

State of Florida



Public Service Commission

CAPITAL CIRCLE OFFICE CENTER • 2540 SHUMARD OAK BOULEVARD
TALLAHASSEE, FLORIDA 32399-0850

-M-E-M-O-R-A-N-D-U-M-

DATE: July 25, 2024

TO: Office of Commission Clerk (Teitzman)

FROM: Division of Economics (Wu, Galloway)
Office of the General Counsel (Brownless)

GP
JSC

RE: Docket No. 20240060-GU – Petition for approval to establish new regulatory subaccounts, amortization rates, and reclassification of associated investment and reserve balances, by Florida Public Utilities Company.

AGENDA: 08/06/24 – Regular Agenda – Proposed Agency Action – Interested Persons May Participate

COMMISSIONERS ASSIGNED: All Commissioners

PREHEARING OFFICER: Graham

CRITICAL DATES: None

SPECIAL INSTRUCTIONS: None

Case Background

On April 11, 2024, Florida Public Utilities Company (FPUC or Company) filed a Petition for approval to establish new regulatory subaccounts, amortization rates, and reclassification of associated investment and reserve balances (Petition). The Company’s request is in accordance with Rules 25-7.045(2)(a), Florida Administrative Code (F.A.C.), which provides that “[n]o utility shall change any existing depreciation rate or initiate any new depreciation rate without prior Commission approval;” and Rule 25-7.045(3)(b), F.A.C., which requires 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.”

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 (USOA) for Public Utilities and Licensees, as found in the Code of Federal Regulations,¹ which is incorporated by reference in Rule 25-7.014(1), F.A.C.

All of FPUC's capitalized software is currently recorded in amortizable Account 3914 – Computer Software with a 10-year amortization period, which is a subaccount of Account 391 – Office Furniture and Equipment. FPUC states that Account 3914 includes both general purpose and customized application software. After a review of its various software, the Company determined that the more appropriate classification of certain customized software investments that are currently recorded in Account 3914 is a classification as intangible plant. With this determination, FPUC filed the instant Petition for approval to establish a new Account 3031 – Miscellaneous Intangible Plant - 15 Years, as a subaccount for FERC Account 3030 – Miscellaneous Intangibles and, as implied in the account name, proposes using a 15-year amortization period for the new account.

The Company requests that the January 1, 2024 investment and reserve balances associated with the existing software customized for the sole use of FPUC's operations be reclassified from Account 3914 to Account 3031, and the associated net plant balance be amortized over 15 years. FPUC has proposed an effective date of January 1, 2024, for commencement of the new subaccount, amortization periods, and transfers of investment and reserve from Accounts 3914 to 3031. Further, FPUC petitioned to establish a new Account 3032 – Miscellaneous Intangible Plant with a 20-year amortization period, also as a subaccount of FERC Account 3030, for recording the Company's new software applications, including the Customer Information and Billing System and the Enterprise Resource Planning system. FPUC has also requested a January 1, 2024 effective date for the new Account 3032.

The Commission has jurisdiction over this matter pursuant to Sections 366.04, 366.05, and 366.06, Florida Statutes (F.S.).

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

Discussion of Issues

Issue 1: Should FPUC’s request to establish new subaccounts with applicable amortization rates for certain existing customized software and for specified new customer billing and business management software be approved, and if so, what are the appropriate account classifications and the respective associated amortization rates?

Recommendation: Yes. Staff recommends approval of FPUC’s petition to establish two subaccounts: Account 3031 – Miscellaneous Intangible Plant - 15 Years, with an annual amortization rate of 6.7 percent resulting from the 15-year amortization, for reclassifying certain existing customized software, and Account 3032 – Miscellaneous Intangible Plant – 20 Years, with an annual amortization rate of 5.0 percent resulting from the 20-year amortization period, for recording specified new customer billing and business management software. (Wu)

Staff Analysis: Currently, FPUC records its capitalized software in the amortizable Account 3914 – Computer Software, which is a subaccount of Account 391 – Office Furniture and Equipment, with an approved 10-year amortization period (resulting in an annual amortization rate of 10.0 percent). This subaccount includes both general purpose and customized application software. After a review of its various types of software systems/platforms, FPUC determined that it would be more appropriate to reclassify certain highly customized software systems/platforms as intangible plant and record them in a new subaccount for FERC Account 3030 - Miscellaneous Intangibles.² Hence, FPUC has petitioned the Commission for approval to establish a new Account 3031 – Miscellaneous Intangible Plant - 15 Years and to change the existing 10-year amortization period to a 15-year amortization period (or an annual amortization rate of 6.7 percent) for the reclassified customized software systems/platforms.

There are four types of customized software systems/platforms that FPUC intends to reclassify as intangible plant and include in Account 3031:

- (1) The ArcGIS Enterprise Geographic Information System (“GIS”), which is a spatial system that manages and maps Florida’s natural gas assets (i.e., pipeline, valves, stations, etc.) along with all relative data. It also organizes and shares GIS data within the Company. This system has been in-service for about 10 years.
- (2) The Convergence Gas Tracking System (“GTS”), which is a customized cloud-based software application used to manage the Company’s natural gas transportation and customer choice programs. Placed in-service in 2020, this system provides enhanced tracking, accounting, and billing features for natural gas transportation and customer choice programs and streamlines business processes with improved operational communications.

