

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

In re: 2002 depreciation filing  
by Florida Division of  
Chesapeake Utilities  
Corporation.

DOCKET NO. 020304-GU  
ORDER NO. PSC-03-0319-PAA-GU  
ISSUED: March 6, 2003

The following Commissioners participated in the disposition of this matter:

LILA A. JABER, Chairman  
J. TERRY DEASON  
BRAULIO L. BAEZ  
RUDOLPH "RUDY" BRADLEY  
CHARLES M. DAVIDSON

NOTICE OF PROPOSED AGENCY ACTION  
ORDER APPROVING THE FLORIDA DIVISION OF CHESAPEAKE  
UTILITIES CORPORATION'S DEPRECIATION RATES

BY THE COMMISSION:

NOTICE is hereby given by the Florida Public Service Commission that the action discussed herein is preliminary in nature and will become final unless a person whose interests are substantially affected files a petition for a formal proceeding, pursuant to Rule 25-22.029, Florida Administrative Code.

Rule 25-7.045, Florida Administrative Code (F.A.C.), requires natural gas utilities to file comprehensive depreciation studies once every five years. On May 8, 2002, the Florida Division of Chesapeake Utilities Corporation (Chesapeake or company) filed its depreciation study in accordance with this rule. Chesapeake's last comprehensive depreciation study was filed on April 4, 1997.

The current depreciation rates for Chesapeake are those provided by Order No. PSC-98-0379-FOF-GU, issued March 9, 1998. The current study is in keeping with Rule 25-7.045, F.A.C., which requires gas utilities to file a comprehensive depreciation study at least once every five years from the submission date of the previously filed study.

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FRANCIS COMMISSION CLERK

The company has increased its average number of customers by about four percent over the past five years and expects this growth to continue into the future. A comprehensive review of Chesapeake's planning and activity since its prior depreciation filing indicates a need for a revision to the currently prescribed depreciation rates. Based upon a comprehensive review of Chesapeake's depreciation study, we hereby approve the remaining lives, net salvages, reserves, and resultant depreciation rates shown on Attachment A to this Order.

Chesapeake has proposed January 1, 2003, as the implementation date for the new depreciation rates. All the supporting data and calculations that have been submitted support this date. This date is the earliest practicable date for utilizing the revised depreciation rates. Accordingly, we hereby approve January 1, 2003, as the implementation date for the new depreciation rates.

This filing was essentially a staff-assisted study. The company provided aged retirement data for the 1998-2001 period and forecasted 2002 data. The company also provided the average age distributions of the surviving investments for each account. We then worked with the company in developing appropriate life and salvage values. As a result of the review and analytical process, an agreement was reached on the lives, net salvages, and resultant depreciation rates for all accounts.

The approved changes in the distribution and general plant depreciation rates can be attributed mainly to: (1) updated account ages to reflect activity since the last represcription; and, (2) changes in the associated reserve positions. The accounts with a substantial change are discussed below.

Mains and Services (Accounts 376 and 380)

Mains and services comprise about 78 percent of the investment in the distribution plant function and about 73 percent of the company's total depreciable investment. When a main or service is retired, it is generally abandoned in place rather than physically removed. Cost of removal is associated with activities incurred with the abandonment process. This involves labor and material costs associated with a crew to travel to the site, digging down to the pipe, cutting and capping the pipe, refilling the hole, and

restoring the roadway. Restoring the roadway becomes significant if the main or service is located under pavement. Surface restoration normally occurs at two locations for each service line retired; one at the point of the service riser, and the other at the property line or at the connection to the main. The galvanic action of dissimilar metals such as a galvanized steel service line running off a cast iron main requires that the line be cut at the main rather than the property line. Under these circumstances, paving restoration is required.

The approved remaining lives for these accounts simply reflect an update of each account's age. New mains and services are generally plastic rather than steel. In fact, only \$7,000 of steel services have been added since 1997 compared to over \$2 million of plastic services.

The approved net salvage values are generally in line with each account's expectations. The retirement rate for steel services during the 1997-2002 period has averaged almost two percent with cost of removal averaging over 100 percent. An increase in the cost of removal is approved for steel services in recognition of consistent activity based on substantive retirements.

#### Meters and Regulators (Accounts 381 and 383)

Meters are used to measure gas consumption at the customer's premise; regulators are used to regulate the gas pressure at the customer's premise. Under Rule 25-7.0461(6), F.A.C., the accounting treatment for this equipment is cradle-to-grave. At the time a meter or regulator is purchased, the cost is capitalized. A retirement does not occur until final disposition. All costs associated with change-outs and refurbishment are expensed. The approved remaining lives simply reflect account activity since the last depreciation review.

#### Meter and Regulator Installations (Accounts 382 and 384)

When a meter or regulator is placed in a location that has never before had service, or when an additional meter or regulator is added to an old location (increasing the number at the location), the installation costs are capitalized. Generally,

meter and regulator installations are retired only when the meter or regulator is removed from the location, and no new one is installed, or when service through the meter or regulator is cut. In other words, the life of these installations should be very similar to the life of services. The approved remaining lives are in line with this practice. The approved negative 20 percent net salvage is more reflective of expected removal costs than the current negative five percent.

