

State of Florida



# Public Service Commission

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TALLAHASSEE, FLORIDA 32399-0850

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

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**DATE:** February 20, 2025

**TO:** Office of Commission Clerk (Teitzman)

**FROM:** Division of Economics (Kunkler, Galloway, Wu) *EJD*  
Office of the General Counsel (Bloom, Crawford) *JSC*

**RE:** Docket No. 20240157-GU – Petition for approval to establish a new regulatory subaccount and an amortization rate and to reclassify customer software investment and reserve balance, by Peoples Gas System, Inc.

**AGENDA:** 03/04/25 – Regular Agenda – Proposed Agency Action – Interested Persons May Participate

**COMMISSIONERS ASSIGNED:** All Commissioners

**PREHEARING OFFICER:** Clark

**CRITICAL DATES:** None

**SPECIAL INSTRUCTIONS:** None

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## Case Background

On November 13, 2024, Peoples Gas System, Inc. (PGS or Company) filed a Petition for approval to create a new regulatory subaccount with a new amortization rate and to reclassify the plant and reserve balances associated with certain customer software. (Petition). The Company's request is in accordance with Rule 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)(a), F.A.C., which requires gas utilities to "maintain depreciation rates and accumulated depreciation reserves in accounts or subaccounts in accordance with the Uniform System of Accounts for Natural Gas Companies."

As stated above, 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,<sup>1</sup> which is incorporated by reference in Rule 25-7.014(1), F.A.C.

The Company's current depreciation and amortization rates became effective January 1, 2024, pursuant to Order No. PSC-2023-0388-FOF-GU, issued on December 27, 2023, in Docket No. 20230023-GU.<sup>2</sup>

PGS currently records its capitalized software in Subaccount 303.01 – Custom Software, which is a subaccount of FERC Account 303 – Miscellaneous Intangible Plant. Subaccount 303.01 – Custom Software has a Commission-approved 15-year average service life for depreciation and amortization purposes.<sup>3</sup> According to the Petition, this existing subaccount is used to record software that serves various functions within the Company and also includes the Company's Work and Asset Management system (WAM).

PGS states that, after its recent review of the expected life of the WAM software, the Company determined its investment in the WAM software should be amortized over a 20-year period instead of the 15-year period associated with the Company's custom software subaccount. As a result, PGS filed the instant Petition for approval to establish a new subaccount titled subaccount 303.02 – Customized Software - 20 Years, as a subaccount for FERC Account 303 – Miscellaneous Intangible Plant, with a proposed 20-year amortization period.

Additionally, PGS has proposed an effective date of January 1, 2025, for commencement of the new subaccount, amortization period, and transfers of investment and reserve for the WAM software (as of December 31, 2024) from Subaccount 303.01 to the newly-created Subaccount 303.02.

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

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

<sup>2</sup> PGS's current depreciation/amortization rates for customer software and all other plant accounts per the cited order were approved on December 27, 2023, resulting from a consolidated base rate proceeding (Docket No. 20230023-GU) and depreciation study docket (Docket No. 20220219-GU).

<sup>3</sup> Order No. PSC-202300388-FOF-GU, issued on December 27, 2023, in Docket No. 20230023-GU, *In re: Petition for rate increase by Peoples Gas System, Inc.*

## Discussion of Issues

**Issue 1:** Should PGS’s request to establish a new subaccount with a new applicable amortization rate for the WAM software be approved, and if so, what is the appropriate account classification and the associated amortization rate?

**Recommendation:** Yes. Staff recommends approval of PGS’s petition for establishing a new subaccount for FERC Account 303 – Miscellaneous Intangible Plant: Account 303.02 – Customized Software - 20 Years, with a 15-year amortization period (annual amortization rate of 5.0 percent). Further, staff believes the Commission should approve PGS’s request to reclassify its customized software systems/platforms-related plant and reserve, in the amounts of \$40,634,908 and \$4,087,761, respectively, from Account 303.01 to the newly-created Account 303.02. (Kunkler)

**Staff Analysis:** PGS’s Work and Asset Management System, referred to as WAM, is software that manages the company’s assets. In its petition, PGS explained the WAM software consolidates “the management of new construction, system reliability, maintenance and compliance into a single interconnected system.”<sup>4</sup> PGS further explained that the WAM software, consisting of 13 work types (modules), was initially planned to be deployed in two phases.

