

State of Florida



Public Service Commission

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COMMISSION CLERK

DATE: NOVEMBER 7, 2002

TO: DIRECTOR, DIVISION OF THE COMMISSION CLERK
ADMINISTRATIVE SERVICES (BAYO)

FROM: DIVISION OF ECONOMIC REGULATION (E. BASS, P. LEE)
OFFICE OF THE GENERAL COUNSEL (JAEGER)

EB *PSX* *JS* *DM*
JDJ *TJG*

RE: DOCKET NO. 021014-GU - PETITION FOR APPROVAL TO AMORTIZE
GAIN ON SALE OF PROPERTY BY FLORIDA PUBLIC UTILITIES
COMPANY.

AGENDA: 11/19/02 - REGULAR AGENDA - PROPOSED AGENCY ACTION -
INTERESTED PERSONS MAY PARTICIPATE

CRITICAL DATES: NONE

SPECIAL INSTRUCTIONS: NONE

FILE NAME AND LOCATION: S:\PSC\ECR\WP\021014.RCM

CASE BACKGROUND

On July 11, 2002, Florida Public Utilities Company (FPUC) sold property located in Deland, Florida, consisting of land, and an office and outbuildings. The office was used primarily as a customer service location for jurisdictional and non-jurisdictional gas operations. The outbuildings were used as small storage facilities. On October 1, 2002, FPUC filed a petition for approval to amortize the gain on the sale of the property over a five-year period, beginning August 1, 2002. Staff has completed its review and presents its recommendation herein.

DOCUMENT NUMBER-DATE

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DISCUSSION OF ISSUES

ISSUE 1: Should FPUC's request to amortize the net gain associated with the sale of property consisting of land, and an office and outbuilding over a five-year period be approved?

RECOMMENDATION: Yes. Staff recommends that the net gain of \$186,110 (\$158,194 jurisdictional) be amortized over five years beginning August 1, 2002. Further, staff recommends that \$97,524 of the sale proceeds be recorded as gross salvage to recover the net unrecovered amount of the associated office and outbuildings. (E. BASS, P. LEE)

STAFF ANALYSIS: The sales price of the property was \$325,000 with associated cost of sales of \$37,595. The book value of the land is \$3,771. The investment and related reserve associated with the office and outbuildings are \$178,964 and \$81,440, respectively. Staff recommends that \$97,524 of the sales proceeds be recorded as gross salvage to recover the net unrecovered amount of the associated office and outbuildings. The resulting net gain is \$186,110.

Since the property was used for both jurisdictional natural gas operations and non-jurisdictional program operations, a portion of the net gain should be allocated to each. Consistent with FPUC's last rate proceeding by Order No. PSC-95-0518-FOF-GU, issued April 26, 1995, in Docket No. 940620-GU, the allocation based on number of customers, is 85 percent jurisdictional and 15 percent non-jurisdictional. This results in a jurisdictional net gain of \$158,194 from the sale as shown below.

Sales Price	\$325,000
Less: Cost of Sales	<u>37,595</u>
Net Proceeds	\$287,405
Less: Cost of Land	3,771
Less: Unrecovered Amount of Building	<u>97,524</u>
Net Gain	<u>\$186,110</u>
Jurisdictional (85%)	\$158,194
Non-Jurisdictional (15%)	\$ 27,916

Although it is not unusual for a utility to dispose of real property and realize a gain, it is not part of the normal operations and is generally non-recurring.

Staff believes there are several alternatives available to the Commission in determining the appropriate disposition of gains on the sales of property. One alternative is the historical practice to amortize the net gain over a period of five years. (See Order Nos. PSC-97-1609-FOF-EI and PSC-98-0451-FOF-EI, issued December 22, 1997 and March 30, 1998, respectively, in Docket No. 970537-EI; Order No. PSC-01-0316-PAA-GU, issued February 5, 2001, in Docket No. 000768-GU; and Order No. PSC-02-1159-PAA-GU, issued August 23, 2002, in Docket No. 020521-GU) A second alternative would be to apply the gain to reduce or eliminate regulatory assets, such as debt refinancing costs or other deferred expenses. A third alternative would be to set aside the gain in a reserve account for costs, such as environmental clean-up or storm damage. A fourth alternative would be to apply the gain to correct identified depreciation reserve deficits.

Regarding the first alternative, a benefit realized by amortizing a gain may be deferral of a revenue rate proceeding. Applying a gain to reduce or eliminate regulatory assets or reserve deficits is advantageous from the perspective of mitigating past deferrals. Regulatory assets relate to prior period expenses for which recovery is deferred to future periods. Historical reserve deficiencies represent past projections of life and salvage not matching actual activity or growth. Applying a gain to prior period deferrals mitigates past deficiencies and has the benefit of lowering future revenue requirements.

In the instant proceeding, staff reviewed FPUC's annual report for possible regulatory assets that could benefit from the gain. The annual report reflects deferred costs related to reacquired debt, piping allowances, and gas conversion expenses.

The loss on reacquired debt is representative of all FPUC operations (electric, gas, water, and non-regulated). While an amount can be attributed to gas operations it represents nothing more than an allocation based on the company's rate base. Because the allocation of these debt refinancing costs changes as rate base changes staff does not believe that applying the gain to these debt refinancing costs is appropriate.

Piping allowances and gas conversion expenses relate to costs incurred by the company to provide incentives to builders or homeowners in converting to gas appliances. These costs are incurred annually and are amortized over a seven year and five year period, respectively. Because these expenses are on-going staff does not believe that applying the instant gain to these deferred costs is appropriate.

The company believes that its environmental clean-up reserve is adequate as it relates to future operations. Therefore, staff does not believe that applying the gain to the environmental clean-up reserve account is appropriate.

The last depreciation review identified reserve deficiencies in the steel services account which could benefit from the subject net gain. The next comprehensive depreciation review for FPUC is due to be submitted on or before March 10, 2004, in accordance with Rule 25-4.0175(8)(a), Florida Administrative Code. This will reflect the first review of the overall capital recovery position that includes the effects of the acquired distribution assets of South Florida Natural Gas.

Staff believes that where the Commission contemplates a change in a practice, procedure, or policy that has been consistently employed in the past with regard to a certain matter, the change should be fully justified and a showing made as to why the change is the better course of action. As discussed above, the historical practice regarding the disposition of gains has been to amortize the gain over a period of five years. However, staff recognizes there are alternatives to the current practice that may be more beneficial depending on the particular facts and circumstances of the given case. These alternatives are the subject of on-going review by staff.

In the instant proceeding, staff believes that either amortizing the gain over five years or applying the gain to offset the identified reserve deficiency in the steel services account are the most advantageous alternatives available. While there are benefits associated with either alternative as delineated above, staff believes the better option is to hold the status quo, given the on-going staff review of the issue. Therefore, staff recommends that the instant gain be amortized over five years, beginning August 1, 2002.

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ISSUE 2: Should this docket be closed?

RECOMMENDATION: If no person whose substantial interests are affected by the proposed agency action files a protest within 21 days of the issuance of the order, this docket should be closed upon the issuance of a consummating order. (JEAGER)

STAFF ANALYSIS: At the conclusion of the protest period, if no protest is filed, this docket should be closed upon the issuance of a consummating order.