Other Equipment (Account 387)

This account has experienced a substantial increase in investment over the past five years with a growth rate of over 84 percent and no retirements. The company has stated that the growth is directly related to the growth of the company's customer base. A review of the data indicates that this investment is experiencing a longer life indication than first perceived. Recognizing the current age of the surviving investment is 7.8 years, and the fact that there are no near-term plans for retiring any of this equipment, we approve use of a 15-year average service life with a S4 mortality dispersion. A 7.2-year remaining life results.

VAX Equipment (Account 391.4)

This subaccount is not used by the other gas distribution companies in Florida, so direct comparison is not available; however, the associated equipment is basically computer equipment, and so this account should be treated like the computer equipment accounts of other Florida companies. According to Chesapeake, this equipment was initially purchased for use with its financial system. The company states that the equipment is virtually obsolete now. The fact that the equipment is tied to the corporate headquarters imposes additional factors to be considered.

Since the last represcription, almost 30 percent of the account's investment has been either retired or transferred to the corporate office. Three printers have been retired, while one printer and its associated power equipment was transferred. The remaining investment is comprised of printers and cables with a 5.2-year average age. The approved average remaining life reflects the account's age and a 7-year average service life.

The current reserve position reflects the near full recovery of the embedded investment. Additionally, the company does not anticipate purchasing additional VAX equipment. Nevertheless, in the event new equipment is added, we approve use of a 14.2 percent whole life depreciation rate, comprised of a 7-year average service life and zero net salvage.

Transportation Equipment-Autos/Light Trucks (Account 392.1)

This transportation account has experienced several changes since the last depreciation study. In 2001, three vehicles were transferred from the regulated to the non-regulated company. At that time, the related investments were transferred with no commensurate transfers of reserve. The company made correcting journal entries in 2002. However, upon review, it was discovered that additional adjustments are needed to reflect an overstatement of investment transferred, and an understatement of reserve transferred. According to the company, correcting journal entries will be made during the first quarter of 2003.

Transportation Equipment-Other (Account 392.3)

The investment in this account consists of four trailers. Recognizing the average age of 10.1 years, minimal salvage is expected to be realized at the time of retirement. With this in mind, we approve zero salvage for this account.

Tools and Work Equipment (Account 394)

The investment in this account has increased almost 150 percent during the past five years since the last represcription. The majority of the growth is due to a transfer associated with a 1986 compressed natural gas station from Account 392.3, Transportation - Other. The approved 7.6 year average remaining life reflects the age impact of this transfer.

Power Operated Equipment (Account 396)

This account contains special equipment such as trenchers, forklifts, and backhoes. The investment has experienced an 88 percent growth rate during the 1997-2002 period, while at the same time experiencing no retirements. The approved 8-year average

remaining life and zero net salvage simply reflect an update of activity.

Investment Tax Credits and Excess Deferred Incomes Taxes

In this Order, we approve revisions to the company's remaining lives, to be effective January 1, 2003. Revising a utility's book depreciation lives generally results in a change in its rate of investment tax credits (ITCs) amortization and flowback of excess deferred income taxes (EDIT), in order to comply with the normalization requirements of the Internal Revenue Code (IRC) and underlying Regulations (REGs) found in Sections 46, 167, and 168, and 1.46, 1.67, and 1.68, respectively.

Section 46(f)(6), IRC, states that the amortization of ITCs should be determined by the period of time actually used in computing depreciation expense for ratemaking purposes and on the regulated books of the utility. Since we are approving a change in remaining lives, it is also appropriate to change the amortization of ITCs to avoid violating the provisions of sections 46 and 1.46, IRC and REGs, respectively.

Section 203(3) of the Tax Reform Act of 1986 (the Act) prohibits rapid flowback of depreciation related (protected) EDIT. Further, Rule 25-14.013, Accounting for Deferred Income Taxes Under SFAS 109, F.A.C., generally prohibits EDIT from being written off any faster than allowed under the Act. The Act, SFAS 109, and Rule 25-14.013, F.A.C., regulate the flowback of EDIT. Therefore, we find that it is appropriate that the flowback of EDIT be adjusted to comply with the Act, SFAS 109, and Rule 25-14.013, F.A.C.

The Commission, the Internal Revenue Service, and independent outside auditors all look at a company's books and records, and at the orders and rules of the jurisdictional regulatory authorities to determine if the books and records are maintained in the appropriate manner and to determine the intent of the regulatory bodies in regard to normalization. In order for there to be a clear audit trail, a prudent utility should revise ITCs and EDIT amortization and produce work papers to show how the revisions were made.

Therefore, we find that the current amortization of ITCs and the flowback of EDIT should be revised to reflect the approved remaining lives. In addition, Chesapeake shall file detailed calculations of the revised ITC amortization and flowback of EDIT at the same time it files its surveillance report covering the period ending December 31, 2003.

