

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

In re: Petition for approval to create regulatory subaccount of meter installation to capitalize all incurred and future costs associated with installation of encoder receiver transmitters (ERTs) under provisions of Statement of Financial Accounting Standard No. 71, Accounting for the Effects of Certain Types of Regulation (SFAS 71); and requesting depreciation of installation costs of ERTs over 15-year period beginning January 1, 2008, by Florida City Gas.

DOCKET NO. 080163-GU
ORDER NO. PSC-08-0623-PAA-GU
ISSUED: September 24, 2008

The following Commissioners participated in the disposition of this matter:

MATTHEW M. CARTER II, Chairman
LISA POLAK EDGAR
KATRINA J. McMURRIAN
NANCY ARGENZIANO
NATHAN A. SKOP

NOTICE OF PROPOSED AGENCY ACTION
ORDER ESTABLISHING REGULATORY SUBACCOUNT FOR THE
INSTALLATION OF ENCODER RECEIVER TRANSMITTERS

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 (F.A.C.).

Background

Pursuant to Rule 25-7.045(3)(a), F.A.C., gas utilities are required to maintain depreciation rates and accumulated depreciation reserves in accounts or subaccounts as prescribed in Rule 25-7.046, F.A.C. Rule 25-7.045(3)(b), F.A.C., further provides that “[u]pon establishing a new account or subaccount classification, each utility shall request Commission approval of a depreciation rate for the new plant category.” On March 18, 2008, Florida City Gas (FCG) filed its petition to establish depreciation rates for its Encoder Receiver Transmitter (ERT) installation costs. The devices are used for automated meter reading by radio signal.

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FCG requests to establish a new subaccount classification for capitalization of previously incurred and future installation costs of the ERTs.

On July 10, 2008, FCG filed a letter discussing the reasons it believes its petition should be granted, specifically with regard to capitalization of installation costs that were expensed in 2006 and 2007. We have jurisdiction in this matter pursuant to Sections 366.04, 366.05, and 366.06, Florida Statutes (F.S.).

Capitalization of ERT Installation Costs

FCG began the installation of ERT devices in its Port St. Lucie (PSL) service area in January 2006. FCG states that since that time, it has installed 7,811 ERT devices in the PSL service area. Further, in 2007, FCG began ERT installations in the Miami area, with 39,669 ERT devices installed as of February 2008. Additionally, all new meters installed in any area are fitted with an ERT device before installation. FCG states that its goal is to install ERT devices on all FCG meters by the end of 2009. As of February 29, 2008, there are 23,211 meters in Miami and 42,902 meters in Brevard that are still awaiting an ERT device.

Since January 2006, FCG has expensed the costs to install ERTs on existing meters, while capitalizing the cost of the ERT equipment and including such costs in the meters account. FCG is requesting that a new subaccount of ERT installation costs be created to capture the installation expenses as capitalized costs, including those that were previously expensed. FCG expensed installation costs of \$142,821 in 2006 and \$302,372 in 2007. The total installation costs to add ERTs or replace non-compatible meters are estimated to be approximately \$2.3 million. The four-year overall project has an estimated cost of \$8.4 million. The installation costs that were previously expensed total approximately 5 percent of the projected project cost.

Pursuant to Rule 25-7.0461, F.A.C., a minor item that is added can be treated in the same manner as an addition of a retirement unit. All depreciable property is comprised of retirement units and minor items. A retirement unit is an item that is capitalized. When a minor item constitutes a betterment, which may make the item more efficient, the cost should be charged to the appropriate plant account. The rule requires that such minor items have a cost of more than \$500 to receive this treatment. Although each individual ERT in this case has a cost of less than \$500, the four-year overall project has an estimated cost of \$8.4 million. We believe it is appropriate, given the magnitude of the project, to capitalize the costs, including the installation costs.

On July 10, 2008, FCG filed a letter discussing the reasons it believes its petition should be granted, specifically with regard to capitalization of installation costs that were expensed in 2006 and 2007. We are not persuaded by FCG's arguments that retroactive capitalization of previously expensed costs should be allowed. If these costs are allowed to be capitalized, previously filed financial statements would have to be restated to reflect the change in accounting methodology. This treatment would also increase rate base and may result in higher rates in the future for the company's ratepayers. When depreciation studies are filed pursuant to Rule 25-7.045, F.A.C., the requested effective date for the implementation of the revised depreciation rates is either the beginning of the same fiscal year during which the study is filed

or a later date. This requirement discourages the retroactive application of the revised depreciation rates to prior fiscal years. Although FCG submits as an alternative that it would be willing to accept retroactive capitalization of 2007 costs and forego the 2006 amounts, the treatment has the same impact, albeit for one year instead of two.

While we agree that benefits will arise from the use of ERTs, such as improvements to the billing process, increased operating efficiency, and improved customer service, we do not believe that is justification for the retroactive prior period application. FCG had ample opportunity to ask for the requested accounting treatment when it began to add ERTs in January 2006. FCG first contacted this Commission about this matter on January 31, 2005, stating that it was making improvements to its meter sets by installing ERTs. Subsequently, our staff provided the company with a copy of Rule 25-7.0461, F.A.C., titled Capitalization Versus Expensing, advising that the company should contact our staff if it had further questions. The subject of ERTs arose again on October 3, 2006, when FCG filed testimony with its request for approval of an acquisition adjustment, stating that the ERTs costs were not an ongoing expense, but was for a project that would benefit FCG. As late as May 2007, FCG stated in response to a data request that, because the amounts associated with ERTs were expensed and not capitalized, “. . . there are no life parameters or depreciation methodologies associated with these costs.”

