

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

In re: Petition for approval of 2011
Depreciation Study by Peoples Gas System.

DOCKET NO. 110232-GU
ORDER NO. PSC-12-0217-PAA-GU
ISSUED: April 24, 2012

The following Commissioners participated in the disposition of this matter:

RONALD A. BRISÉ, Chairman
LISA POLAK EDGAR
ART GRAHAM
EDUARDO E. BALBIS
JULIE I. BROWN

NOTICE OF PROPOSED AGENCY ACTION
ORDER REVISING DEPRECIATION RATES

BY THE COMMISSION:

NOTICE is hereby given by the Florida Public Service Commission that the action discussed herein is preliminary in nature and will become final unless a person whose interests are substantially affected files a petition for a formal proceeding, pursuant to Rule 25-22.029, Florida Administrative Code (F.A.C.).

BACKGROUND

Rule 25-7.045, F.A.C., requires natural gas companies to file a comprehensive depreciation study at least 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 revised depreciation rates and components that we approved effective January 1, 2007. See Order No. PSC-07-0125-PAA-GU.¹ As explained below, a review of Peoples' activity data indicates the need to revise the depreciation rates.

We have jurisdiction pursuant to Sections 350.115 and 366.05, Florida Statutes (F.S.).

DECISION

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

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.

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date of the proposed rates.” The supporting data and calculations provided by Peoples match an implementation date of January 1, 2012, which we find to be appropriate.

A comprehensive review of Peoples’ study, including additional information requested by our staff indicates that 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 the components and rates we approve herein. Attachment B contains a comparison of current and newly approved depreciation expense. Our approved 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. If it is possible that this account might be needed, then the account shall be retained at least until the next depreciation study. We also find that it is appropriate to increase 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 the Company agreed that it is appropriate to close it and discontinue any depreciation parameters. Accordingly, we find that this account shall be closed.

Reserve Transfers

In early 2011, we 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 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.

We have reviewed Peoples’ proposed reserve transfers (including the \$6,150,000), as well as its explanations as provided in response to additional information requested by our staff. We approve the proposed reserve transfers contained in Attachment C. We note that our staff monitors the Company’s reserve activity (additions, retirements, and adjustments) on an annual

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.

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

basis. The annual review includes preparation and submission of information requests as necessary.

Conclusion

We approve the revised depreciation rates that are contained in Attachment A. We shall retain Account 386.00 – Other Property Customer Premise with a 15-year average service life. We shall close Account 392.02 – Airplanes.

Investment Tax Credits (ITCs) and Excess Deferred Income Taxes (EDITs)

As shown in Attachment A, we have approved 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

This Commission, 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. We find that the current amortization of ITCs and the flowback of EDITs shall be revised to reflect the remaining useful lives that underlie our approved depreciation rates.

Based on the foregoing, it is

ORDERED by the Florida Public Service Commission that that the remaining lives, net salvages, and resulting depreciation rates set forth in Attachment A to this Order are approved, effective January 1, 2012. It is further

ORDERED that the corrective reserve transfers set forth in Attachment C to this Order are approved. It is further

ORDERED that Peoples Gas System shall revise its current amortization of Investment Tax Credits and the flowback of Excess Deferred Income Taxes to reflect the changes approved in this Order. It is further

ORDERED that the provisions of this Order, issued as proposed agency action, shall become final and effective upon the issuance of a Consummating Order unless an appropriate petition, in the form provided by Rule 28-106.201, Florida Administrative Code, is received by

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.

the Commission Clerk, 2540 Shumard Oak Boulevard, Tallahassee, Florida 32399-0850, by the close of business on the date set forth in the "Notice of Further Proceedings" attached hereto. It is further

ORDERED that in the event this Order becomes final, this docket shall be closed.

By ORDER of the Florida Public Service Commission this 24th day of April, 2012.



ANN COLE
Commission Clerk
Florida Public Service Commission
2540 Shumard Oak Boulevard
Tallahassee, Florida 32399
(850) 413-6770
www.floridapsc.com

Copies furnished: A copy of this document is provided to the parties of record at the time of issuance and, if applicable, interested persons.

MCB

NOTICE OF FURTHER PROCEEDINGS OR JUDICIAL REVIEW

The Florida Public Service Commission is required by Section 120.569(1), Florida Statutes, to notify parties of any administrative hearing that is available under Section 120.57, Florida Statutes, as well as the procedures and time limits that apply. This notice should not be construed to mean all requests for an administrative hearing will be granted or result in the relief sought.

Mediation may be available on a case-by-case basis. If mediation is conducted, it does not affect a substantially interested person's right to a hearing.

The action proposed herein is preliminary in nature. Any person whose substantial interests are affected by the action proposed by this order may file a petition for a formal proceeding, in the form provided by Rule 28-106.201, Florida Administrative Code. This petition must be received by the Office of Commission Clerk, 2540 Shumard Oak Boulevard, Tallahassee, Florida 32399-0850, by the close of business on May 15, 2012.

In the absence of such a petition, this order shall become final and effective upon the issuance of a Consummating Order.

Any objection or protest filed in this/these docket(s) before the issuance date of this order is considered abandoned unless it satisfies the foregoing conditions and is renewed within the specified protest period.

