

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

In Re: Petition for approval of a)
 methodology for expensing environmental)
 costs that have been accrued to a reserve,)
 etc., by Peoples Gas System)
 _____)

Docket No.

Submitted for filing:
 3-25-98

PETITION OF PEOPLES GAS SYSTEM

Peoples Gas System ("Peoples" or the "Company"), by its undersigned attorneys, files its petition for an order approving (A) a methodology for expensing environmental costs that have been accrued to a reserve by the Company during 1998 and thereafter, (B) suspension of the environmental cost accrual applicable to the Company's West Florida divisions, and (C) write off of the Company's liability in the West Florida environmental reserve account against the current balance of unamortized debt costs related to the Company's West Florida divisions. In support of its petition, Peoples says:

1. The name of the petitioner and the mailing address of its principal office is:

Peoples Gas System
 P. O. Box 2562
 Tampa, Florida 33601-2562

2. The name and mailing address of the person authorized to receive notices and communications with respect to this petition are:

Ansley Watson, Jr., Esq.
 Macfarlane Ferguson & McMullen
 P. O. Box 1531
 Tampa, Florida 33601-1531

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FPC/ST. JOHN'S COUNTY

BACKGROUND

Environmental Costs - Peoples' Divisions Other Than West Florida

3. Peoples currently has nine manufactured gas plant sites in the areas formerly served by Peoples Gas System, Inc. The Company incurs expenses for the testing, assessment and cleanup of contamination at these sites resulting from the process of manufacturing gas from coal, which was discontinued after natural gas first became available in Florida. By its Order No. PSC-92-0924-FOF-GU, issued on September 3, 1992 in Peoples' last rate proceeding, the Commission authorized Peoples to establish a reserve for, and to amortize annually, the environmental expenses associated with these manufactured gas plant sites (as had previously been approved by the Commission in Order No. 23858, Docket No. 891353-GU).

4. Peoples continued the accrual and amortization of environmental costs until it was ordered by the Commission (Order No. PSC-93-1773-FOF-GU, Docket No. 931101-GU) to complete the amortization of its current balance by accelerating the amortization to \$2,496,000 in environmental costs (*i.e.*, twice the annual authorized accrual). Thereafter, Peoples continued to accrue environmental expenses to the reserve account as authorized in its last rate case.

5. As required by the Commission's Order No. PSC-98-0329-FOF-GU, issued February 24, 1998, the deferred environmental costs on Peoples' balance sheet as of December 31, 1996 were written off against the overearnings calculated by the Commission Staff in Docket No. 971310-GU. That order also stated that in the future, all environmental costs should be expensed as incurred until the Company formally requested and received Commission authority to account for these costs using reserve or other accounting treatment.

Environmental Costs - Peoples' West Florida Divisions

6. Peoples also has old manufactured gas plant sites in its Ocala Division, which was acquired by the merger into Peoples of West Florida Natural Gas Company. The Commission, prior to that merger, had authorized an accrual of \$198,589 annually for environmental expenses. In its Order No. PSC-94-0452-FOF-GU, the Commission ordered that, at June 30, 1997, during West Florida's next rate case, or at the discretion of the Commission, any accruals in excess of actual expenses would be reviewed and subject to refund with interest, or other disposition, independent of West Florida's earnings. As of June 30, 1997, West Florida's environmental reserve balance was a liability of \$475,306.

Peoples' Debt-Related Costs Associated With West Florida

7. At year end 1997, Peoples had \$745,850 of debt-related costs associated with West Florida. Of this amount, \$340,782 is related to unamortized issuance costs, and the remainder is associated with prepayment premiums incurred when the debt was retired in June 1997. The debt was retired because net present value savings could be obtained notwithstanding the prepayment premiums.