The first phase, consisting of 6 modules, addresses the needs of the Company’s Engineering, Construction and Technology team, and was successfully implemented in November 2022. The second phase, consisting of the remaining 7 modules, addresses the needs of the Company’s Gas and Safety Operations teams.<sup>5</sup> However, prior to the release of the second phase, after a readiness review and risk assessment, PGS identified two modules that were not ready to be implemented – the Compliance module and the Damage Billing module. The Company decided to defer the implementation of these 2 modules and deploy the other 5 modules in May 2023. The Company then made additional modifications and improvements to the WAM’s Compliance and Damage Billing modules, which were implemented and placed into service in September 2023, completing the full deployment of the system.<sup>6</sup>

PGS explained that the WAM’s current 15-year service life (amortization rate of 6.7 percent per year) is based on the most appropriate approved depreciation account classification at the time of the Company’s most recent depreciation study, filed April 4, 2023. PGS stated that at the time of the aforementioned depreciation study, the WAM software was not yet an “evaluated and analyzed” asset but rather a “2024 forecasted addition.”<sup>7</sup> Additionally, according to PGS, the WAM developer’s previous version of its core enterprise resource planning (ERP) system was on the market for 33 years (scheduled to end December 31, 2027) and PGS expects the newer version to have a similar lifespan.<sup>8</sup> Therefore, in its instant petition, PGS is requesting the Commission’s approval to create a new subaccount, titled 303.02 – Customized Software – 20

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<sup>4</sup> Petition, paragraph (10).

<sup>5</sup> *Id.*

<sup>6</sup> PGS’s Response to Staff’s First Data Request, No. 3.

<sup>7</sup> PGS’s Response to Staff’s First Data Request, No. 1.

<sup>8</sup> PGS’s Response to Staff’s First Data Request, No. 4.

years, with an amortization rate of 5.0 percent and to transfer the associated plant and reserve balances of the WAM software to the newly created subaccount, effective January 1, 2025. PGS maintains this action will “better align cost recovery for the WAM software investment with the expected life of the software.”<sup>9</sup> Further, this plant asset classification and the associated amortization rate are consistent with the Commission’s prior orders for two other Florida utilities (Florida Public Utilities Company and Florida City Gas).<sup>10</sup>

When the Company filed its current petition, the expected amount of plant investment and amortization reserve of the WAM software on the requested effective date of January 1, 2025, is \$40,634,908 and \$4,087,761, respectively.<sup>11</sup> If approved, the longer amortization period will reduce the Company’s annual amortization expense by approximately \$650,000 per year as detailed in Table 1 below. PGS claimed that using a 20-year, instead of a 15-year, amortization period for the WAM software will have the benefit of decreasing the Company’s revenue requirement when the Company’s base rates are next set.<sup>12</sup> Staff notes that the Company has submitted a test year letter indicating it plans to file a petition for a general base rate increase on March 31, 2025, seeking an effective date of customer rates of January 2026.<sup>13</sup> Staff also notes that PGS is not required, per Rule 25-7.045, F.A.C., to file its next depreciation study until April 4, 2028.<sup>14</sup>

Table 1: Change in Amortization Expense – WAM Software

	Current			Proposed			Inc./ (Dec.)
Investment	Account	Rate	Dep. Exp.	Account	Rate	Dep. Exp.	Change in Exp.
40,634,908	30301- Customized Software	6.6	2,681,904	30302- Customized Software 20yr	5.0	2,031,745	(650,159)

If approved, PGS will book amortization expense for the WAM software in the newly created Account 303.02 – Customized Software at 5.0 percent annually, with an effective date of January 1, 2025. Staff notes that PGS’s customers will continue to pay an embedded amortization expense for the WAM software at the current (higher) rate of 6.7 percent until new customer base rates are set. PGS acknowledges this fact but maintains that the over-collection will only

<sup>9</sup> Petition, paragraph (12).

<sup>10</sup> Order No. PSC-2024-0366-PAA-GU issued on August 19, 2024, in Docket No. 20240060-GU, *In re: Petition for approval to establish new regulatory subaccounts, amortization rates, and reclassification of associated investment and reserve balances, by Florida Public Utilities Company*; 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*.

