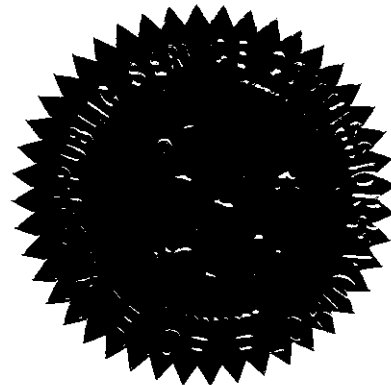


BEFORE THE
FLORIDA PUBLIC SERVICE COMMISSION

DOCKET NO. 080163-GU

In the Matter of:

PETITION FOR APPROVAL TO CREATE REGULATORY
SUBACCOUNT OF METER INSTALLATION TO
CAPITALIZE ALL INCURRED AND FUTURE COSTS
ASSOCIATED WITH INSTALLATION OF ENCODER
RECEIVER TRANSMITTERS (ERTS) UNDER
PROVISIONS OF STATEMENT OF FINANCIAL
ACCOUNTING STANDARD NO. 71, ACCOUNTING
FOR THE EFFECTS OF CERTAIN TYPES OF
REGULATION (SFAS 71); AND REQUESTING
DEPRECIATION OF INSTALLATION COSTS OF
ERTS OVER 15-YEAR PERIOD BEGINNING
JANUARY 1, 2008, BY FLORIDA CITY GAS.



PROCEEDINGS: AGENDA CONFERENCE
ITEM NO. 21

BEFORE: CHAIRMAN MATTHEW M. CARTER, II
COMMISSIONER LISA POLAK EDGAR
COMMISSIONER KATRINA J. McMURRIAN
COMMISSIONER NANCY ARGENZIANO
COMMISSIONER NATHAN A. SKOP

DATE: Tuesday, September 4, 2008

PLACE: Betty Easley Conference Center
Room 148
4075 Esplanade Way
Tallahassee, Florida

REPORTED BY: LINDA BOLES, RPR, CRR
Official FPSC Reporter
(850) 413-6734

DOCUMENT NUMBER-DATE

FLORIDA PUBLIC SERVICE COMMISSION SEP 10 8

FPSC-COMMISSION CLERK

1 PARTICIPATING:

2 BETH KEATING, ESQUIRE, and DAVID WEAVER, representing
3 Florida City Gas.

4 ANNE MARSH and JOHN SLEMKEWICZ, representing the
5 Florida Public Service Commission staff.

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P R O C E E D I N G S

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2 CHAIRMAN CARTER: We are now on Item 21. Give staff
3 an opportunity to change out.

4 MS. MARSH: I'm Anne Marsh with Commission staff.
5 Item 21 is a request by City Gas to establish regulatory
6 subaccounts for their ERT installations. They also are
7 requesting that they be allowed to capitalize all costs
8 associated with the project, including items that had already
9 been expensed in previous years.

10 Staff's recommendation is that the account should be
11 established effective January 1, 2008, and that the company be
12 allowed to capitalize all costs from that point forward.

13 The company is here to speak and staff is prepared to
14 go through the issues or answer your questions as you prefer.

15 CHAIRMAN CARTER: Thank you.

16 Ms. Keating.

17 MS. KEATING: Good morning, Mr. Chairman,
18 Commissioner. Beth Keating, Akerman Senterfitt, here today on
19 behalf of Florida City Gas. We appreciate the opportunity to
20 address you on this item. And I'd like to turn to Mr. Weaver,
21 who Mr. Feil introduced you to a moment ago, and he would like
22 to present a couple of comments.

23 CHAIRMAN CARTER: Mr. Weaver, you're recognized.

24 MR. WEAVER: Thank you, Mr. Chairman. David Weaver
25 on behalf of Florida City Gas.

1 First of all, thank you for allowing me to appear.
2 This is my first appearance on behalf of the company. We
3 support 90, probably 90 percent of staff's recommendation.
4 They have done an outstanding job analyzing this case. We
5 appreciate their support for the accounting treatment we've
6 requested.

7 The one, I guess, slightly unusual aspect of our
8 request was seeking a similar accounting treatment for expenses
9 we incurred in 2006 as a part of a pilot program and in 2007,
10 during the last quarter of 2007 as we began the meter
11 installations.

12 We acknowledge the appropriate accounting rules that
13 staff has cited back to you and are here really today simply on
14 policy grounds to ask for consideration of just the 2007
15 expenses. We -- in communications with staff during the
16 investigation process we realized that the pilot program
17 expenses in 2006 were probably too remote to be a reasonable
18 request for us to seek, and so we are supportive of that piece
19 of our original petition being denied.

20 But in considering the expenses we incurred in 2007,
21 my, my argument is simply that we believe it's the best policy
22 grounds to match up how those assets will be deployed and the
23 benefits the ratepayers will derive from those assets over the
24 15-year useful life, allowing those expenses to be capitalized
25 in the same manner that staff is supporting for 2008 and

1 beyond.

2 We were perhaps a bit lax in coming to staff to seek
3 a waiver of the rule in advance of beginning the program. We
4 did seek opportunities but obviously too casually to get
5 guidance back from staff on a more timely basis. But these
6 expenses were incurred just in the last quarter of 2007 and it
7 wasn't for the entire year, I guess is the best question. It's
8 approximately \$300,000.

9 Doing what we're requesting, reversing that
10 treatment, allowing us to capitalize those expenses, will have
11 no rate impact on our customers. We were not in an overearning
12 situation in 2007, and so this will not affect us going from an
13 underearning to an overearning situation in 2007. There will
14 be a beneficial effect to us from an earnings standpoint in
15 2008, and 2008 has proven to be a challenging year for the
16 company. So that, that would be of benefit to us.