Based on the foregoing, it is

ORDERED by the Florida Public Service Commission that the remaining lives, net salvages, reserves, and resultant depreciation rates for the Florida Division of Chesapeake Utilities Corporation are hereby revised as set forth in the body of this Order and as contained in Attachment A to this Order. It is further

ORDERED that Attachment A to this Order is incorporated herein by reference. It is further

ORDERED that the implementation date for the revised depreciation rates is January 1, 2003. It is further

ORDERED that the current amortization of investment tax credits and the flowback of excess deferred incomes taxes shall be revised to reflect the approved remaining lives. Chesapeake shall file detailed calculations of the revised investment tax credits amortization and the flowback of excess deferred income taxes at the same time it files its surveillance report covering the period ending December 31, 2003. It is further

ORDERED that the provisions of this Order, issued as proposed agency action, shall become final and effective upon the issuance of a Consummating Order unless an appropriate petition, in the form provided by Rule 28-106.201, Florida Administrative Code, is received by the Director, Division of the Commission Clerk and Administrative Services, 2540 Shumard Oak Boulevard, Tallahassee, Florida 32399-0850, by the close of business on the date set forth in the "Notice of Further Proceedings" attached hereto. It is further

ORDERED that in the event this Order becomes final, this docket shall be closed.

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By ORDER of the Florida Public Service Commission this 6th day  
of March, 2003.

BLANCA S. BAYÓ, Director  
Division of the Commission Clerk  
and Administrative Services

By: Kay Flynn  
Kay Flynn, Chief  
Bureau of Records and Hearing  
Services

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NOTICE OF FURTHER PROCEEDINGS OR JUDICIAL REVIEW

The Florida Public Service Commission is required by Section 120.569(1), Florida Statutes, to notify parties of any administrative hearing that is available under Section 120.57, Florida Statutes, as well as the procedures and time limits that apply. This notice should not be construed to mean all requests for an administrative hearing will be granted or result in the relief sought.

Mediation may be available on a case-by-case basis. If mediation is conducted, it does not affect a substantially interested person's right to a hearing.



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The action proposed herein is preliminary in nature. Any person whose substantial interests are affected by the action proposed by this order may file a petition for a formal proceeding, in the form provided by Rule 28-106.201, Florida Administrative Code. This petition must be received by the Director, Division of the Commission Clerk and Administrative Services, 2540 Shumard Oak Boulevard, Tallahassee, Florida 32399-0850, by the close of business on March 27, 2003.

In the absence of such a petition, this order shall become final and effective upon the issuance of a Consummating Order.

Any objection or protest filed in this/these docket(s) before the issuance date of this order is considered abandoned unless it satisfies the foregoing conditions and is renewed within the specified protest period.

CHESAPEAKE UTILITIES CORPORATION  
 2002 DEPRECIATION STUDY

ACCOUNT	COMMISSION APPROVED			
	AVERAGE	NET	1/1/03	REMAINING
	REMAINING	SALVAGE	RESERVE	LIFE
	LIFE	(%)	(%)	RATE
	(YRS.)			(%)
<b>DISTRIBUTION PLANT</b>				
375.0 - Structures & Improvements	32.0	(15.0)	26.26	2.8
376.1 - Mains - Steel	27.0	(30.0)	40.26	3.3
376.2 - Mains - Plastic	36.0	(30.0)	12.99	3.3
378.0 - Measuring and Regulating Eqpt.-General	23.0	(5.0)	24.08	3.5
379.0 - Measuring and Regulating Eqpt.-City Gate	24.0	(5.0)	17.68	3.6
380.1 - Services - Steel	18.1	(80.0)	48.91	7.2
380.2 - Services - Plastic	30.0	(25.0)	17.96	3.6
381.0 - Meters	14.9	0.0	41.99	3.9
382.0 - Meters and Regulators Installations	26.0	(20.0)	22.03	3.8
383.0 - House Regulators	21.0	0.0	32.52	3.2
385.0 - Measuring & Regulating Eqpt.-Industrial	22.0	(5.0)	11.13	4.3
387.0 - Other Equipment	9.5	0.0	78.60	2.3
<b>GENERAL PLANT</b>				
390.0 - Structures & Improvements	29.0	5.0	28.90	2.3
391.1 - Data Processing Equipment	3.2	0.0	67.23	10.2
391.2 - Office Furniture	9.5	3.0	50.34	4.9
391.3 - Office Equipment	7.9	0.0	42.41	7.3
391.4 - VAX System Equipment	1.8	0.0	89.98	5.6
392.1 - Transp. Equip.- Auto/ Large Trucks	2.9	15.0	51.32	11.6
392.3 - Transp. Equip. - Other	5.0	0.0	43.38	11.3
394.0 - Tools, Shop, & Garage Equipment	7.6	0.0	73.36	3.5
396.0 - Power Operated Equipment	8.0	0.0	51.86	6.0
397.0 - Communication Equipment	10.5	0.0	19.81	7.6
398.0 - Miscellaneous Equipment	8.6	0.0	42.66	6.7