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: May 28, 2020

TO: Office of Commission Clerk (Teitzman)

FROM: Division of Economics (Smith II, Kunkler) JH
Office of the General Counsel (Stiller) JC

RE: Docket No. 20200059-EI – Petition for approval of amortization rate for customer account management system, by Gulf Power Company.

AGENDA: 06/09/20 – Regular Agenda – Proposed Agency Action - Interested Persons May Participate

COMMISSIONERS ASSIGNED: All Commissioners

PREHEARING OFFICER: Polmann

CRITICAL DATES: None

SPECIAL INSTRUCTIONS: None

Case Background

On February 24, 2020, Gulf Power Company (Gulf or Company) filed a request for approval of amortization rate for its Customer Account Management System (Petition). The Company's request is in accordance with Section 366.04, Florida Statutes (F.S.), and Rule 25-6.0436(3)(a) and 25-6.0436(3)(b), Florida Administrative Code (F.A.C.).

Pursuant to Rule 25-6.0436(3)(a), F.A.C., electric 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 25-6.014(1), F.A.C.[1] Rule 25-6.0436(3)(a), F.A.C., requires that: "[u]pon establishing a new account or subaccount

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

classification, each utility shall request Commission approval of a depreciation rate for the new plant category.

In its Petition, Gulf explains that its former billing system, referred to as Customer Service System (CSS), is owned by Southern Company, and could only be used by Gulf through the end of 2020. Gulf further explained that a new billing system, the Customer Account Management System (CAMS), replaced the CSS.

Gulf successfully instituted a partial roll-out of the new CAMS during the fourth quarter of 2019. The Company completed the full implementation of the CAMS on February 24, 2020. The current net book value on Gulf's books for the CSS is $0.

Staff is not aware of any public comments or concerns regarding this matter.

The Commission has jurisdiction in this matter pursuant to Sections 366.04, 366.05, and 366.06, F.S.

Discussion of Issues

Issue 1: Should Gulf's request to establish a new sub-account and annual depreciation rate applicable to its CAMS software be approved, and, if so, what is the appropriate depreciation rate?

Recommendation: Yes, a new sub-account and annual depreciation rate applicable to Gulf's new CAMS software should be approved. The appropriate annual depreciation rate for the CAMS software is 5 percent. (Kunkler)

Staff Analysis: Gulf states that the CAMS software directly facilitates a wide variety of customer service interactions.[2] According to the Company, these customer service interactions include customer billing, maintaining an online application, and a mobile application for customers to manage accounts.[3] Additionally, CAMS includes an option for starting and stopping service, as well as an interactive phone system with digital self-service options.[4] The estimated total capital cost associated with the CAMS software is $92 million.[5]

In response to Staff's First Data Request, Gulf stated that the CAMS software is currently recorded in Account 303, Miscellaneous Intangible Plant.[6] This account has an approved amortization period of seven years. The Company is requesting authorization to establish a sub-account within Account 303, specifically for the CAMS software. The sub-account for the new CAMS software is Account 303.5 – Capitalization of Software.

The Company also is requesting to extend the amortization period in this CAMS-specific sub-account from seven to 20 years. In addition to the Company's request that the Commission approve a 20-year average service life (ASL), Gulf is requesting approval of a zero percent net salvage level (NS) for depreciating its CAMS software. An annual depreciation rate of 5 percent is computed by using these parameters.[7] The Company makes clear in its petition that the proposed 20-year 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-2017-0178-S-EI.[8]

To support its proposed 20-year ASL, Gulf explained that its former billing system, CSS, was placed into service in the late 1990s, and was still being used in 2020.[9] In addition, the Company

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[2]Document No. 01897-2020, Gulf Power Company's response to Staff's First Data Request, No. 3.
[3]See Id.
[4]See Id.
[5]Document No. 01897-2020, Gulf Power Company's response to Staff's First Data Request, No. 2.
[6]Document No. 01897-2020, Gulf Power Company's response to Staff's First Data Request, No. 1(a).
[7]Rules 25-6.0436(1)(e) and 25-6.0436(1)(m), F.A.C., specify the Commission's depreciation rate formulae and methodologies.
[8]Order No. PSC-2017·0178-S-EI, issued May 16, 2017, in Docket No. 20160186-EI, *In re: Petition for rate increase by Gulf Power Company;* Docket No. 20160170-EI *In re: Petition for approval of 2016 depreciation and dismantlement studies, approval of proposed depreciation rates and annual dismantlement accruals and Plant Smith Units 1 and 2 regulatory asset amortization, by Gulf Power Company.*
[9]Document No. 01897-2020, Gulf Power Company's response to Staff's First Data Request, No. 9.

stated its "request for a 20-year amortization period is well supported by both Gulf Power and industry experience."[10]

In its Petition, Gulf referenced Docket 20120015-EI,[11] in which Florida Power & Light Company (FPL) requested to extend the depreciable life of its newly implemented general ledger accounting system, SAP,[12] from five to 20 years, in order to more closely align with the period in which customers would experience the benefit of the system.[13] The Commission approved a settlement in that docket which, although not precedential, recognized a depreciable life of 20 years for the SAP system.[14] Similar to both the CSS and the SAP depreciable life extension, the CAMS software is expected to provide service to Gulf's customers for approximately 20 years.