² The Code of Federal Regulations, Title 18, Subchapter C, Part 101, Account 303 regarding Miscellaneous Intangible Plant states “[this account] shall include the cost of patent rights, licenses, privileges, and other intangible property necessary or valuable in the conduct of utility operations and not specifically chargeable to any other account.”

- (3) PowerPlan, which is a cloud-based fixed asset solution placed in service in 2020. It houses FPUC's Capital Project Management that includes capital month end closing, Asset Depreciation, Lease Asset Management, Property Tax, and Tax Provisions.
- (4) Utilities International ("UI"), which is the budgeting and forecasting solution that was implemented in 2016 and is still in service.

FPUC explained that these software systems/platforms were purchased, then significantly modified by its parent company, Chesapeake Utilities Corporation (CUC), for the sole use of CUC's business entities to conduct and streamline utility operations. Each business unit is allocated a share of the total software costs.³ Staff agrees with the Company that, given the amount of internal development involved with these software systems/platforms and their intended CUC-specific applications, it is appropriate to reclassify them as intangible assets and record them in a new Account 3031 – Miscellaneous Intangible Plant.

As of December 31, 2023, FPUC's respective amount of plant investment and amortization reserve of the Account 3914 was \$7,029,521 and \$3,347,879.⁴ Of these amounts, FPUC's total plant and reserve balance associated with the aforementioned four types of customized software systems/platforms was \$2,657,582 and \$745,627, respectively.⁵ FPUC requests the reclassification of these customized software-related plant and reserve amounts from Account 3914 to Account 3031 and amortization of the unrecovered balance over 15 years, effective January 1, 2024, should the establishment of the new account be approved.

FPUC explained that it proposed a 15-year amortization period (or an annual amortization rate of 6.7 percent) based on the age and/or years in service of the existing software that will be recorded in Account 3031.⁶ The Company also pointed out that the life span of these software-related investments has normally exceeded the existing 10-year amortization period established for Account 3914 - Software. Staff concurs with FPUC that using a 15-year amortization period will better align the investments with their expected benefit period, given the current age of this software and how long the previously installed software was in service. Staff notices that FPUC's proposed amortization period/rate is in line with the Commission's prior orders which authorize a 15-year amortization period for miscellaneous intangible plant accounts.⁷

In its Petition, FPUC further claimed that using a 15-year, instead of a 10-year, amortization period for these software systems/platforms will provide the benefit of decreasing the revenue

³ Document No. 04345-2024, FPUC's Response to Staff's Second Data Request, No. 1.

⁴ Petition, paragraph (4).

⁵ Petition, paragraphs (8).

⁶ Document No. 04170-2024, FPUC's Response to Staff's First Data Request, No. 2.b.

⁷ Order Nos. PSC-2023-0384-PAA-EI, issued December 21, 2023, in Docket No. 20230079-EI, *In re: Petition for approval of 2023 depreciation study by Florida Public Utilities Company*; PSC-2021-0202A-AS-EI, issued June 28, 2021, in Docket No. 20210026-EI, *In re: Petition for limited proceeding to approve 2021 settlement agreement, including general base rate increases, by Duke Energy Florida, LLC.*; PSC-2021-0423-S-EI, issued November 10, 2021, in Docket No. 20200264, *In re: Petition for approval of 2020 depreciation and dismantlement study and capital recovery schedules, by Tampa Electric Company.*

requirement when the Company’s base rates are next set.⁸ The associated annual amortization expenses for these investments will decrease by almost \$88,000, as reflected in Table 1 below:

Plant Investment (\$)	Current			Proposed			Difference
	Account	Amortization Rate (%)	Annual Expense (\$)	Account	Amortization Rate (%)	Annual Expense (\$)	Change in Expense (\$)
(1)	(2)	(3)	(4)=(1)*(3)	(5)	(6)	(7)=(1)*(6)	(8)=(7)-(4)
2,657,582	3914 - Software	10.0	265,758	3031-Intangibles	6.7	178,058	(87,700)

Data Source: Petition, paragraph (9).

In its Petition, FPUC acknowledged that its parent company, CUC, is in the process of consolidating the various customer billing and management system platforms of its divisions in Florida, Delaware, and Maryland into one platform.⁹ Initially, FPUC indicated that the Customer Information and Billing System (CIS) and Enterprise Resource Planning system (ERP) are expected to be operational in 2025 and 2026, respectively. However, the Company updated staff that CIS is now scheduled to go live in 2024.¹⁰

FPUC explained the potential functions and advantages of the CIS and ERP, including the fact that both of them are cloud-based and will continuously be updated and maintained:¹¹

CIS will be capable of providing enhanced accounting tools, cross-functional communication, data tracking and analyses, and other business processes in the areas of customer service, billing and information, financial performance, supply chain/inventory, human resources, and asset management. Additionally, it will provide a more flexible platform for enhancing the customer experience with a new set of customer service and communication tools.

