

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

In re: Petition for approval of amortization rate for Starnik customer information system and other software accounting adjustments, by Florida City Gas.

DOCKET NO. 20200191-GU
ORDER NO. PSC-2020-0489-PAA-GU
ISSUED: December 11, 2020

The following Commissioners participated in the disposition of this matter:

GARY F. CLARK, Chairman
ART GRAHAM
JULIE I. BROWN
DONALD J. POLMANN
ANDREW GILES FAY

NOTICE OF PROPOSED AGENCY ACTION
ORDER APPROVING AMORTIZATION RATE FOR
STARNIK CUSTOMER INFORMATION SYSTEM AND
OTHER SOFTWARE ACCOUNTING ADJUSTMENTS
FOR FLORIDA CITY GAS

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

On August 6, 2020, Florida City Gas (FCG or Company) filed a request for approval of amortization rate for Starnik customer information system (CIS) and other software accounting adjustments (Petition). The Company's request is in accordance with Section 366.115, Florida Statutes (F.S.), and Rules 25-7.045(2)(a) and 25-7.045(3)(b), Florida Administrative Code (F.A.C.), which require that: (i) "[n]o utility shall change any existing depreciation rate or initiate any new depreciation rate without prior Commission approval," and (ii) "[u]pon establishing a new account or subaccount classification, each utility shall request Commission approval of a depreciation rate for the new plant category."

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 in accordance with the Uniform System of Accounts for Public Utilities and Licensees, as found in

the Code of Federal Regulations, which is incorporated by reference in Rule 25-7.045(1), F.A.C.¹

In its Petition, FCG explains that their current billing system, referred to as the Oracle Utilities Customer Care & Billings (CC&B) system, has been in service since April 2006, when FCG was owned by Nicor Gas. FCG further explains that prior to June 2020, the Company was contracting with Southern Company for the use of CC&B, and therefore had no direct control over modifying or improving the system to meet FCG's specific needs. In June 2020, FCG replaced CC&B with Starnik CIS. The net asset value on FCG's books for CC&B is \$0.

According to FCG, the new Starnik CIS software will increase customer information system functionalities, including providing an integrated, state-of-the-art billing system and customer platform that will enhance FCG customers' digital experience. FCG further states that the Starnik CIS will tie into FCG's field operations software to offer the Company increased customer support capabilities.

In addition to Starnik CIS, FCG is also requesting approval of other software accounting adjustments. These other adjustments are related to traditional capitalized software and future Software-as-a-Service (SaaS) arrangements.

FCG's current depreciation rates were established when we approved the Stipulation and Settlement (2018 Settlement) entered into between the Company and the Office of Public Counsel to resolve the Company's last rate case and depreciation study.²

There are no filed public comments or concerns regarding this matter.

We have jurisdiction in this matter pursuant to Sections 366.04, 366.05, and 366.06, F.S.

¹Code of Federal Regulations, Title 18, Subchapter C, Part 101, for Major Utilities, as revised April 1, 2013.

²Order No. PSC-2018-0190-FOF-GU, issued on April 20, 2018, in Docket No. 20170179-GU, *In re: Petition for rate increase by Florida City Gas*.

Decision

Starnik Customer Information System

FCG states that Starnik CIS is a cloud-based SaaS system that offers an all-in-one, real-time solution for managing the business processes of: (1) receiving gas consumption measurement data; (2) accurately billing; and (3) ensuring consistent collection of revenues for services rendered to customers. According to the Company, the Starnik CIS software enhances FCG's ability to effectively manage and accurately bill all customer segments, including residential, commercial, industrial, and transportation service providers within a single system. The total capital cost associated with Starnik software is \$5.2 million as of August 2020.

FCG stated that the Starnik CIS software is currently recorded in subaccount 391.11, Computer Software. This account has an approved amortization period of 12 years. The Company is requesting authorization to establish a new subaccount specifically for the Starnik CIS software within FERC account 303, Miscellaneous Intangible Plant. If we approve this request, the Company will transfer the balance of \$5.2 million from account 391.11 to the newly established subaccount 303.20 - Software as a Service. The Company indicates that it is proposing to transfer the recording of these assets from General Plant accounts to Intangible Plant accounts to provide consistency with how its parent company, Florida Power & Light Company (FPL), records its capitalized software for both traditional and SaaS arrangements.