<sup>11</sup> Petition, paragraph (13).

<sup>12</sup> Petition, paragraph (12).

<sup>13</sup> Document No. 00573-2025, filed January 30, 2025, in Docket 20250029-GU, *In re: Petition for rate increase by Peoples Gas System, Inc.*

<sup>14</sup> Rule 25-7.045, F.A.C., requires that each gas company shall file a study for each category of depreciable property for Commission review at least once every five years from the submission date of the previous study or pursuant to Commission order and within the time specified in the order. The Company’s last depreciation study was submitted on April 4, 2023.

occur for a short period (one year), since it has submitted a test year letter as stated above, requesting new customer base rates effective January 1, 2026.<sup>15</sup> PGS does not propose to reduce customer rates or to offer a credit to reflect the proposed reduction in amortization expense before January 1, 2026, so the amortization expense reduction in 2025 is expected to help stabilize the Company's earnings. PGS stated that it's expecting to earn below the authorized ROE band in 2025, and changes such as this amortization reduction will serve to mitigate the need for interim rates in its rate case filing.<sup>16</sup>

Staff believes, in general, a company's depreciation/amortization rates should reflect the most accurate information available. However, staff also has concerns about significant changes to the depreciation/amortization rate and expense for an isolated account, absent consideration of a corresponding change to customer base rates. Staff requested that PGS calculate what the credit amount on a residential customer bill at 20 therms would be to recognize the reduction in amortization expense in 2025 if PGS's petition were approved and the Commission required such a credit to be made. PGS's calculations resulted in an approximate credit of \$0.08 per month, applied during the months of April 2025 to December 2025, or \$0.72 total, to account for the expected reduction in depreciation expense. Given the Company's primary reason for revising the WAM asset amortization rate (i.e., the matching of the assets service life with the cost recovery period), the relatively minor, short-lived customer credit potential to recognize the reduction in amortization expense, and the various earnings considerations cited above, staff does not believe a customer credit in this instance is well-supported.

Staff agrees that PGS has demonstrated a revision to the amortization rate for WAM software is supported by the material change in the asset's estimated service life, thereby providing an improved match of expected service life to the cost recovery of the asset. Further, this plant asset classification and the associated amortization rate are consistent with the Commission's prior orders.<sup>17</sup>

Therefore, to ensure the most accurate estimated useful life and associated amortization expense is recorded for the Company's WAM software, staff believes the Commission should approve PGS's petition for establishing a new subaccount for FERC Account 303 – Miscellaneous Intangible Plant: Account 303.02 – Customized Software - 20 Years, with a 15-year amortization period (annual amortization rate of 5.0 percent). Further, staff believes the Commission should approve PGS's request to reclassify its customized software systems/platforms-related plant and reserve, in the amounts of \$40,634,908 and \$4,087,761, respectively, from Account 303.01 to the newly-created Account 303.02.

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<sup>15</sup> PGS's Response to Staff's Second Data Request, Question No. 2.

<sup>16</sup> PGS's Response to Staff's Second Data Request, Question No. 1.

<sup>17</sup> See Order No. PSC-2024-0366-PAA-GU, issued on August 19, 2024, in Docket No. 20240060-GU, *In re: Petition for approval to establish new regulatory subaccounts, amortization rates, and reclassification of associated investment and reserve balances, by Florida Public Utilities Company*; 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*.

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**Issue 2:** If the Commission approves staff's recommendation in Issue 1, what is the appropriate implementation date for the new Account 303.02, as well as the reclassification of PGS's WAM software from Account 303.01 to Account 303.02?

**Recommendation:** Staff recommends January 1, 2025, as the effective date for the new Account 303.02, and the transfer of the associated plant and reserve balances of the WAM software. (Kunkler)

**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, PGS's WAM software that is currently booked in Account 303.01, would be reclassified to newly created Account 303.02, with a 20-year amortization period. Also, based on such approval, the unrecovered balance of the WAM software would take place in Account 303.02. PGS proposed January 1, 2025 as the effective date for the new Account 303.02 and the reclassification of the plant and reserve balances of the WAM software from Account 303.01 to Account 303.02.

Staff believes that the Company's proposal of a January 1, 2025 effective date is appropriate as it is in consistent with the purpose of the amortization.

**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. (Bloom, Crawford)

**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.