Gulf states that the underlying software for CAMS is SAP's S4 system, which includes an ongoing maintenance contract with Gulf's parent company, NextEra Energy.[15] Additionally, Gulf states that NextEra Energy has worked with SAP for more than 15 years, and has had no significant interruptions of service.[16] Gulf believes that the proposed 20-year ASL for the CAMS software will allow accounting consistency between FPL and Gulf.

Given the circumstances presented by Gulf, staff agrees that a 20-year life is a more accurate reflection of the expected service life of the CAMS software, and will result in a more accurate depreciation expense.

For the reasons outlined in this analysis, staff recommends that an annual depreciation rate of 5 percent be approved for the new CAMS software, applicable to Gulf's newly-established sub-account, Account 303.5 – Capitalization of Software.

[10]Id.
[11]Document No. 01071-2020, Petition of Gulf Power Company for Approval of Amortization Rate for Customer Account Management System, pg. 4.
[12]The SAP general ledger accounting system is produced by the enterprise software company of the same name, SAP.
[13]Document No. 01616-2012, in Docket No. 20120015-EI, Direct testimony of Kim Ousdahl and Exhs. KO-1 through KO-13, Pg. 14.
[14]Order 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.*
[15]Document No. 01897-2020, Gulf Power Company's response to Staff's First Data Request, No. 5.
[16]See Id.

Issue 2: If the new amortization rate in Issue 1 is approved, what should be the effective date?

Recommendation: If the amortization rate is approved in Issue 1, staff recommends an implementation date of February 24, 2020. (Smith II)

Staff Analysis: Gulf filed its Petition on February 24, 2020. Gulf explained in a response to staff's data request that it also began recording depreciation expense related to the CAMS system that same month.[17] Since the goal of depreciation expense is to match the expense with the useful life of the asset, staff believes it is appropriate to allow Gulf to implement the new amortization rate as of February 24, 2020, in order for the Company to record the appropriate amortization expense. Therefore, staff recommends an implementation date of February 24, 2020.

[17]Document No. 01897-2020, Gulf's Responses to Staff's First Data Request, No. 1.

Issue 3: If the Commission approves staff's recommendation in Issue 1, should any accounting entries or adjustments be authorized as part of this docket?

Recommendation: Yes. Staff recommends the Commission authorize accounting entries to reflect the new amortization rate. (Smith II)

Staff Analysis: Gulf stated that it placed $71.9 million related to CAMS software into Account 303 Miscellaneous Intangible Plant.[18] The Company further explained that it began recording depreciation expense based on the previously approved 7-year life.[19] The resulting depreciation expense of $428,000 and $856,000 was recorded in February and March 2020, respectively.

In its Petition, Gulf requested that the new 20-year amortization rate be implemented retroactively to the filing date of this Petition.[20] Gulf explained that if the Commission approves the requested 20-year rate in the instant case, it would reverse the depreciation expense.[21] Gulf further explained that this reversal would be accomplished by debiting Account 404 - Amortization of limited term Electric Plant, and crediting Account 111 - Accumulated Provision for Amortization of Electric Utility Plant for the amounts previously recorded at the 7-year rate, and recording the appropriate expense at the newly approved 20-year rate.[22] The Company stated that if the new 20-year rate was approved in June of 2020, these adjustments would total $1.9 million.[23] No transfers between accounts would be necessary.[24]

Staff believes Gulf's request is appropriate because, as discussed in Issue 1, the 20-year rate more accurately reflects the useful life of the CAMS system and, therefore, results in a more accurate and appropriate depreciation expense. Staff recommends the Commission authorize Gulf to make the appropriate accounting adjustments reflecting the requested 20-year amortization rate.

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[18]Document No. 01897-2020, Gulf's Responses to Staff's First Data Request, No. 1.
[19]Id.
[20]Document No. 01071-2020, Petition of Gulf Power Company for Approval of Amortization Rate for Customer Account Management System.
[21]Document No. 01897-2020, Gulf's Responses to Staff's First Data Request, No. 4.
[22]Id.
[23]Id.
[24]Document No. 01897-2020, Gulf's Responses to Staff's First Data Request, No. 1.

Issue 4: Should this docket be closed?

Recommendation: If no protest to this proposed agency action is filed by a substantially affected person within 21 days of the issuance of the order, a consummating order should be issued and the docket should be closed. (Stiller)

Staff Analysis: If no protest to this proposed agency action is filed by a substantially affected person within 21 days of the issuance of the order, a consummating order should be issued and the docket should be closed.