The Company also is requesting an amortization period of 20 years for this Starnik CIS-specific subaccount with an annual depreciation rate of 5 percent. A zero percent net salvage value (NSV) is associated with these assets. The Company makes clear in its petition that the proposed 20-year average service life (ASL) or amortization period is for accounting purposes only and will have no impact on consumer base rates during the current settlement term, approved in Order No. PSC-2018-0190-FOF-GU.³

To support the Company's proposed 20-year ASL for Starnik CIS, FCG referenced Docket No. 20120015-EI, in which FPL requested to extend the depreciable life of its newly implemented general ledger accounting system, SAP,⁴ from five to 20 years, in order to more closely align with the period in which customers would experience the benefit of the system. We approved a settlement in that docket which, although not precedential, recognized a depreciable life of 20 years for the SAP system.⁵ FCG also referenced Docket No. 20200059-EI, in which Gulf Power Company sought to extend the depreciable life of its newly implemented Customer Account Management System, CAMS, from seven to 20 years. We approved Gulf's amortization rate for CAMS in Order No. PSC-2020-0210-PAA-EI, issued June 25, 2020.⁶

³Order No. PSC-2018-0190-FOF-GU, issued on April 20, 2018, in Docket No. 20170179-GU, *In re: Petition for rate increase by Florida City Gas*.

⁴SAP general ledger accounting system is produced by the enterprise software company of the same name, SAP

⁵Order No. PSC-2013-0023-S-EI, issued January 14, 2013, in Docket No. 20120015-EI, *In re: Petition for increase in rates by Florida Power & Light Company*, p. 21.

⁶Order No. PSC-2020-0210-PAA-EI, issued June 25, 2020, in Docket No. 20200059-EI, *In re: Petition for approval of amortization rate for customer account management system, by Gulf Power Company*.

FCG states that its requested extension of the Starnik CIS amortization period will serve to better align the costs of Starnik CIS to the expected useful life of the software. The Company further explains that extending the amortization period will have the added benefit of decreasing the revenue requirement associated with Starnik CIS when the Company's base rates are next set.

Given the circumstances presented by FCG, we find that a 20-year life is a more accurate reflection of the expected service life of the Starnik CIS system, and will result in a more appropriate depreciation expense. We agree with FCG's proposed zero NSV. With these parameters, a 5 percent depreciation rate appears reasonable. Accordingly, we find FCG's request to establish the subaccount 303.20 – Software as a Service as the subaccount for this asset to be appropriate.

Traditional Software

FCG states that traditional software is software that has been developed or obtained for internal use, whereas SaaS arrangements involve cloud computing arrangements. FCG is currently recording traditional software arrangements in subaccount 391.10 – Software Non-Enterprise and subaccount 391.11 – Computer Software.

Subaccount 391.10 currently has a depreciation rate of 10 percent, while subaccount 391.11 currently has a depreciation rate of 8.3 percent. The Company is requesting to transfer the remaining balances for these traditional software assets to newly established subaccounts 303.01 – Software Non-Enterprise and subaccount 303.02 – Computer Software. The Company is also requesting to use these proposed subaccounts for all similar acquisitions in the future, with no change to depreciation rates. FCG explains that the reason for this proposed transfer is to allow the Company to separately identify traditional capitalized software, which is maintained on the Company's internal servers, and use a depreciation rate based on the anticipated useful life of the software, from SaaS arrangements, which are maintained on a vendor's servers ("Cloud Computing"). We find FCG's proposal as relates to the establishment of the proposed subaccounts for traditional capitalized software at the proposed depreciation rates to be reasonable.

Conclusion

For the reasons set forth above, we approve FCG's proposal to establish new subaccount 303.20 – Software as a Service, for purposes of recording Starnik CIS assets at an annual depreciation rate of 5 percent. We also approve FCG's proposed subaccounts, 303.01 - Software Non-Enterprise and 303.02 – Computer Software, established to allow the in-transfer of the balances of traditional software assets currently recorded in subaccounts 391.10 and 391.11, respectively. These new subaccounts, 303.01 and 303.02, shall feature the same depreciation rates of 10 percent and 8.3 percent as the current subaccounts, respectively. In addition, FCG shall record all going-forward acquisitions of like assets to these new subaccounts.

Effective Date

FCG filed its Petition on August 6, 2020. FCG placed \$5.2 million related to Starnik CIS software into Account 391.11 - Computer Software in June 2020. FCG began recording amortization expense related to the Starnik system that same month at the currently approved 12-year rate.

