

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

In Re: Petition by Peoples Gas) DOCKET NO. 930883-GU
System, Inc. to include in rate) ORDER NO. PSC-93-1833-FOF-GU
base the calculated historic) ISSUED: December 27, 1993
cost and cost of conversion of)
distribution assets.)
_____)

The following Commissioners participated in the disposition of this matter:

J. TERRY DEASON, Chairman
SUSAN F. CLARK
JULIA L. JOHNSON
DIANE K. KIESLING
LUIS J. LAUREDO

NOTICE OF PROPOSED AGENCY ACTION

ORDER AUTHORIZING ACCOUNTING TREATMENT

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 adversely affected files a petition for a formal proceeding, pursuant to Rule 25-22.029, Florida Administrative Code.

Peoples Gas System, Inc. (Peoples) proposed purchasing an underground propane pipeline distribution system located at the Pottsburg Apartments housing project (the Pottsburg system) from the City of Jacksonville's Department of Housing and Urban Development (JHUD). The agreed purchase price is ten dollars. Peoples petitioned the Commission for approval to include in regulated rate base the historical net value and other costs of adding the acquisition to Peoples' natural gas system. Peoples estimates the following costs for inclusion in rate base:

Historical net cost of pipeline system	\$39,965
Repairs for safety code compliance	1,900
Meter changeout	26,500
Conversion from propane to natural gas cost	<u>41,250</u>
TOTAL	<u>\$109,615</u>

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Peoples estimates it will receive annual revenues of \$45,600 from the purchase. Under Peoples' tariff, these projected revenues make it feasible to construct new distribution facilities. The addition of an existing pipeline system at the 1972 historical cost, with its applied depreciation, will add revenues at a lower cost than constructing a new system.

While the purchase of underground propane distribution systems by natural gas utilities is not unusual, this situation is distinctive because of the small amount paid for the assets compared to the estimated historical book value. According to the Uniform System of Accounts, purchased gas plant is to be recorded at original cost, estimated if not known. An acquisition adjustment represents the difference between 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.

Peoples and JHUD have agreed to a purchase price of \$10. Since the \$10 purchase price is less than the estimated net book cost of \$39,965, a negative acquisition adjustment of \$39,955 results. If required to recognize the negative acquisition amount, Peoples would record the assets acquired at \$10. The alternative would be to not recognize the negative acquisition. In the alternative case, Peoples would record the assets acquired at \$39,965.

Peoples has petitioned the Commission for approval to record the historical book value of \$39,965 (plus related conversion costs) instead of the \$10 purchase price (plus related conservation costs). The following reasons provide the basis of our decision to allow Peoples to record the estimated historical book value of \$39,965 plus associated conversion costs.

We recognize the operation of gas utilities is not the main area of expertise of government housing authorities. JHUD is desirous of passing on the responsibility of maintaining and

operating the Pottsburg system. Because Peoples is in the business of distributing gas, it has the professional and safety expertise and personnel necessary to operate a safe and efficient system. The Pottsburg customers are presently served by propane gas at a cost approximately twice the cost of natural gas supplied by Peoples. The Pottsburg customers will receive better service and much lower gas utility costs when Peoples takes over the system.

By allowing Peoples to record the purchase of the Pottsburg system at the historical book cost instead of the actual purchase price, we shall send a positive signal to Peoples and other regulated natural gas utilities to seek acquisition of other government-owned housing authorities' gas systems. Future acquisitions will experience better service and safety, possibly at a lower cost, and will add new revenues which would benefit Peoples and other natural gas utilities' existing natural gas customers. It appears that the addition of the Pottsburg customers shall benefit Peoples' 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.

Because of the benefits that will result from Peoples' purchase of the Pottsburg system, we approve its petition to include the calculated historical net cost and future conversion costs of distribution costs in rate base. Based on the facts and circumstances involved with this purchase, the negative acquisition adjustment shall be amortized to Account 425 over a 12 month period beginning with the month the system is acquired. In addition, the negative acquisition adjustment and its related amortization shall not be included for ratemaking or rate of return surveillance purposes. We authorize this accounting treatment based on the particular facts associated with this transaction. The details of each system acquisition are unique and the accounting treatment of any acquisition adjustment shall be based on the merits of that particular case.

It is, therefore,

ORDERED that the accounting treatment discussed above is authorized for Peoples Gas System, Inc.'s purchase of the Pottsburg Apartments housing project from the City of Jacksonville's Department of Housing and Urban Development. It is further

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ORDERED that this Order shall become final and this docket shall be closed unless an appropriate petition for formal proceeding is received by the Division of Records and Reporting, 101 East Gaines Street, Tallahassee, Florida 32399-0870, by the close of business on the date indicated in the Notice of Further Proceedings or Judicial Review.

By ORDER of the Florida Public Service Commission, this 27th day of December, 1993.



STEVE TRIBBLE, Director
Division of Records and Reporting

(S E A L)
MAH:bmi

Chairman Deason dissented.

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 Records and Reporting at his office at 101 East Gaines Street, Tallahassee, Florida 32399-0870, by the close of business on January 17, 1994.

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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 adversely 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.