

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: November 17, 2020

TO: Office of Commission Clerk (Teitzman)

FROM: Division of Economics (Kunkler, Smith II) *JKH*
Office of the General Counsel (Stiller, Crawford) *JSC*

RE: Docket No. 20200191-GU – Petition for approval of amortization rate for Starnik customer information system and other software accounting adjustments, by Florida City Gas.

AGENDA: 12/01/20 – Regular Agenda – Proposed Agency Action -- Interested Persons May Participate

COMMISSIONERS ASSIGNED: All Commissioners

PREHEARING OFFICER: Fay

CRITICAL DATES: None

SPECIAL INSTRUCTIONS: None

Case 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 \$0.²

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.³ FCG further states that the Starnik CIS will tie into FCG's field operations software to offer the Company increased customer support capabilities.⁴

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 the Commission 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.⁵

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.

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

²Document No. 04264-2020, Petition for Approval of Amortization Rate for Starnik Customer Information System and Other Software Accounting Adjustments by Florida City Gas, pg. 3.

³*Id.*

⁴*Id.*

⁵Order 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.*

Discussion of Issues

Issue 1: Should the Commission approve FCG's request to establish new subaccounts within FERC account 303 – Miscellaneous Intangible Plant for its Starnik CIS software and traditional capitalized software arrangements, and, if so, what are the appropriate corresponding depreciation rates?

Recommendation: Yes, new subaccounts within FERC account 303 – Miscellaneous Intangible Plant and annual depreciation rates applicable to FCG's new Starnik CIS software and traditional software arrangements should be approved. The Commission should approve the establishment of subaccount 303.20 – Software as a Service – 20 years, for the Starnik CIS software. The appropriate annual depreciation rate for this subaccount is 5 percent. The Commission should also approve the establishment of two subaccounts for traditional capitalized software arrangements, subaccount 303.01 - Software Non-Enterprise, and subaccount 303.02 - Computer Software. The appropriate annual depreciation rates for traditional capitalized software for subaccounts 303.01 and 303.02 are 10 percent and 8.3 percent, respectively. As proposed by FCG, the Company should transfer all plant balances to and record all future acquisition amounts of Starnik CIS software and traditional software arrangements in these proposed subaccounts. (Kunkler)

Staff Analysis:

Starnik CIS

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.⁶ 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 (TSP), within a single system.⁷ The total capital cost associated with Starnik software is \$5.2 million as of August 2020.⁸

FCG stated that the Starnik CIS software is currently recorded in subaccount 391.11, Computer Software.⁹ 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 approved by the Commission, 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.¹⁰

⁶Document No. 09485-2020, Florida City Gas's response to Staff's First Data Request, No. 3.

⁷*Id.*

⁸Document No. 09485-2020, Florida City Gas's response to Staff's First Data Request, No. 2.

⁹Document No. 09485-2020, Florida City Gas's response to Staff's First Data Request, No. 1.

¹⁰Document No. 11994-2020, Florida City Gas's response to Staff's Third Data Request, No. 7a.

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.¹¹ 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.¹²

To support the Company's proposed 20-year ASL for Starnik CIS, FCG referenced Docket No. 20120015-EI,¹³ in which FPL requested to extend the depreciable life of its newly implemented general ledger accounting system, SAP,¹⁴ from five to 20 years, in order to more closely align with the period in which customers would experience the benefit of the system.¹⁵ The Commission approved a settlement in that docket which, although not precedential, recognized a depreciable life of 20 years for the SAP system.¹⁶ FCG also referenced Docket No. 20200059-EI,¹⁷ 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. The Commission approved Gulf's amortization rate for CAMS in Order No. PSC-2020-0210-PAA-EI, issued June 25, 2020.¹⁸

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.¹⁹

Given the circumstances presented by FCG, staff agrees 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. Staff also agrees with FCG's proposed zero NSV. With these parameters, a 5 percent depreciation rate appears reasonable. Staff believes that FCG's request to establish the subaccount 303.20 – Software as a Service as the subaccount for this asset is appropriate.

¹¹Rules 25-6.0436(1)(e) and 25-6.0436(1)(m), F.A.C., specify the Commission's depreciation rate formulae and methodologies.

¹²Order 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*.

¹³Document No. 04264-2020, Petition for Approval of Amortization Rate for Starnik Customer Information System and Other Software Accounting Adjustments by Florida City Gas, pg. 4.

¹⁴SAP general ledger accounting system is produced by the enterprise software company of the same name, SAP

¹⁵Document No. 01616-2012, in Docket No. 20120015-EI, Direct testimony of Kim Ousdahl and Exhs. KO-1 through KO-13, Pg. 14.

