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December 30, 2016

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. 160159-GU – Petition for approval of 2016 depreciation study by Peoples Gas System

Dear Ms. Stauffer:

Attached for filing with the Commission in the above docket on behalf of Peoples Gas System ("Peoples") please find Peoples' Responses to Staff's Third Data Request.

Thank you for your usual assistance.

Sincerely,

Ansley Watson, Jr.

ANSLEY WATSON, JR.

AWjr/a
Attachment

cc: Walter Trierweiler, Esquire
J. R. Kelly, Esquire
Charles Rehwinkel, Esquire
Stephanie Morse, Esquire
Ms. Kandi M. Floyd

PEOPLES GAS SYSTEM
DOCKET NO. 160159-GU
STAFF'S THIRD DATA REQUEST
REQUEST NO. 1
BATES STAMPED PAGE: 1
FILED: DECEMBER 30, 2016

1. Refer to Paragraph 1 1 and Exhibit A of the Settlement. Please provide a continuation of Exhibit A through the expected conclusion of all expected MGP remediation activities, showing projected annual costs, amortizations, and reserve balances.

A. The projected annual costs and amortization below are approximate forecasts based on current circumstances.

The projected (annual) total costs for the period through 2020 are as follows:

2016: $1M - $2M
2017: $3M - $5M
2018: $12M - $15M
2019: $1M - $3M
2020: $1M - $3M

The projected annual amortization amounts for the period through 2020 are:

2016: $10M - $16M
2017: $5M - $11M
2018: $5M - $10M
2019: $5M - $10M
2020: $5M - $10M

The projected reserve balance will be a function of the amounts above.

2. For each amount listed in response to No. 1, please provide the expected locations and remediation activities, including whether the remediation costs are tar removal, monitoring, etc.

A. North Miami Beach: approximately $9 million. 15780 West Dixie Highway, North Miami Beach. Peoples Gas System ("PGS" or "Peoples") has completed a soil removal remedy on a portion of the property. Additional tar impacted soil removal is expected to take place in 2018. A Biosparge/Vapor Extraction system is currently being installed to address impacted groundwater.

Tampa: approximately $3.3 million. 1400 Channelside Drive, Tampa. Currently in the process of removing mobile free product ("coal tar") utilizing a multiphase extract unit ("MPE"). In 2017, the MPE system is expected to be utilized to address additional free product that was recently discovered adjacent to the Site.

Orlando: approximately $1.8 million. 600 West Robinson Street, Orlando. The responsible parties ("RP's") are currently working on the design of a soil and groundwater containment remedy. The RP's are expected to implement this remedy to contain impacted soil and groundwater in 2019.

Jacksonville: approximately $300,000. 1445 West Church Street, Jacksonville. The RP's are currently evaluating viable remedial options for the Site. Implementation of the remedy is expected to take place in 2018.

Miami: approximately $3 million. 1600 North Miami Avenue, Miami. The RP's are expected to implement a remedy to address offsite soil impacts in 2017. The RP's are expected to implement a remedy to address onsite soils and groundwater impacts 2018.

Ocala: approximately $2.6 million. 613 Northeast Osceola Ave, Ocala. PGS has completed a soil removal effort to remove impacted soil from the site. PGS also install engineering controls to reduce risk and exposure. The Environmental Protection Agency has asked PGS to evaluate additional remedial options.

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3. Refer to Exhibit A of the Settlement. Please describe the remediation activities/reimbursements which impacted the costs (positive and negative) incurred each year beginning in 1999 through 2016, including location (s) and nature of the remediation performed.

A. North Miami:

1999 - 2013: Primarily site investigation
2014: Soil remediation
2015 - 2016: Primarily site investigation
2015 includes state tax credit of $442,231

Miami:

1999 - 2016: Site investigation

Tampa:

1999 - 2001: Site investigation
2002: Soil Removal
2015 - 2016: Free product removal (MPE)
2015 includes a state tax credit of $68,973

Orlando:

1999 - 2016: Site Investigation

Ocala:

1999 - 2012: Site investigation
2013: Install Cap
2014 - 2016: Site investigation

Jacksonville:

1999 - 2000: Soil removal
2001 - 2016: Site Investigation

General Legal:

2001 – 2016: General legal assistance with state and federal agencies as well as potentially responsible parties.
2012: $6 million settlement related to contamination suit attributed to PGS Manufactured Gas Plant (“MGP”) site.

