the results of the last inventory?
- A.**
- a. See the response to Request No. 35.a.
 - b. See the response to Request No. 35.a.
 - c. The 2010 inventory did not yield any retirements for Account 391.02.

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- 38.** Please refer to Account 393 - Store Equipment.
- a. How often does Peoples perform a physical inventory?
 - b. When was the last inventory performed?
 - c. What were the results of the last inventory?
 - d. Net salvage for the past five years has averaged 33%. What caused this high net salvage to be realized?
- A.**
- a. See the response to Request No. 35.a.
 - b. See the response to Request No. 35.a.
 - c. The 2010 inventory did not yield any retirements for Account 393.
 - d. In 2007 a division of Peoples retired a store room fork lift costing \$6,850 and sold it for a salvage of \$2,500, which predominantly caused the 33 percent net salvage 5-year average.

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- 39.** Please refer to Account 394 - Tools.
- a. How often does Peoples perform a physical inventory?
 - b. When was the last inventory performed?
 - c. What were the results of the last inventory?
- A.**
- a. See the response to Request No. 35.a.
 - b. See the response to Request No. 35.a.
 - c. The 2010 inventory did not yield any retirements for Account 394.

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- 40.** Please refer to Account 395 - Laboratory Equipment.
- a. How often does Peoples perform a physical inventory?
 - b. When was the last inventory performed?
 - c. What were the results of the last inventory?
- A.**
- a. See the response to Request No. 35.a.
 - b. See the response to Request No. 35.a.
 - c. The 2010 inventory did not yield any retirements for Account 395.

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- 41.** Please refer to Account 396 – Power Operated Equipment.
- a. How often does Peoples perform a physical inventory?
 - b. When was the last inventory performed?
 - c. What were the results of the last inventory?
- A.**
- a. See the response to Request No. 35.a.
 - b. See the response to Request No. 35.a.
 - c. The 2010 inventory did not yield any retirements for Account 396.

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- 42.** Please refer to Account 397 - Communication Equipment.
- a. How often does Peoples perform a physical inventory?
 - b. When was the last inventory performed?
 - c. What were the results of the last inventory?
 - d. Why does the Company believe that a 12-year life continues to be reasonable for this Account given the lack of retirements and an 8.8-year age?
- A.**
- a. See the response to Request No. 35.a.
 - b. See the response to Request No. 35.a.
 - c. The 2010 inventory did not yield any retirements for Account 397.
 - d. Due to the rapid change in technology in this account, Peoples believes the 12-year life remains appropriate.

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- 43.** Please refer to Account 398 – Miscellaneous Equipment.
- a. How often does Peoples perform a physical inventory?
 - b. When was the last inventory performed?
 - c. What were the results of the last inventory?
 - d. Please explain the reasons supporting the retention of a 17-year average service life given the fact that there has been scant retirement activity and the average age is 13.4 years.
- A.**
- a. See the response to Request No. 35.a.
 - b. See the response to Request No. 35.a.
 - c. The 2010 inventory did not yield any retirements for Account 398.
 - d. Peoples finds no reason to change the currently approved life, which is relatively long for this type of equipment.