

M E M O R A N D U M

OCTOBER 12, 1998

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RECORDS AND  
REPORTING

TO: DIVISION OF RECORDS AND REPORTING

FROM: DIVISION OF LEGAL SERVICES (C. KEATING) *WCK RVE*

RE: DOCKET NO. 980723-GU - PETITION FOR APPROVAL OF  
ACCOUNTING METHODOLOGY FOR YEAR 2000 COSTS BY CITY GAS  
COMPANY OF FLORIDA

*FSC-98-1379-FOF-GU*

Attached is a NOTICE OF PROPOSED AGENCY ACTION - ORDER  
CONCERNING ACCOUNTING TREATMENT FOR YEAR 2000 COSTS to be issued in  
the above-referenced docket. (Number of pages in order - 4)

WCK/js  
Attachment  
cc: Division of Electric and Gas (Mills)  
Division of Auditing and Financial Analysis (Slemkewicz, Lee)  
I:980723or.wck

*see 1, 2*

*1 fax*

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

In re: Petition for approval of  
accounting methodology for Year  
2000 costs by City Gas Company  
of Florida.

DOCKET NO. 980723-GU  
ORDER NO. PSC-98-1379-FOF-GU  
ISSUED: October 13, 1998

The following Commissioners participated in the disposition of  
this matter:

JULIA L. JOHNSON, Chairman  
J. TERRY DEASON  
SUSAN F. CLARK  
JOE GARCIA  
E. LEON JACOBS, JR.

NOTICE OF PROPOSED AGENCY ACTION  
ORDER CONCERNING ACCOUNTING TREATMENT FOR YEAR 2000 COSTS

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 June 9, 1998, City Gas Company of Florida (City Gas) filed a petition for approval to defer expenses incurred in the remediation of in-house data processing systems to Year 2000 compatibility and to amortize those expenses over a five-year period. NUI Corporation (NUI), of which City Gas is an operating division, has undertaken a program of remediation, replacement, and testing to address Year 2000 computer issues. The estimated cost to be incurred by NUI through September 30, 1998, is \$909,888 with \$200,175 being allocated to City Gas. The regulated portion of the \$200,175 that City Gas seeks deferral and amortization of is \$161,960.

According to the petition, NUI has incurred various capital expenditures and operating expenses in addressing Year 2000 compatibility issues. In some instances, programs and applications have been replaced and the costs capitalized. Computer hardware has also been assessed and any non-compliant hardware will be replaced and capitalized. The sole issue before this Commission is

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the accounting treatment of the expenses for the remediation of in-house developed systems that will not be replaced.

Under normal accounting practices, City Gas would be required to expense these costs as incurred. However, given the circumstances in this case, we believe that deferral and amortization of these expenses is reasonable. In particular, we note that City Gas is currently experiencing depressed earnings. City Gas' authorized return on equity (ROE) midpoint is 11.30%, while its earned ROE is only 6.71%, according to its June 1998 surveillance report.

We find that City Gas's petition, with three modifications/clarifications, should be approved. First, our approval is limited to the actual costs incurred as of September 30, 1998. City Gas is directed to file a separate petition if it desires to defer and amortize any additional Year 2000 costs incurred after September 30, 1998. Second, as a condition of our approval, City Gas shall begin annual amortization of the approved costs in its current fiscal year of October 1, 1997, through September 30, 1998. Third, we approve a three-year amortization period rather than the five-year period requested by City Gas. We believe that a three-year period more closely matches the purpose for these particular expenditures, i.e., remediation costs for the Year 2000. Using a three-year amortization period, these costs will be fully amortized by September 30, 2000.

Based on the foregoing, it is

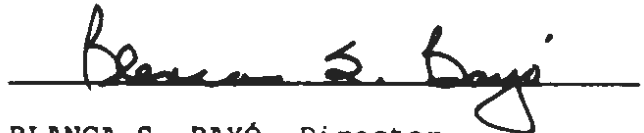
ORDERED by the Florida Public Service Commission that City Gas Company of Florida's petition for approval to defer and amortize expenses incurred in the remediation of in-house data processing systems to Year 2000 compatibility is granted, as modified and clarified in the body of this Order. It is further

ORDERED that the provisions of this Order, issued as proposed agency action, shall become final and effective unless an appropriate petition, in the form provided by Rule 28-106.201, Florida Administrative Code, is received by the Director, Division of Records and Reporting, 2540 Shumard Oak Boulevard, Tallahassee, Florida 32399-0850, by the close of business on the date set forth in the "Notice of Further Proceedings or Judicial Review" attached hereto. It is further

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ORDERED that in the event this Order becomes final, this Docket shall be closed.

By ORDER of the Florida Public Service Commission this 13th day of October, 1998.



BLANCA S. BAYÓ, Director  
Division of Records and Reporting

( S E A L )

WCK

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 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.

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 Director, Division of Records and Reporting, 2540 Shumard Oak Boulevard, Tallahassee, Florida 32399-0850, by the close of business on November 3, 1998.

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In the absence of such a petition, this order shall become effective on the day subsequent to the above date.

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.