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Insurance, Tax Credits and Related Expenses:

Costs incurred to recover insurance proceeds net of the proceeds received. 2002-2007, 2009, 2015.

4. Refer to Paragraph 15. Please explain why Problematic Plastic Pipe (PPP) was not included in PGS' 2012 CI/BS replacement program in 2012 or since then, given that Pipeline Safety and Hazardous Material Administration issued bulletins in 2002 and 2007 regarding the susceptibility of such pipes to cracking?

A. In 2011, after a series of high profile pipeline incidents involving materials such as cast iron and bare steel, the United Stated Department of Transportation ("USDOT") Secretary and agency officials of Pipeline Safety and Hazardous Material Administration ("PHMSA") strongly encouraged a call to action for states "to accelerate pipeline repair, rehabilitation and replacement programs for systems whose integrity cannot be positively confirmed". In response to these series of events, Peoples, along with other local distribution companies, filed with their respective regulatory commissions requests to implement pipeline replacement programs focusing on materials such as cast iron and bare steel. Peoples has made significant progress with its current replacement program since its inception in 2011. In an effort to continue to provide a safe and reliable system, the company has believed it appropriate to expand its replacement activities to include problematic plastic pipe ("PPP"), and had been working on a means for implementing that inclusion since shortly after the Commission's initial approval of Rider CI/BSR. See also response to Request No. 18 this set.

5. Refer to Paragraph 18. Please provide a replacement schedule for PGS' s PPP for each year through 2028, including the projected costs and the projected number of miles of PPP, by mains and service lines.

A. Peoples is projecting to spend approximately $7M in 2017 for PPP replacement activities. Peoples has not developed a detailed replacement schedule but plans to target high volume areas such as Orlando and Tampa utilizing a risk-based prioritization currently used to determine the order in which cast iron and bare steel pipelines will be replaced. The prioritization is driven primarily by the Federal Energy Regulatory Commission (“FERC”)-required Distribution Integrity Management Program (“DIMP”), but other factors including leak incident rates, the pressure under which the pipeline is operating, areas of significant construction and the age / vintage of the pipeline are also considered. Accordingly, in the current CI/BSR program, Peoples has focused on pipeline replacement in urban and high consequence areas that traditionally have an average higher replacement cost due to the complexities of the replacement project. Higher cost can be attributable to the location of the project, dense population, contractor cost, permitting, additional government / local jurisdiction mandates where specific procedures must be utilized such as traffic control, work hours, and transferring from footage rates to time and material rates. In addition to utilizing DIMP, Peoples will prioritize and coordinate PPP projects that are connected to Cast Iron Bare Steel (“CIBS”) projects in order to reduce cost and provide project efficiencies.

As Peoples gains experience in the replacement of PPP, it will acquire more definitive information on the cost per mile for replacement activity. Currently, and at a high level, Peoples projects an average replacement cost of $200k per mile.

6. Refer to Paragraph 19. Please explain in detail the prioritization of planned PPP replacement annually beginning in 2017 through 2028 as relates to the age of the pipe, PPP interspersed in CI/BS facilities replaced since 2012, PPP interspersed in CIIBS scheduled to be replaced through 2022, PPP located elsewhere in PGS's system, and other relevant factors. Explain how safety and economic efficiencies are contemplated in the prioritization of the replacements and how the Distribution Integrity Management Plan impacts such prioritization.

A. See response to Request No. 5 this set.

7. Refer to Terms of the Settlement, Paragraph A. (l). Please explain any possible accounting/financial reporting issues which may result related to the fact that the proposed Settlement and associated depreciation rates will not be voted upon until the February 7, 2017 Agenda Conference, especially as relates to the requirements of Rule 25-7.045(4)(d), F.A.C.

A. Peoples has reviewed Rule 25-7.045(4)(d), F.A.C., and believes there would be no accounting/financial issues provided a decision on the Settlement is reached by the Commission on February 7, 2017. In the event the Commission were to approve the Settlement, PGS would be compliant with section 25-7.045(2)(a) of the rule. In the event the Commission were to deny the motion to approve the Settlement, PGS would reopen its books and records for 2016 and reflect the prior depreciation rates. Since TECO Energy's 10-K filing would not be submitted until February 10, 2017, the depreciation rates reflected on the company's books and records would be the rates approved by the Commission at the February 7, 2017 agenda.