17 But the overarching policy reason that I'm here today
18 for is simply to match up the useful life of the assets with
19 the 15-year benefit of service from those assets that our
20 customers will receive and that there, that the reversal would
21 have no rate impact on our customers.

22 CHAIRMAN CARTER: Thank you.

23 Commissioners? Commissioner McMurrin, you're
24 recognized.

25 COMMISSIONER McMURRIAN: I guess I would just ask for

1 staff to respond to those concerns. I know that when they
2 originally asked, they were asking for 2006 and 2007. I would
3 assume that your arguments stay the same with respect to the
4 lesser period too. But can you just go over for me why staff
5 didn't believe it was okay to retroactively apply the same
6 methodology that you're recommending to apply in 2008 forward?

7 MS. MARSH: Yes, ma'am, I'll be glad to respond to
8 that.

9 This has been a longstanding practice of this
10 Commission not to go back and retroactively change accounting
11 practice. For the company to go back and restate for prior
12 years or even one prior year is simply not in line. We looked
13 for examples of where that had been done in other cases and we
14 simply didn't find it. It's an unusual circumstance in
15 accounting to go back and change your accounting retroactively.
16 When accounting changes are made, they're typically made going
17 forward.

18 Additionally, we have a rule for depreciation for
19 establishment of accounts, and the rule states that basically
20 if you want to go back to the beginning of the year, you should
21 file by midyear of that year. In this case, they're wanting to
22 go back even for 2007 more than a year to establish the
23 account, and so that's not in compliance with the rule.

24 The staff gave the company a number of guidance
25 opportunities on this, including when they filed formal

1 testimony in their acquisition adjustment account, and I
2 believe I have referred to that in the recommendation. There
3 was nothing casual about it. We, we gave them the rule, we
4 offered them, you know, if they needed further advice to get
5 with us as early as 2005. In 2006 when they filed their
6 acquisition adjustment we questioned this particular item, and
7 they stated that it was an expense item and there was no need
8 for any capital. So there's simply no reason to go back and
9 redo it several years after the fact.

10 MR. SLEMKEWICZ: This is John Slemkewicz. And I
11 would just like to add that, you know, there will be, you know,
12 if you accept the retroactivity, there will be a rate impact in
13 the future the next time rates are established because it would
14 increase rate base.

15 CHAIRMAN CARTER: Mr. Weaver.

16 MR. WEAVER: If I might. David Weaver again. Let me
17 clarify two points.

18 One, in my anecdotal reference to being casual, I was
19 referring to the company, not the staff. The staff has acted
20 appropriately and very professionally throughout this whole
21 process and we actually have been very appreciative and have
22 gained much from the guidance that they've given us. So if I,
23 if I misspoke, I apologize for that. I was referring to myself
24 and my predecessors in terms of how we should have pursued a
25 more, a more definitive statement in those prior years instead

1 of being too casual in seeking staff's guidance in how we
2 should proceed. So I apologize.

3 Second, as to future rate implications, that is,
4 there's certainly nothing in the record that would support
5 that. That's a theoretical statement. The amount of money
6 that we're talking about here is about \$309,000. We are in a
7 rate stay-out period for at least another three to five years
8 before we'll be back in. And so depreciation, we believe,
9 would more than offset any potential rate impact that adding
10 \$309,000 to a capital account would have because of the passage
11 of time and the effects of depreciation.

12 So, yes, these would be capital assets that would be
13 theoretically added to a rate base, but depreciation would
14 offset that during the ensuing years until we filed our rate
15 case so that the net effect, we believe, would be zero to our
16 overall rate base at the time if and when we filed another rate
17 case in the future.

18 CHAIRMAN CARTER: Thank you.

19 Commissioners? Commissioner Skop, you're recognized,
20 sir.

21 COMMISSIONER SKOP: Thank you, Mr. Chairman.

22 I guess having listened to the parties and reviewing
23 the staff recommendation, if there are no further concerns, at
24 the appropriate time I'd move staff's recommendation as to
25 Issues 1, 2 and 3 and 4.

1 CHAIRMAN CARTER: Commissioners, anything further?

2 Commissioner Skop, you're recognized for a motion.

3 COMMISSIONER SKOP: Thank you, Mr. Chair. I'd move
4 to, respectfully move to adopt the staff recommendation as to
5 Issues 1 through 4.

6 COMMISSIONER EDGAR: Second.

7 CHAIRMAN CARTER: It's been moved and properly
8 seconded. Commissioners, anything further, any further
9 discussion or debate? Hearing none, all those in favor, let it
10 be known by the sign of aye.

11 (Unanimous affirmative vote.)

12 All those opposed, like sign. Show it done.

13 (Agenda Item 21 concluded.)

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1 STATE OF FLORIDA)
 :
 2 COUNTY OF LEON)

CERTIFICATE OF REPORTER

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I, LINDA BOLES, RPR, CRR, Official Commission Reporter, do hereby certify that the foregoing proceeding was heard at the time and place herein stated.

IT IS FURTHER CERTIFIED that I stenographically reported the said proceedings; that the same has been transcribed under my direct supervision; and that this transcript constitutes a true transcription of my notes of said proceedings.

I FURTHER CERTIFY that I am not a relative, employee, attorney or counsel of any of the parties, nor am I a relative or employee of any of the parties' attorneys or counsel connected with the action, nor am I financially interested in the action.

DATED THIS 10th day of September,

2008.

Linda Boles
 LINDA BOLES, RPR, CRR
 FPSC Official Commission Reporter
 (850) 413-6734