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STATE OF FLORIDA

TIMOTHY DEVLIN, DIRECTOR
AUDITING & FINANCIAL ANALYSIS
(904) 413-6480

Public Service Commission

May 16, 1997

Ms. Anne V. Wood, Accounting and Rates Manager
Chesapeake Utilities Corporation
Florida Division
1015 6th Street
Winter Haven, FL 33881

Re: Docket No. 970428-GU

Dear Ms. Wood:

As we begin our review of the depreciation status of Chesapeake, a few questions have developed. Please provide the information requested in the attached initial review by June 27, 1997. Should you have any questions, please telephone me at (904) 413-6453 or Jeanette Bass at (904) 413-6461.

Your response to our request is appreciated.

Sincerely,

Patricia S. Lee

Patricia S. Lee
US/C Engineer Supervisor

PSL/JB:lts
Attachment

cc: Division of Electric & Gas
Divsion of Legal Services
Office of Public Counsel
Division of Records and Reporting

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FPSC-RECORDS/REPORTING

CHESAPEAKE UTILITIES CORPORATION
1997 DEPRECIATION STUDY – DOCKET NO. 970428-GU

INITIAL REVIEW

1. Since the Company proposes January 1, 1998 as the date of implementation for new depreciation rates, the recovery status for each account needs to be determined at that date. Rule 25-7.045(5)(b), Florida Administrative Code, sets forth this requirement. Please provide December 31, 1997 estimated investment and reserve balances, as well as 1997 estimated additions and retirements for each account. The data may involve both recorded activity, to the extent it is available; and projected activity, for the remainder of 1997. Also, please bring forward to December 31, 1997 the information provided on Attachment A, Schedule 1, titled in part "Comparison of Current Depreciation Rates and Proposed Depreciation Rates."

2. a. For Account 392.3, and for each year since the last study, please provide retirements booked by vehicle type, showing the in-service date, retirement date, and original cost of each vehicle. Also provide the gross salvage realized, and any incurred cost of removal for each retired vehicle.
   b. For your surviving investment for Account 392.3, please provide a listing of all vehicles in service as of January 1, 1998, showing the in-service date and original cost of each.

3. As a result of the recently completed CPR audit, adjustments were made in 1996 to Accounts 378 and 385 to remove inappropriately capitalized additions from plant in service. There was not any corresponding adjustment shown for reserve.
   a. What amount of reserve is correctly associated with the plant adjustment amounts for these accounts for 1996?
   b. Does Chesapeake have a procedure which triggers an adjustment to reserve when an adjustment is made to plant? If so, please provide a copy of the procedure.

4. In the course of the recently completed CPR audit, an issue was raised regarding the treatment of services inactive for five years or longer. The Company stated that all such services had been retired as of December 31, 1996. Both steel and plastic services show a high level of retirements for the year 1996, compared to prior years, which reflect this effort. Staff would like to understand the circumstances which produced the costs of removal shown for plastic services and for steel services for the years 1992 through 1996.

   The data indicates that removal of plastic services is far less costly than removal of steel services, which generally may be reasonable. In review of the situation, several factors can be noted. The removal activity is labor intensive; if an early vintage service were removed in 1996, the labor costs associated with the removal could have been multiples of the capitalized investment associated with the service being retired. Since vintages for surviving steel services go back into the 1930's, cost of removal of several hundred percent may be expected in some instances when those early vintage services are involved.

The vintages for plastic services are more recent. All investments date after 1981, and the average investment age is 5 years. Consider a case where the same labor hours are spent removing an old steel service as are required to remove a plastic service of late eighties vintage. Then for the plastic, the percentage calculated for cost of removal could readily be less than 100%, while the percentage for the older steel installation might exceed 200%.

The data indicates that percentage cost of removal for steel services has been decreasing, from almost 240% in 1992 to less than 140% in 1996. For plastic services, the annual cost of removal has always been less than 50%.

Staff would like information on any additional factors which are thought to contribute to the variance in costs shown in the data. Please provide any explanatory information which is available.

a. Please provide a description of the typical physical activity involved in the abandonment of a plastic service and of a steel service, for the service located under pavement and not under pavement.
b. What percentage of each type of service (plastic and steel) is under pavement?
c. What is the estimated time required to abandon each type of service under pavement, as compared to one not under pavement?
d. Please provide loaded hourly labor rate(s), as well as the cost(s) for any materials which are necessary, to abandon each type of service in each situation.

5. Within the filing of the study in this docket, Chesapeake has requested approval to amortize an amount of $19,000 over a three-year period. That amount is cited as cost for the study filed. Staff would like to understand the reasoning behind this request.

a. For what reason(s) did Chesapeake elect to request amortization in place of the normal accounting treatment for this expense?
b. Please explain how the three year amortization period, as proposed by the Company, was determined.
c. Would any additional expenses be anticipated, in particular if this matter should go to hearing?