ERP is a type of business management software that includes procurement, cash management, and the general ledger in an integrated system. [Its benefits] include improved reporting; increased productivity, efficiency, and integration of information; faster responses to inquiries and better customer satisfaction; standardization and centralization of data that is secure and reliable; reduced processing time; better decision making and higher return on investment; and better communication and increased sharing of information across different departments.

The estimate of FPUC’s portion of the costs associated with these two new software systems is approximately \$20 million. The allocations of the CIS and ERP-related costs will be based on the number of customers and a multi-factors Distrigas allocation method, respectively.¹²

⁸ Petition, paragraphs (9).

⁹ Petition, paragraphs (11).

¹⁰ Document No. 04170-2024, FPUC’s Response to Staff’s First Data Request, No. 1.b.

¹¹ Petition, paragraphs (5).

To record the plant investment associated with the CIS and ERP, FPUC has requested to establish a new subaccount of FERC Account 3030 – Miscellaneous Intangibles, Account 3032 – Miscellaneous Intangibles; and proposed a 20-year amortization period resulting in an annual amortization rate of 5.0 percent. FPUC’s existing software systems being replaced by the CIS and ERP have been in service for more than 20 years, which indicates that these types of software investments are likely to have a much longer useful period of service.¹³

Staffs believes that FPUC’s proposed Account 3032 with a 20-year amortization period (amortization rate of 5.0 percent) is reasonable. This plant asset classification and the associated amortization rate are consistent with the Commission’s prior orders.¹⁴

Conclusion

For the reasons outlined in this analysis, staff recommends approval of FPUC’s petition for establishing two new subaccounts for FERC Account 3030 – Miscellaneous Intangibles: Account 3031 – Miscellaneous Intangible Plant - 15 Years, with a 15-year amortization period (annual amortization rate of 6.7 percent), and Account 3032 – Miscellaneous Intangible Plant - 20 Years, with a 20-year amortization period (annual amortization rate of 0.5 percent). Further, staff recommends approval of FPUC’s request to reclassify its customized software systems/platforms-related plant and reserve, in the amounts of \$2,657,582 and \$745,627, respectively, from Account 3914 to the new Account 3031.

¹² Details of the method is provided in Document No. 04345-2024, FPUC’s Response to Staff’s Second Data Request, No. 2.a.

¹³ Document No. 04345-2024, FPUC’s Response to Staff’s Second Data Request, No.3.b.

¹⁴ Order No. PSC-2023-0384-PAA-EI; and Order No. PSC-2020-0489-PAA-GU, issued December 11, 2020, in Docket No. 20200191-GU, *In re: Petition for approval of amortization rate for Starnik customer information system and other software accounting adjustments, by Florida City Gas.*

Issue 2: If the Commission approves staff's recommendation in Issue 1, what is the appropriate respective implementation date for the new Accounts 3031 and 3032, as well as the reclassification of FPUC's customized software from Account 3941 to Account 3031?

Recommendation: Staff recommends January 1, 2024, as the effective date for the new Accounts 3031 and 3032, as well as the reclassification of the customized software from Account 3914 to new Account 3031. (Wu)

Staff Analysis: Depreciation and/or Amortization is the recovery of invested capital representing equipment that is providing service to the public. This recovery is designed to take place over the related period of service to the public, which begins with the equipment's in-service date.

If approved in Issue 1, FPUC's customized software systems/platforms that are currently booked in Account 3914, a subaccount of Account 391 – Office Furniture and Equipment, would be reclassified to new Account 3031 – Miscellaneous Intangible, with a 15-year amortization period. Also, based on such approval, the unrecovered balance of these systems/platforms would take place in Account 3031. FPUC proposed January 1, 2024 as the effective date for the new Account 3031 and the reclassification of the customized software from Account 3941 to Account 3031. Staff believes that the Company's proposal is appropriate as it is in line with the purpose of the amortization.

If approved in Issue 1, FPUC's new software systems CIS and ERP would be recorded in new Account 3032 – Miscellaneous Intangible, with a 20-year amortization period. FPUC indicated that CIS and ERP will be placed in-service in 2024 and 2026, respectively.¹⁵ The Company also stated that it had incurred \$7.8 Million in costs related to the CIS project, which are currently reflected on CUC's Account 1070 - Construction Work in Progress, and no costs have been incurred for ERP to date.¹⁶ To promote a smooth and efficient accounting process, staff recommends January 1, 2024, as the effective date for the new Account 3032, so that the CIS and ERP software-related plant can be appropriately recorded and amortized after these plant items are placed in-service.

¹⁵ Document 04170-02024, FPUC's Response to Staff's First Data Request, No. 1.b.

¹⁶ Document 04345-2024, FPUC's Response to Staff's Second Data Request, No. 2.b.

Issue 3: Should this docket be closed?

Recommendation: If no person whose substantial interests are affected by the proposed agency action, files a protest within 21 days of the issuance of the order, this docket should be closed upon the issuance of a consummating order. (Brownless)

Staff Analysis: At the conclusion of the protest period, if no protest is filed, this docket should be closed upon the issuance of a consummating order.