FCG explained that if we approve its request, the Company will transfer \$5.2 million related to the Starnik CIS from Account 391.11 to the requested subaccount within Account 303. Additionally, FCG stated that it will true-up, and then transfer, the accumulated amortization associated with the Starnik software from Account 111 – Accumulated provision for amortization of electric plant to Account 404 – Amortization of limited-term electric plant. FCG explained that it would record amortization expense for June and July at the currently approved 12-year rate. The Company further clarified that, with our approval, it would begin using the new 20-year rate in August. This would reduce depreciation expense from \$35,600 per month to \$21,500. As discussed above, any remaining balances related to traditional software also would be transferred from Accounts 391.10 and 391.11 to Account 303.01 (10-year amortization rate) or Account 303.02 (12-year amortization rate), as appropriate.

We agree with FCG's general approach to the accounting adjustments and FCG's proposal to implement the new rate on August 1, 2020. The amortization expense for the Starnik CIS software shall be recorded using the new 20-year life depreciation rate (5 percent per annum) beginning on August 1, 2020. As such, amortization expense recorded from the in-service date through July 31, 2020, shall be accrued at the existing 12-year amortization rate (8.3 percent per annum), after which the accrual shall be recorded at the requested 20-year rate (5.0 percent per annum).

New sub-accounts within FERC Account 303 – Miscellaneous Intangible Plant for its future SaaS arrangements and appropriate corresponding depreciation rates

The Company requested our approval of the establishment of various 303 subaccounts for future SaaS arrangements to reflect different service lives. The proposed amortization rates for these accounts mirror FCG's Starnik CIS software request by matching the amortization rate to the specific terms of the service contract and the Company's assessment of how long the software will be utilized.

The requested subaccounts and corresponding amortization rates are:

- Account 303.10 Software as a Service – 2 years
- Account 303.11 Software as a Service – 3 years
- Account 303.12 Software as a Service – 4 years
- Account 303.13 Software as a Service – 5 years
- Account 303.14 Software as a Service – 6 years
- Account 303.15 Software as a Service – 7 years
- Account 303.16 Software as a Service – 8 years
- Account 303.17 Software as a Service – 9 years

Account 303.18 Software as a Service – 10 years

Account 303.19 Software as a Service – 15 years

FCG stated that it currently does not have any plant balances to transfer into these subaccounts. Nor does the Company have any current or pending SaaS arrangements that it plans to capitalize and record to any of these subaccounts. Given the fact that there are no assets in place to evaluate or analyze in order to recommend appropriate amortization rates or net salvage values, we find FCG's request to establish these subaccounts to be premature. The Company's request to establish specific SaaS subaccounts 303.10 through 303.19 is denied at this time.

Based on the foregoing, it is

ORDERED by the Florida Public Service Commission that the proposal by Florida City Gas to establish new subaccount 303.20 – Software as a Service, for purposes of recording Starnik Customer Information System assets at an annual depreciation rate of 5 percent is approved. It is further

ORDERED that the proposal by Florida City Gas to establish subaccounts, 303.01 - Software Non-Enterprise and 303.02 – Computer Software, to allow the in-transfer of the balances of traditional software assets currently recorded in subaccounts 391.10 and 391.11, respectively, is approved. These new subaccounts, 303.01 and 303.02, shall feature the same depreciation rates of 10 percent and 8.3 percent as the current subaccounts, respectively. FCG shall record all going-forward acquisitions of like assets to these new subaccounts.. It is further

ORDERED that Florida City Gas shall transfer \$5.2 million related to the Starnik CIS from Account 391.11 to the requested subaccount within Account 303. Additionally, FCG shall true-up, and then transfer, the accumulated amortization associated with the Starnik software from Account 111 – Accumulated provision for amortization of electric plant to Account 404 – Amortization of limited-term electric plant. Any remaining balances related to traditional software shall also be transferred from Accounts 391.10 and 391.11 to Account 303.01 (10-year amortization rate) or Account 303.02 (12-year amortization rate), as appropriate. It is further

ORDERED that Florida City Gas shall record the amortization expense for the Starnik CIS software using the new 20-year life depreciation rate (5 percent per annum) beginning on August 1, 2020. Starnik CIS amortization expense incurred from the in-service date through July 31, 2020, shall be recorded at the existing 12-year amortization rate (8.3 percent per annum). It is further

ORDERED that the request by Florida City Gas to establish specific Software as a Service (SaaS) subaccounts 303.10 through 303.19 is denied at this time. 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 11th day of December, 2020.



ADAM J. TEITZMAN
Commission Clerk
Florida Public Service Commission
2540 Shumard Oak Boulevard
Tallahassee, Florida 32399
(850) 413-6770
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Copies furnished: A copy of this document is provided to the parties of record at the time of issuance and, if applicable, interested persons.

SPS

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 January 4, 2021.

ORDER NO. PSC-2020-0489-PAA-GU

DOCKET NO. 20200191-GU

PAGE 8

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.