

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

In re: Petition for approval to
amortize gain on sale of
property by Florida Public
Utilities Company.

DOCKET NO. 021014-GU
ORDER NO. PSC-02-1727-PAA-GU
ISSUED: December 9, 2002

The following Commissioners participated in the disposition of
this matter:

LILA A. JABER, Chairman
J. TERRY DEASON
BRAULIO L. BAEZ
MICHAEL A. PALECKI
RUDOLPH "RUDY" BRADLEY

NOTICE OF PROPOSED AGENCY ACTION
ORDER APPROVING PETITION TO AMORTIZE GAIN ON SALE

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.

BACKGROUND

On July 11, 2002, Florida Public Utilities Company (FPUC or
utility) 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.

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13427 DEC-98

FPSC-02-1727-PAA-GU CLERK

PETITION

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. Taking the difference between those two amounts, \$97,524 of the sales proceeds shall be recorded as gross salvage to recover the net unrecovered amount of the associated office and outbuildings. The resulting net gain is \$186,110.

Because 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><u>\$186,110</u></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.

We note that there are several alternatives available to us 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, a review of FPUC's annual report for possible regulatory assets that could benefit from the gain shows that there are 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, we do 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, we do 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, we do 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.

When we contemplate a change in a practice, procedure, or policy that has been consistently employed in the past with regard to a certain matter, we believe 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, 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 our staff and this Commission.

In the instant proceeding, we find 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, we find that the instant gain shall be amortized over five years, beginning August 1, 2002.

While we find that this is the best alternative at this time, our staff shall monitor the unamortized balance through the

comprehensive depreciation review and consider any change in circumstance which may warrant further consideration by this Commission. The utility is put on notice that this comprehensive depreciation review and subsequent review by the Commission may dictate a different treatment of any unamortized portion of the gain.

Based on the foregoing, it is

ORDERED by the Florida Public Service Commission that the petition of Florida Public Utilities Company to amortize the gain on sale of the delineated property over a five-year period is approved as set forth in the body of 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 the Director, Division of the Commission Clerk and Administrative Services, 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 Florida Public Utilities Company shall be put on notice that upon the next comprehensive depreciation review for this utility which is due to be submitted on or before March 10, 2004, and subsequent review by this Commission, a different treatment of any unamortized portion of the gain may be required. It is further

ORDERED that in the event this Order becomes final, this docket shall be closed upon the issuance of a consummating order.

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By ORDER of the Florida Public Service Commission this 9th day
of December, 2002.

BLANCA S. BAYÓ, Director
Division of the Commission Clerk
and Administrative Services

By: Kay Flynn
Kay Flynn, Chief
Bureau of Records and Hearing
Services

(S E A L)

RRJ

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,

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in the form provided by Rule 28-106.201, Florida Administrative Code. This petition must be received by the Director, Division of the Commission Clerk and Administrative Services, 2540 Shumard Oak Boulevard, Tallahassee, Florida 32399-0850, by the close of business on December 30, 2002.

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.