FCG states in its July 10, 2008 letter that it “has been unable to identify an absolute prohibition on revised accounting treatment applied for prior years.” Our staff asked the company in a meeting on June 30, 2008, whether it was aware of any cases in which this Commission allowed such retroactive treatment. FCG’s response to that question contained in its letter is that “FCG does not deny that such treatment is not common, nor should it be.” We believe the very absence of such cases is significant, and that a company would have to demonstrate compelling reasons to change its accounting retroactively, several years after the fact.

FCG states that retroactive capitalization of the installation costs will not cause FCG to exceed its authorized return on equity (ROE). The authorized ROE midpoint is 11.25 percent with a range of 10.25 percent to 12.25 percent. Based on our analysis, if the 2006 ERT expenditures of \$142,821 had not been expensed in 2006, FCG’s achieved return on equity (ROE) would have increased from 10.67 percent to 10.85 percent, an 18 basis point increase. If the 2007 ERT expenditures of \$302,372 had not been expensed in 2007, FCG’s achieved ROE would have increased from 7.06 percent to 7.38 percent, a 32 basis point increase. We note that both the 7.06 percent and the 7.38 percent ROEs include the amortization of the acquisition adjustment and regulatory assets approved in Docket No. 060657-GU.¹ Excluding the authorized acquisition adjustment amortization for 2007, the achieved ROE would be 11.75 percent including the ERT expenditures and 12.11 percent excluding the ERT expenditures.

FCG states that Florida Power & Light Company (FPL) accounts for its ERTs in an identical manner, advising that the accounting treatment was approved in FPL’s 2005

¹ Order No. PSC-07-0913-PAA-GU, issued November 13, 2007, in Docket No. 060657-GU, In re: Petition for approval of acquisition adjustment and recognition of regulatory asset to reflect purchase of Florida City Gas by AGL Resources, Inc.

depreciation study.² Thus, FCG notes that approval of its accounting treatment is not a case of first impression, due to the FPL case. However, we note that the FPL case was resolved through a settlement, so we did not vote directly on the ERT issue. Further, unlike FCG, FPL requested its accounting treatment in advance, as part of its depreciation study, and did not ask for retroactive treatment.

FCG argues that to deny its request to capitalize costs that were previously expensed would put an inequitable burden on its shareholders for costs which benefitted the ratepayers. However, this argument does not apply, because we are not stating that the costs be disallowed. Rather, FCG made a decision to expense the costs during the years they were incurred. In cases where there is inequitable treatment, we may want to consider a retroactive change; however, as previously noted, such instances would be rare. We believe that it is appropriate to consider any such requests on a case-by-case basis.

In conclusion, we find that FCG's request to capitalize its ERT installation costs has merit, due to the magnitude of the project and the benefits to be realized. Nevertheless, in this instance, we find that it is appropriate to grant the request on a prospective basis only. Therefore, the installation costs of ERTs on existing meters shall be capitalized beginning January 1, 2008. Installation costs that were expensed prior to 2008 shall not be capitalized.

Establishment of Subaccount

FCG proposed a 15 year average service life for its ERTs. FCG currently records meter installations in Account 382. We find that it is appropriate to establish Account 382.1 to capture the cost of the ERT installations.

We believe the proposed life of 15 years is appropriate for 2008. The average remaining life of FCG's meters is approximately 15 years. The ERT equipment is included in that account at this time. Therefore, we believe it is appropriate to have a matching life for the installations.

Pursuant to Rule 25-7.045(8)(a), F.A.C., a gas utility is required to file a depreciation study for our review at least once every five years. Our staff is reviewing FCG's most recent study, which will be used to establish depreciation rates effective January 1, 2009. This will afford our staff and FCG opportunities to review the depreciation rate for the ERT Installations in the context of the meters and retirements of meters resulting from incompatibility.

Therefore, we find that Account 381.2, ERT Installations, shall be established with a 15-year average service life, and a resulting depreciation rate of 6.7 percent for the ERTs.

²Order No. PSC-05-0902-S-EI, issued September 14, 2005, in Docket No. 050188-EI, In re: 2005 comprehensive depreciation study by Florida Power & Light Company.

Based on the foregoing, it is

ORDERED by the Florida Public Service Commission that Florida City Gas' request to create a regulatory subaccount for its encoder receiver transmitters is hereby approved as set forth herein. It is further

ORDERED that Florida City Gas' request to capitalize installation costs associated with the addition of its encoder receiver transmitters is hereby approved as set forth herein. It is further

ORDERED that Account 382.1, ERT Installations, shall be established with a 15 year average life, and a resulting depreciation rate of 6.7 percent for Florida City Gas' encoder receiver transmitters. It is further

ORDERED that the implementation of the new depreciation rate shall be effective on January 1, 2008. 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 Commission Clerk, 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 in the event this Order becomes final, this docket shall be closed.

By ORDER of the Florida Public Service Commission this 24th day of September, 2008.



ANN COLE
Commission Clerk

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KEF

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, in the form provided by Rule 28-106.201, Florida Administrative Code. This petition must be received by the Office of Commission Clerk, 2540 Shumard Oak Boulevard, Tallahassee, Florida 32399-0850, by the close of business on October 15, 2008.

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.