8. Refer to Terms of the Settlement, Paragraph A. (4). For the years 2016 through 2020, please provide a spreadsheet of anticipated annual depreciation expense decreases (beginning in 2016 with $16,114,365, per Terms of the Settlement, A. (4)) and projected amortization of current/future MGP costs, and the net of these amounts.

A. The amortization of the current/future MGP costs would be dependent on several variables including actual remediation costs incurred, PGS' earnings within its allowed range and commitments related to the Settlement. The only known amortization expense amount would be at least the $21,054,253 existing regulatory asset balance that PGS has committed to amortize over 2016 and 2017. See also responses to Request No. 1 and No. 9 this set.

9. Refer to Terms of the Settlement, Paragraph B.(2). This paragraph reads "[a]mortization of at least $32,000,000 of the current/future MGP environmental liability (inclusive if the portion amortized in 2016 and 2017), to the extent expenses are reasonably and prudently incurred, over the period 2016 through 2020." Please elaborate on this specific provision of the Settlement Agreement. In particular, the obligations of the Company over the settlement term with respect to ·'[a]mortization <u>of at least</u> <u>$32,000,000</u> of the current/future MGP environmental liability" [emphasis added], bearing in mind the second clause of the passage cited above, "to the extent expenses are reasonably and prudently <u>incurred</u>" [emphasis added].

A. Peoples has agreed to amortize the $21,054,253 of the existing regulatory asset for the expenses that have already been incurred in 2016 and 2017. Peoples anticipates there will be additional remediation costs occurring at its various MGP sites, as reflected in the response to Data Request No. 1 and No. 3, and that at least $10,945,747 of those additional remediation expenses will be amortized during the period 2018-2020. If the anticipated remediation expenses are not incurred, Peoples would only be able to amortize the expenses up to the amount actually incurred.

10. Refer to Terms of the Settlement, Paragraph B.(4). How might the Commission determine that the annual accrual/amortization of MOP expense was not used by PGS to drive its ROE below the bottom of the authorized range in effect at the time of the accrual/amortization?

A. Peoples will continue to submit quarterly surveillance report filings. In the event that the company's ROE were to drop below the range agreed upon in the Settlement, the Commission could determine if the amortization of MGP expense resulted in the ROE falling below the allowed range by calculating the achieved ROE both with and without the amortization of MGP expense.

11. Refer to Terms of the Settlement, Paragraph B.(5). Please identify the public document reporting the currently estimated total MOP environmental expense of $54,992,330.

A. Tampa Electric's 2015 year-end 10-K filing (Peoples is a division of Tampa Electric) provides information on the total MGP environmental liability. Specifically, page 108 of the filing provides information on the then estimated future liability of $33.9 million, and page 138 contains the total environmental remediation amount of $54 million.

12. Refer to Terms of the Settlement, Paragraph B.(5). What is the status of the activities/efforts of PGS to recover MGP environmental expenses from other/past owners of the plant sites.

A. Three of the MGP sites being managed by PGS were owned/operated by entities other than PGS (or its predecessors) that would give rise to such claims. PGS has pursued and settled a claim against the only responsible party at the Jacksonville MGP site, and is currently pursuing claims against responsible parties at the Miami and Orlando sites. There are no other known responsible parties for PGS MGP sites other than the three named above.

13. Refer to Terms of the Settlement, Paragraph B.(1) and B.(5). Please identify any expected updates to the current and projected MGP remediation liability of $54,992,330.

A. Peoples has an environmental consulting firm review the status of each MGP site. The consultant provides a written report that is updated annually and is subject to change based on the understanding of impacts at each site. PGS anticipates the written report will be available within the next month.

14. Please refer to Terms of the Settlement, Paragraph C (proposed tariff language). Given the Commission's approval of the recovery of cast iron wrought iron, bare steel and assuming the Commission's approval of “specific polyethylene/plastic facilities,”· please explain why "…materials recognized/identified by the Pipeline Safety and Hazardous Material Administration as being obsolete and that present a potential safety threat to operations and the general public, including…" is language necessary to be included in PGS' tariff.