PEOPLES GAS COMPANY
 2011 DEPRECIATION STUDY

ATTACHMENT A

COMPARISON OF RATES AND COMPONENTS

ACCOUNT	CURRENT					COMMISSION APPROVED				
	AVERAGE SERVICE LIFE	AVERAGE REMAINING LIFE (YRS.)	NET SALVAGE (%)	2005 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*	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 Equipme	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

* This account will be closed so no need to express the parameters.

PEOPLES GAS COMPANY
 2011 DEPRECIATION STUDY

ATTACHMENT B

COMPARISON OF EXPENSES

ACCOUNT	CURRENT				COMMISSION APPROVED		
	As of 12/31/2011 INVESTMENT (\$)	As of 12/31/2011 RESERVE ¹ (\$)	REMAINING LIFE RATE (%)	EXPENSES (\$)	REMAINING LIFE RATE (%)	EXPENSES (\$)	CHANGE IN EXPENSES (\$)
Distribution Plant							
37402 Land Rights	\$2,576,369	\$565,700	3.1	\$79,867	1.3	\$33,493	(\$46,374)
37500 Structures & Improvements	18,431,728	6,064,814	2.8	516,088	2.5	460,793	(55,295)
37600 Mains Steel	314,118,682	176,078,117	4.0	12,564,747	4.2	13,192,985	628,238
37602 Mains Plastic	309,948,972	97,320,087	2.9	8,988,520	3.1	9,608,418	619,898
37800 M & R General	8,624,202	1,789,055	3.3	284,599	3.4	293,223	8,624
37900 M & R City Gate	18,849,587	3,822,462	3.4	640,886	3.4	640,886	0
38000 Services Steel	40,331,991	44,701,297	8.0	3,226,559	6.6	2,661,911	(564,648)
38002 Services Plastic	194,766,424	97,222,117	5.1	9,933,088	5.0	9,738,321	(194,767)
38100 Meters	47,683,261	13,902,204	6.6	3,147,095	5.9	2,813,312	(333,783)
38200 Meter Installations	42,190,612	19,637,263	5.0	2,109,531	4.5	1,898,578	(210,953)
38300 House Regulators	12,215,576	4,761,181	3.5	427,545	3.6	439,761	12,216
38400 House Regulator Installation	16,396,044	7,547,522	5.1	836,198	4.5	737,822	(98,376)
38500 M & R Station	9,526,945	4,849,718	3.4	323,916	3.1	295,335	(28,581)
38600 Other Prop. Cust. Prem.	0	0	10.0	0	6.7	0	0
38700 Other Equipment	3,680,913	1,399,168	5.7	209,812	6.3	231,898	22,086
Total	\$1,039,341,306	\$479,660,705		\$43,288,451		\$43,046,736	(\$241,715)
Transportation Equipment							
39201 Vehicles up to 1/2 Ton	\$8,097,623	\$2,944,147	10.6	\$858,348	11.2	\$906,934	\$48,586
39202 Vehicles from 1/2 - 1 Ton	5,315,853	2,554,819	14.8	786,746	12.7	675,113	(111,633)
39203 Airplane	0	0	1.9	0	1.7	0	0
39204 Trailers and Other	270,367	139,215	4.1	11,085	4.0	10,815	(270)
39205 Vehicles over 1 Ton	1,155,098	636,652	9.9	114,355	7.4	85,477	(28,878)
Total	\$14,838,941	\$6,274,833		\$1,770,534		\$1,678,339	(\$92,195)
General Plant							
39000 Structures & Improvements	\$80,558	\$8,547	2.9	\$2,336	2.5	\$2,014	(\$322)
39100 Office Furniture	7,903,408	1,377,357	7.6	600,659	6.7	529,528	(71,131)
39101 Computer Equipment	7,551,267	4,619,936	7.2	543,691	12.5	943,908	400,217
39102 Office Equipment	530,536	253,074	7.0	37,138	6.7	35,546	(1,592)
39300 Stores Equipment	48,913	44,005	1.8	880	4.0	1,957	1,077
39400 Tools, Shop, Garage Equipment	4,792,761	2,309,504	6.0	287,566	6.6	316,322	28,756
39500 Laboratory Equipment	46,445	27,189	5.2	2,415	5.0	2,322	(93)
39600 Power Operated Equipment	2,009,238	1,164,572	5.2	104,480	6.4	128,591	24,111
39700 Communication Equipment	6,451,401	3,745,491	11.4	735,460	8.4	541,918	(193,542)
39800 Miscellaneous Equipment	451,918	262,983	4.3	19,432	5.9	26,663	7,231
Total	\$29,866,445	\$13,812,658		\$2,334,057		2,528,769	194,712
Grand Total	\$1,084,046,692	\$499,748,196		\$47,393,042		\$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)	179,078,117
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	19,637,283	1,681,050	19,637,283
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
Subtotal	\$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
Subtotal	\$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
Subtotal	\$18,293,176	\$13,812,658	(\$4,480,518)	\$13,812,658
Total	\$493,538,197	\$516,461,704	\$6,150,000	\$499,748,196

* Some numbers may not total exactly because of rounding.