

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

In Re: Petition to include) DOCKET NO. 950236-GU
calculated historic cost of) ORDER NO. PSC-95-0670-FOF-GU
distribution assets acquired and) ISSUED: May 31, 1995
to be acquired from Daytona)
Beach Housing Authority 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 HISTORICAL COST 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 February 28, 1995, Peoples Gas System, Inc. (PGS) filed a petition to include the calculated historical cost of distribution assets acquired from the Daytona Beach Housing Authority in rate base. PGS proposes to purchase the Daytona Beach Housing Authority (DBHA) underground pipeline distribution system located at 5 public housing projects, Halifax Park, Carolyn Village, Palmetto Park, South Street and Bethune Village.

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. PGS had agreed to purchase the underground propane pipeline distribution system at an

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actual cost of ten dollars. PGS petitioned the Commission to include in rate base the historical book value of the underground propane pipeline distribution system.

The book value of the JHUD system at the time of the 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.

In Order No. PSC-93-1833-FOF-GU, issued December 27, 1993, we recognized that the main area of expertise of government housing authorities is not the operation of gas utilities. We determined that the ratepayers of PGS would benefit from the acquisition because: (1) the estimated amount of distribution plant per acquired customer would be \$438 versus \$971 for PGS' existing customers; (2) the addition of the plant would add revenues at a lower cost than constructing a new system; and (3) the additional therm 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.

Historical Value and Costs

Similarly, the purchase of the gas pipeline distribution system from DBHA would add a total of 729 meters to PGS's natural gas system at an agreed purchase price of ten dollars. PGS requests authority to include in its regulated rate base the historical value and other costs related to adding this system. The following are PGS's estimates of cost for inclusion in rate base:

Gross historical cost	\$502,728
Net accumulated depreciation	<u>(\$224,788)</u>
Historical cost of pipeline system	\$277,940
Meter changeout	<u>10,000</u>
TOTAL	<u>\$287,940</u>

The estimated annual additional revenues from the system would be about \$136,000 a year. The addition of the DBHA existing pipeline system at its respective historical cost, with the applied depreciation, would add revenues at a lower cost than constructing a new system. Also, the additional revenues would be spread over fixed overhead costs in the next PGS rate case, thus benefiting all of the company's ratepayers.

As we noted earlier, administering the operation of gas utilities is not the main area of expertise of government housing authorities. DBHA would like very much 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 existing customers of DBHA will benefit by receiving better service. Based on the foregoing, we approve PGS's purchase of the DBHA pipeline system as described above and the inclusion of the historical value plus related costs in rate base.

Negative Acquisition Adjustment

Per the Uniform System of Accounts, purchased gas plant is to be recorded at its original cost. 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.

Because PGS' \$10 purchase price for the DBHA system is less than the estimated net book cost of \$277,940, it results in a negative acquisition adjustment of \$277,930. Since the disposition of negative acquisition adjustments is left to the discretion of the Commission, the following discussion addresses 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 \$287,940 including the conversion costs. Based on the addition of 729 meter sets, the amount of distribution plant per acquired customer is \$395. Utilizing data from Peoples' 1994 Annual Report, the embedded amount of distribution plant per existing customer is \$1,366. It appears that the addition of the DBHA customers will 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.

We acknowledge that a specific accounting treatment of a negative acquisition adjustment is dependent on the particular facts associated with a transaction. The details of each such transaction are unique and the accounting treatment of any acquisition adjustment must be based on the merits of that particular case. Based on our previous discussion of the circumstances of this specific transaction, 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, Inc.'s petition for purchase of the Daytona Beach Housing Authority's gas distribution system as described herein is approved. It is further

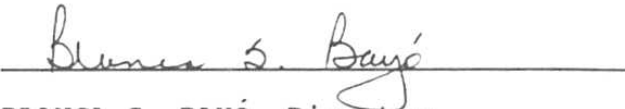
ORDERED that the historical cost of the purchased system including other costs as noted herein shall be included in rate base. It is further

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 31st
day of May, 1995.


BLANCA S. BAYÓ, Director
Division of Records and Reporting

(S E A L)

SLE

DISSENT

Commissioner J. Terry Deason dissents.

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 Code. This petition must be received by the Director, Division of

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Records and Reporting, 2540 Shumard Oak Boulevard, Tallahassee, Florida 32399-0850, by the close of business on June 21, 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.