

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 22, 2022

TO: Office of Commission Clerk (Teitzman)

FROM: Division of Accounting and Finance (Norris, Hinson) **ALM**
Office of the General Counsel (J. Crawford, Sandy) **JSC**

RE: Docket No. 20220128-PU – Joint petition requesting approval to establish regulatory assets, by Florida Public Utilities Company, Florida Public Utilities Company - Indiantown Division, Florida Public Utilities Company - Fort Meade, and Florida Division of Chesapeake Utilities Corporation.

AGENDA: 12/06/22 – Regular Agenda – Proposed Agency Action- Interested Persons May Participate

COMMISSIONERS ASSIGNED: All Commissioners

PREHEARING OFFICER: La Rosa

CRITICAL DATES: None

SPECIAL INSTRUCTIONS: None

Case Background

On July 18, 2022, Florida Public Utilities Company (electric and gas divisions), Florida Public Utilities Company - Indiantown Division, Florida Public Utilities Company - Fort Meade, and Florida Division of Chesapeake Utilities Corporation (collectively referred to as FPUC or the Companies) filed a joint petition for approval to establish regulatory assets on the books of the consolidated natural gas entity, as well as the electric division's books, for purposes of recording and preserving the non-capitalizable costs associated with the setup and implementation of a new customer information system that is planned to be in-service in 2025.

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

Discussion of Issues

Issue 1: Should the Commission approve FPUC's request for approval to establish regulatory assets for recording and preserving costs associated with the setup and implementation of a new customer information system?

Recommendation: No. The Commission should deny FPUC's request for regulatory assets for the costs associated with the duties outlined in paragraph 10 of its petition and allow the costs to be capitalized to plant. Further, any post implementation training costs should be expensed in accordance with the Uniform System of Accounts (USOA) for Public Utilities and Licensees as found in the Code of Federal Regulations, Title 18, Subchapter C, Parts 101 and 201, Plant Instructions 3.(19). (Hinson)

Staff Analysis: FPUC filed a joint petition to establish regulatory assets to be able to record on its books what it identified as non-capitalizable costs associated with the implementation of its modified customer information system (CIS). Currently, the Companies are utilizing a product of Vertex Business Solutions called ECIS. ECIS supports the billing to natural gas and electric customers in Florida but will no longer be supported by VertexOne after the completion of the current contract in December 2024. As a result, Chesapeake Utilities Corporation is pursuing a modernized CIS that will address the needs of the Companies. The implementation of the new CIS will begin during the first quarter of 2023 and be completed during the first quarter of 2025.

The total estimated cost of the new CIS is \$40 million, with approximately \$9.5 million being identified by FPUC as non-capitalizable under Generally Accepted Accounting Principles (GAAP) ASC 350-40. FPUC asserted that examples of implementation costs of new technology that are not capitalizable under GAAP are expertise in the search and selection process, documenting current processes and tariff requirements, data conversion, training, and the process of re-engineering to adapt targeted software to current tariff requirements with minimal modifications to the technology. Specifically, as reflected in paragraph 10 of its petition, the Companies will perform duties for the CIS prior to implementation that include gathering and validating business requirements, vendor review and selection, data cleansing and preparation, and process documentation. In response to a data request, FPUC stated that Chesapeake Utilities, FPUC's parent company, has capitalization policies requiring these items to be expensed.

FPUC acknowledges there are no Commission rules or orders that require jurisdictional electric and natural gas utilities to follow the capitalization guidelines of ASC 350-40, as well as no specific requirements to request approval for setting up a regulatory asset.¹ FPUC further acknowledges that the USOA for jurisdictional electric and natural gas utilities does not prohibit the capitalization of the cost associated with the duties reflected in paragraph 10 of its petition. In a response to data requests, FPUC elaborated more fully on the four duties listed in paragraph 10. Staff notes that these duties are akin to prerequisite land clearing costs for structures that are capitalized to plant. Thus, staff believes these duties are essential prerequisite tasks to implement the new CIS and should be capitalized to plant in service, specifically USOA Account 3914, for

¹ Document No. 05435-2022

which FPUC plans to record the other \$30.5 million estimated capital costs associated with the new CIS.

Moreover, FPUC acknowledges that any training costs incurred after the new CIS is in service would be expensed under the USOA for Public Utilities and Licensees as found in the Code of Federal Regulations, Title 18, Subchapter C, Parts 101 and 201, Plant Instructions 3.(19).² However, due to this expensing requirement, FPUC stated in its data request response that it will seek approval to classify these post implementation training costs as a regulatory asset with subsequent amortization.

Staff has several concerns with this additional regulatory asset request. First, as reflected in a response to a data request, the training costs prior to the implementation of the new CIS are only \$52,467 for FPUC's jurisdictional electric and natural gas systems in Florida. Second, if the Commission were to approve the proposed natural gas system consolidation in Docket No. 20220067-GU, staff believes that any post implementation training costs would be insignificant compared to the revenue requirement impact of a 100 basis points change in return on equity. In other words, staff believes any post implementation training costs expensed would not place FPUC's natural gas system in an under-earnings posture. Third, based on allocation information provided by FPUC, staff would note that the allocated share of FPUC's electric system would be less than FPUC's natural gas system share for any post implementation training costs.

Based on the foregoing, staff recommends the Commission deny FPUC's request to establish regulatory assets for the costs associated with the duties outlined in paragraph 10 of its petition, as it is more appropriate to capitalize these costs to plant. Further, staff recommends that any post implementation trainings costs be expensed in accordance with the USOA for Public Utilities and Licensees as found in the Code of Federal Regulations, Title 18, Subchapter C, Parts 101 and 201, Plant Instructions 3.(19).

² Document No. 0870-2022

Issue 2: 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. (J. Crawford, Sandy)

Staff Analysis: 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.