

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

In Re: Petition to include) DOCKET NO. 950612-GU
calculated historic cost of) ORDER NO. PSC-95-1024-FOF-GU
distribution assets acquired) ISSUED: August 18, 1995
from The Housing Authority of)
the City of Tampa in rate base)
by Peoples Gas System, Inc.)
_____)

The following Commissioners participated in the disposition of this matter:

SUSAN F. CLARK, Chairman
J. TERRY DEASON
JOE GARCIA
JULIA L. JOHNSON
DIANE K. KIESLING

NOTICE OF PROPOSED AGENCY ACTION
ORDER GRANTING PETITION TO INCLUDE CALCULATED
HISTORIC COST OF ACQUIRED DISTRIBUTION SYSTEM IN RATE BASE

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.

On May 31, 1995, Peoples Gas System (PGS) filed a petition to include the distribution assets acquired from the Housing Authority of the City of Tampa (Authority) in rate base. Peoples proposes to purchase from the Authority its underground pipeline distribution system located at six housing projects for the purchase price of ten dollars. The housing projects include: Robles Park Village, North Boulevard Homes, College Hill Homes, Central Park Village, Riverview Terrace and Tom Dyer Homes.

This Commission had approved previously another petition filed by PGS in which the circumstances were nearly identical in nature to those in the current petition. In that situation, the City of Jacksonville's Department of Housing and Urban Development (JHUD) wanted to remove itself from the gas utility operations so it could concentrate on administering government housing.

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FPSC-RECORDS/REPORTING

In its JHUD petition, PGS indicated that it paid ten dollars for the facilities. The book value of the system at the time of PGS' filing was estimated to be \$39,965. The costs necessary to bring the system in compliance with the safety code, changing the meters and converting the system to natural gas were \$69,650, which resulted in a total proposed addition to rate base of \$109,615. Based on the addition of 250 meter sets, the estimated amount of distribution plant per acquired customer was \$438.

By Order No. PSC-93-1833-FOF-GU, issued December 27, 1993, the Commission approved PGS' petition to include in rate base the historical book value of the underground propane pipeline distribution system purchased from JHUD. The Commission determined that the ratepayers of PGS would benefit from the acquisition because the estimated amount of distribution plant per acquired customer would be \$438 versus \$971 for PGS' existing customers. The addition of this plant would add revenues at a lower cost than if Peoples constructed a new system. The additional therms sales resulting from the new customers would allow PGS (in its next rate case) to spread its fixed overhead costs over a larger therm sales volume, thereby benefiting all of PGS' ratepayers. Also, we recognized that the operation of gas utilities is not the main area of expertise of government housing authorities.

More recently, on May 31, 1995, by Order No. PSC-0670-FOF-GU, the Commission approved a negative acquisition adjustment, in a similar petition by PGS, to include in rate base the historical book value of an underground pipeline distribution system purchased from the Daytona Beach Housing Authority (Docket No. 950236-GU).

Historical Value and Costs

The purchase of the underground gas pipeline distribution system from the Housing Authority of the City of Tampa (Authority) would add a total of 2,963 meters to People's natural gas system at an agreed purchase price of ten dollars. PGS requests permission to include in its regulated rate base the historical value of the Authority's system. The following are PGS's estimates of cost for inclusion in rate base:

Gross historical cost	\$508,560
Net accumulated depreciation	<u>(\$57,436)</u>
Historical cost of pipeline system	\$451,124
TOTAL	<u>\$451,124</u>

The estimated annual additional revenues from the system would be about \$389,000 a year. The addition of the Authority's existing pipeline system at its historical cost, with the applied depreciation, will add revenues at a lower cost than constructing new system. The additional revenues will be spread over fixed overhead costs in the next PGS rate case, thus benefiting all of their ratepayers.

The main area of expertise of the administrators of government housing authorities is not the operation of gas utilities. The Authority would like to be rid of its gas utility operation. PGS is in the business of distribution of gas and has professional expertise and skilled workers readily available to operate a safe and efficient system. Because PGS' operations are more efficient, the Authority's existing customers will benefit by receiving better service.

Based on the foregoing, we approve PGS's purchase of the Authority's pipeline system and the inclusion of the historical value in rate base.