A. The proposed tariff language, showing in legislative format the changes proposed to the existing language, is set forth below:

> “Eligible Replacements” means the following Company plant investments that (i) do not increase revenues by directly connecting new customers to the plant asset, (ii) are in service and used and useful in providing utility service and (iii) were not included in the Company’s rate base for purposes of determining the Company’s base rates in its most recent general base rate proceeding:
>
> > Mains and service lines, as replacements for existing materials recognized/identified by the Pipeline Safety and Hazardous Materials Administration as being obsolete and that present a potential safety threat to operations and the general public, including, cast iron, wrought iron, and bare steel, and specific polyethylene/plastic facilities, and regulators and other pipeline system components the installation of which is required as a consequence of the replacement of the aforesaid facilities.

While the language “. . . materials recognized/identified by the Pipeline Safety and Hazardous Materials Administration as being obsolete and that present a potential safety threat to operations and the general public, including . . . “may not be “necessary” for purposes of describing the pipeline materials to be replaced, it does convey the purpose and intent of the rider. It is also the language on which PGS and OPC have agreed for purposes of implementing the “problematic plastic pipe” portion of the Settlement Agreement in this docket. The language could also be helpful in the future in avoiding the need to further amend this tariff provision to include new materials eligible to be replaced under the rider. If materials other than those specifically listed (*i.e.*, cast iron, wrought iron, bare steel, and specific polyethylene/plastic facilities) were in the future recognized/identified by PHMSA as being obsolete and as presenting a potential safety threat to the Company's operations and the general public, the Company would discuss with the Commission Staff and with the Office of Public Counsel before including replacements for such materials for cost recovery through the rider.

15. Please refer to Terms of the Settlement, Paragraph C (proposed tariff language). If the Pipeline Safety and Hazardous Material Administration determines that materials other than those specifically referred to in the proposed tariff (i.e. cast iron, wrought iron, bare steel, specific polyethylene/plastic facilities) are obsolete and present a potential safety threat to operations and the general public, are the other materials recoverable through the CI/BSR Rider? Please explain.

A. Yes. The rider states that the materials to be replaced are those recognized/identified by PHMSA as being obsolete and as presenting a potential safety threat to the Company's operations and the general public, "including" those specifically named in the rider. However, see Response to Request No. 14 this set.

16. Please refer to Terms of the Settlement, Paragraph C. (proposed tariff language) Describe in detail the facilities generally identified as ·"specific polyethylene/plastic facilities"?

A. The PHMSA has published Advisory Bulletins concerning the susceptibility of older plastic pipe and materials to premature brittle-like cracking. The bulletins identify these older materials as including, but not being limited to:

- Century Utility Products, Inc. Century Pipe
- Certain low-ductile inner wall "Aldyl A" piping Manufactured by Dupont.
- Polyethylene gas pipe designated PE 3306
- Delrin insert tap tees
- Plexco service tee Celcon (polyacetal) caps

17. Refer to Terms of the Settlement, Paragraph D which indicates that the bottom of the authorized range will be 9.25 percent for all regulatory purposes, and shall remain in effect until the earlier of (a) the effective date of base rates established in PGS's next general base rating proceeding, or (b) December 31, 2020. If PGS does not complete a general base rate case before December 31, 2020, what will the bottom of the range be after December 31, 2020?

A. 9.75 percent.

18. Refer to Terms of the Settlement, Paragraph E. What plan, if any, did PGS have to address MGP remediation liability and PPP replacements prior to the proposed Settlement in this docket?

A. Peoples has for well over two years been considering how to address both of these issues. With respect to the MGP remediation liability, and growing regulatory asset, the company was prepared to file a petition seeking approval of a surcharge to recover its MGP remediation expenses and to increase the amount of the annual accrual to the environmental reserve account. With respect to PPP, the company was prepared to seek Commission approval for inclusion of replacements for PPP in Rider CI/BSR. The discussions with the Office of Public Counsel with respect to the company's 2016 Depreciation Study enabled Peoples to reach agreement with OPC on both the MGP and PPP issues, thereby – if the Settlement Agreement is approved by the Commission – avoiding two additional proceedings before the Commission.