¹⁶Order 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.

¹⁷Document No. 04264-2020, Petition for Approval of Amortization Rate for Starnik Customer Information System and Other Software Accounting Adjustments by Florida City Gas, pg. 5.

¹⁸Order 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*.

¹⁹Document No. 04264-2020, Petition for Approval of Amortization Rate for Starnik Customer Information System and Other Software Accounting Adjustments by Florida City Gas, pg. 4.

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.²⁰ 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 (see Issue 2). 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").²¹ Staff believes FCG's proposal as relates to the establishment of the proposed subaccounts for traditional capitalized software at the proposed depreciation rates is reasonable.

Conclusion

For the reasons outlined in this analysis staff recommends approval of 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. Staff also recommends that the Commission 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. Staff recommends that these new subaccounts, 303.01 and 303.02, feature the same depreciation rates of 10 percent and 8.3 percent as the current subaccounts, respectively. In addition, staff recommends that FCG record all going-forward acquisitions of like assets to these new subaccounts.

²⁰Document No. 11994-2020, Florida City Gas's response to Staff's Third Data Request, No. 7a.

²¹*Id.*

Issue 2: If the Commission approves staff's recommendation in Issue 1, should any accounting entries or adjustments be authorized, and if so, what should be the effective date?

Recommendation: If the Commission approves staff's recommendation in Issue 1, staff recommends the Commission authorize accounting entries to reflect the new amortization rate, but the implementation date of the adjustments should be on the date of the issuance of a final Commission Order in this docket, rather than August 1, 2020, as proposed by FCG. (Smith II)

Staff Analysis: FCG filed its Petition on August 6, 2020. FCG explained in a response to staff's data request that it placed \$5.2 million related to Starnik CIS software into Account 391.11 - Computer Software in June 2020.²² FCG further explained that it began recording amortization expense related to the Starnik system that same month at the currently approved 12-year rate.²³

FCG explained that if the Commission approves its request, the Company would transfer \$5.2 million related to the Starnik CIS from Account 391.11 to the requested subaccount within Account 303.²⁴ 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.²⁵ FCG explained that it would record amortization expense for June and July at the currently approved 12-year rate.²⁶ The Company further clarified that, with Commission approval, it would begin using the new 20-year rate in August.²⁷ This would reduce depreciation expense from \$35,600 per month to \$21,500. As discussed in Issue 1, 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.

Staff agrees with FCG's general approach to the accounting adjustments. However, staff disagrees with FCG's proposal to implement the new rate on August 1, 2020. Staff believes that the amortization expense for the Starnik CIS software should be recorded using the new 20-year life depreciation rate (5 percent per annum) beginning on the date of the issuance of a final Commission order in this docket. This is in accordance with Rule 25-7.045(2)(a), F.A.C., which states that no utility may initiate a new depreciation rate without prior Commission approval. As such, amortization expense recorded from the in-service date through the date of a final Commission order would be accrued at the existing 12-year amortization rate (8.3 percent per annum), after which the accrual would be recorded at the requested 20-year rate (5.0 percent per annum).

Staff recommends the Commission authorize FCG to make the appropriate accounting adjustments, as outlined above, reflecting the requested 20-year amortization rate beginning on the date of the issuance of a final Commission Order in this docket

²²Document No. 09485-2020, FCG's Responses to Staff's First Data Request, No. 1.

²³*Id.*

²⁴*Id.*

²⁵*Id.*

²⁶Document No. 11481-2020, FCG's Responses to Staff's Second Data Request, No. 1.

²⁷*Id.*

Issue 3: Should the Commission approve FCG's request to establish new sub-accounts within FERC Account 303 – Miscellaneous Intangible Plant for its future SaaS arrangements, and, if so, what are the appropriate corresponding depreciation rates?

Recommendation: No. The Commission should deny FCG's request to establish new sub-accounts within FERC Account 303 – Miscellaneous Intangible Plant for its future SaaS software arrangements. (Smith II)

Staff Analysis: The Company requested Commission 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 years²⁸

FCG stated that it currently does not have any plant balances to transfer into these subaccounts.²⁹ Nor does the Company have any current or pending SaaS arrangements that it plans to capitalize and record to any of these subaccounts.³⁰ 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, staff believes FCG's request to establish these subaccounts is premature. Therefore, staff recommends the Company's request to establish specific SaaS subaccounts 303.10 through 303.19 should be denied at this time.

²⁸Document No. 09485-2020, FCG's Responses to Staff's First Data Request, No. 4.

²⁹*Id.*

³⁰Document No. 11994-2020, FCG's Responses to Staff's Third Data Request, No. 3.

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.