Negative Acquisition Adjustment

Per the Uniform System of Accounts, purchased gas plant is to be recorded at its original cost (estimated, if not known). An acquisition adjustment represents the difference between the net book cost (original cost less accumulated depreciation) and the actual purchase price. If the purchase price exceeds the net book cost, a positive acquisition adjustment is recorded in Account 114, Gas Plant Acquisition Adjustments, and is amortized to Account 425, Miscellaneous Amortization, over a period not to exceed the estimated remaining life of the acquired property. Account 425 is a "below-the-line" account which is not included for either ratemaking or surveillance purposes. A negative acquisition adjustment occurs when the purchase price is less than the net book cost. The disposition of negative acquisition adjustments is left to the discretion of the Commission.

Because PGS' \$10 purchase price for the Authority's facilities, is less than the estimated net book cost of \$451,124, it results in a negative acquisition adjustment of \$451,114. The following discussion address the appropriate accounting treatment to be utilized.

The negative amount shall be recorded as a credit in Account 114, thereby reducing the amount of net plant recorded on PGS' balance sheet. As stated in PGS' petition, the total rate base increase is anticipated to be approximately \$451,124. Based on the

addition of 2,963 meter sets, the amount of distribution plant per acquired customer is \$152. Utilizing data from PGS' 1994 Annual Report, the embedded amount of distribution plant per existing customer is \$1,366. It would appear that the addition of the Authority's customers would be beneficial to PGS' existing ratepayers due to the lower than average embedded cost of distribution plant, the additional revenues and a larger base of therm sales to spread fixed costs over in the next rate case, thereby reducing the cost per therm.

We acknowledge that a specific accounting treatment of a negative acquisition adjustment is dependent on the particular facts associated with the transaction. The details of each such transaction are unique and the accounting treatment of any acquisition adjustment should be based on the merits of that particular case. Based on the facts and circumstances involved with this purchase, we find that the negative acquisition adjustment shall be amortized to Account 425 over a 12 month period beginning with the month during which the system is acquired. In addition, the negative acquisition adjustment and its related amortization shall not be included for ratemaking or earnings surveillance purposes.

Based on the foregoing, it is, therefore,

ORDERED by the Florida Public Service Commission that Peoples Gas System's Petition to include the calculated historic cost of the distribution assets acquired from the Housing Authority of the City of Tampa in rate base as described herein is approved. It is further

ORDERED that the accounting treatment of the negative acquisition adjustment shall be as described in the body of this Order. It is further

ORDERED that this Order shall become final and effective and this docket shall be closed unless an appropriate petition for formal proceedings is received by the Division of Records and Reporting, 2540 Shumard Oak Boulevard, Tallahassee, Florida 32399-0850, by the close of business on the date indicated in the Notice of Further Proceedings or Judicial Review.

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By ORDER of the Florida Public Service Commission, this 18th
day of August, 1995.

BLANCA S. BAYÓ, Director
Division of Records and Reporting

by: Kay Flynn
Chief, Bureau of Records

(S E A L)

SLE

DISSENT

Commissioner J. Terry Deason dissents on the negative
acquisition adjustment issue.

NOTICE OF FURTHER PROCEEDINGS OR JUDICIAL REVIEW

The Florida Public Service Commission is required by Section 120.59(4), Florida Statutes, to notify parties of any administrative hearing or judicial review of Commission orders that is available under Sections 120.57 or 120.68, 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 or judicial review will be granted or result in the relief sought.

The action proposed herein is preliminary in nature and will not become effective or final, except as provided by Rule 25-22.029, Florida Administrative Code. Any person whose substantial interests are affected by the action proposed by this order may file a petition for a formal proceeding, as provided by Rule 25-22.029(4), Florida Administrative Code, in the form provided by Rule 25-22.036(7)(a) and (f), Florida Administrative

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Code. This petition must be received by the Director, Division of Records and Reporting, 2540 Shumard Oak Boulevard, Tallahassee, Florida 32399-0850, by the close of business on September 8, 1995.

In the absence of such a petition, this order shall become effective on the day subsequent to the above date as provided by Rule 25-22.029(6), Florida Administrative Code.

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

If this order becomes final and effective on the date described above, any party substantially affected may request judicial review by the Florida Supreme Court in the case of an electric, gas or telephone utility or by the First District Court of Appeal in the case of a water or wastewater utility by filing a notice of appeal with the Director, Division of Records and Reporting and filing a copy of the notice of appeal and the filing fee with the appropriate court. This filing must be completed within thirty (30) days of the effective date of this order, pursuant to Rule 9.110, Florida Rules of Appellate Procedure. The notice of appeal must be in the form specified in Rule 9.900(a), Florida Rules of Appellate Procedure.