8. APB-26 of GAAP specifies that when an *unregulated* company extinguishes its debt, the gain or loss is required to be adjusted for issuance costs and for unamortized premiums or discounts. Peoples has been amortizing the West Florida debt costs in conformity with the FERC Uniform System of Accounts (18 CFR Part 201), General Instructions ¶17(C)(2), which allows amortization of related debt expenses over the remainder of the original life if the long term obligation is financed by another issue before the maturity date of the first issue. Hence, Peoples' accounting treatment for unamortized debt costs has differed from GAAP. Regulatory

assets are generally defined as amounts that have been given regulatory treatment that differs from the generally accepted accounting procedures that an unregulated company must follow. Therefore, the \$745,850 balance of debt-related costs exists on Peoples' surveillance report as a regulatory asset.

AUTHORITY REQUESTED

9. The authority which Peoples seeks of the Commission by this petition is threefold:

A. Peoples requests that the Commission approve an annual amount for the Company to expense for environmental costs incurred in 1998 and thereafter. The methodology for which Peoples seeks approval includes an adjustment mechanism which will increase or decrease the expense depending on the level of the accumulated reserve over time. This will mitigate the earnings impact from fluctuations which occur in environmental costs while ensuring that large deferred asset or liability balances are not accrued over time. Therefore, Peoples requests authority to establish an expensing mechanism which will apply to prospective environmental costs.

(1) The requested expense is \$640,000 annually, based on combined historical annual environmental costs at Peoples Gas System (including its West Florida Divisions). Peoples also requests authority to adjust the expense based on the Company's budgeted surveillance report if the expected reserve balance reaches certain levels after applying the normal \$640,000 expense amount in a given year. The following adjusted annual expense amounts would apply under the circumstances listed below:

<u>Forecasted Reserve Balance</u>	<u>Adjusted Annual Expense</u>
Asset more than \$2 million	\$1,280,000
Asset more than \$1 million (but less than \$2 million)	\$ 960,000
Asset less than \$1 million	\$ 640,000
Liability less than \$1 million	\$ 640,000
Liability more than \$1 million (but less than \$2 million)	\$ 320,000
Liability more than \$2 million	\$ 0

- (2) Peoples submits that the \$640,000 annual expense amount, adjusted as set forth above, would avoid repeated petitions to the Commission for adjustment of the annual expense amount, while ensuring that the balance in the reserve is limited over time. The amount of the expense would be established at the beginning of each year and the computation thereof would be included in the Company's forecasted earnings surveillance report filing with the Commission.
- (3) In Docket No. 911150-GU, Peoples' rates were established using an annual environmental expense accrual of \$1,248,000. This amount was established in order to amortize a sizeable existing and expected balance. The Company is now requesting approval of an annual expense of \$640,000 (which, as adjusted, could range from zero to \$1,280,000) given that there is neither a current balance nor any sizeable expected expenditures.

It should also be considered that, although the Company's current rates reflect the \$1,248,000 accrual established in its last rate case, there

have been changes in other expenses and revenues since the last rate case. For example, the Company now pays a higher federal income tax rate (\$220,000 of additional expense in 1997), and new Financial Accounting Standards Board rules have been established (\$360,000 average annual increase in expense attributable to FAS 106 alone).

Finally, the establishment of the new annual expense methodology proposed herein will be tempered by the Commission's monitoring -- via surveillance reports submitted by the Company -- the Company's earnings for each year.

B. Peoples requests that the \$198,589 annual environmental cost accrual for West Florida (*see* Paragraph 6 above) be suspended, and that prospective environmental costs associated with the Company's Panama City and Ocala divisions be applied against the new environmental reserve accrual for which authority is sought above.

C. Peoples requests that the Commission dispose of the June 30, 1997 liability related to the West Florida reserve account for environmental costs (*see* Paragraph 6 above) by writing it against a portion of the current balance of unamortized debt costs related to West Florida (*see* Paragraphs 7 and 8 above). Peoples submits that this disposition of the unamortized debt costs will benefit both the ratepayers and the Company. The ratepayers will benefit by the reduction in the amount of this regulatory asset because they will not be required to support a return on it as a part of the Company's rate base. The Company will benefit from having a more competitive balance sheet. Finally, such action would dispose of the West Florida liability related to