DOCKET NO. 130185-PU

Eric Fryson

From:	Keating, Beth <BKeating@gunster.com>
Sent:	Tuesday, July 02, 2013 1:16 PM
To:	Filings@psc.state.fl.us
Subject:	New Filing - Petition of Florida Public Utilities Company for Approval to Recognize Regulatory Liability and Associated Amortization Schedule
Attachments:	FPUC Petition for Approval of Regulatory Liability.pdf

Attached for electronic filing, please find the Petition of Florida Public Utilities Company for Approval to Recognize a Regulatory Liability and Associated Amortization Schedule. As always, please do not hesitate to contact me if you have any questions.

a. Person responsible for this electronic filing:

Beth Keating
Gunster, Yoakley & Stewart, P.A.
215 S. Monroe St., Suite 601
Tallahassee, FL 32301
bkeating@gunster.com
Direct Line: (850) 521-1706

b. **New Filing – Petition of Florida Public Utilities Company for Approval to Recognize a Regulatory Liability and Associated Amortization Schedule**

c. On behalf of: Florida Public Utilities Company

d. There are a total pages: 18

e. Description: Petition for Recognition of Regulatory Liability

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July 2, 2013

ELECTRONIC FILING - FILINGS@PSC.STATE.FL.US

Ms. Ann Cole, Clerk
Florida Public Service Commission
2540 Shumard Oak Boulevard
Tallahassee, FL 32399-0850

Re: **New Filing**: Petition for Approval of Recognition of a Regulatory Liability and Associated Amortization Schedule by Florida Public Utilities Company

Dear Ms. Cole:

Attached for electronic filing, please find the Petition of Florida Public Utilities Company for approval to recognize a regulatory liability to be recorded on the books of the Company's Natural Gas and Electric Divisions.

Thank you for your assistance with this filing. Should you have any questions whatsoever, please do not hesitate to contact me.

Kind regards,

Beth Keating
Gunster, Yoakley & Stewart, P.A.
215 South Monroe St., Suite 601
Tallahassee, FL 32301
(850) 521-1706

Attorneys for the Florida Public Utilities Company

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

In re: Petition of Florida Public Utilities Company for Recognition of Regulatory Liability and Amortization Schedule	)))	Docket No.: Filed: July 2, 2013

PETITION FOR APPROVAL OF
RECOGNITION OF A REGULATORY LIABILITY AND ASSOCIATED AMORTIZATION SCHEDULE

Florida Public Utilities Company ("FPUC" or "Company"), by and through its undersigned counsel, hereby seeks approval, pursuant to Section 366.076, Florida Statutes, and consistent with Rule 25-14.013, Florida Administrative Code, to record separate regulatory liabilities for its Electric and Natural Gas Divisions. The proposed regulatory liabilities are associated with a one-time gain associated with the change made to the Company's Post Retirement Health and Life benefits plans ("Plan"). The change was implemented effective January 1, 2012 in an effort to conform the benefits offered to the Company's employees to those offered by its parent company, Chesapeake Utilities Corporation ("Chesapeake"). The change to the Plan reduced the Company's future obligation associated with this Plan, some of which had previously been recognized as an expense. Accordingly, this resulted in a one-time gain pursuant to Accounting Standards Codification ("ASC") Topic 715 of generally accepted accounting principles in the United States of America ("US GAAP"). By this Petition, the Company also seeks permission to amortize the proposed regulatory liabilities over a 34-month period, beginning January 1, 2012, and ending October 30, 2014, to be reflected in Account No. 407.4. FPUC's proposal is revenue neutral. At this time, the Company is not requesting approval of any rate adjustment.

In support of this Petition, the Company hereby states:

1. Notices and communications with respect to this petition and docket should be addressed to:

Beth Keating	Cheryl Martin
Gunster, Yoakley & Stewart, P.A.	Director, Regulatory Affairs
215 S. Monroe Street, Suite 601	1641 Worthington Road, Suite 220
Tallahassee, FL 32301-1804	West Palm Beach, FL 33409

2. FPUC is an investor-owned natural gas utility providing retail natural gas service to customers in Florida, and pursuant to the provisions of Chapter 366 of the Florida Statutes, it is subject to economic regulation by the Commission. FPUC also has an electric division that likewise is subject to Commission regulation under Chapter 366.

3. Effective January 1, 2012, FPUC modified the benefits offered to its employees under the Plan. This change was a part of the continued effort since the merger in 2009 to conform the benefits offered to the Company's employees to those offered by its parent company, Chesapeake. This change reduced the Company's obligation under the Plan. In early 2013, the Company obtained a report from its actuaries, which quantified the accounting impact of this change. According to the actuarial report, this change resulted in an overall reduction in the Company's liability under the Plan by $2,560,832, $891,928 of which had previously been recognized as an expense by the Company. Pursuant to ASC 715 of US GAAP, a significant reduction in the liability associated with a company's defined benefit postretirement plan, which is caused by a change in the plan results in a one-time "curtailment" gain to the extent that the benefit cost was previously recognized. Accordingly, the change to the Plan effective January 1, 2012 resulted in a one-time "curtailment" gain of $891,928. The Company currently allocates the costs associated with the Plan to its two regulated divisions and one unregulated affiliate. The portion of the curtailment gain allocated to the Company's two regulated divisions, FPUC –

Natural Gas Division and FPUC – Electric Division, is as follows:

Division	***Allocation Percentage***	***Regulatory Liability***
Electric	29%	$ 258,659
Natural Gas	52%	$ 463,803
Net		$ 722,462

By this Petition, the Company is seeking permission to record regulatory liabilities on the books for the portion of the one-time curtailment gain allocated to FPU – Natural Gas Division ($463,803) and FPUC – Electric Division ($258,659). The remaining gain of $169,466 was allocated to FPUC's unregulated affiliate, Flo-Gas.

4. The Company believes that the treatment most consistent with prior regulatory treatment of one-time gains would be to record these amounts as regulatory liabilities in Account No. 254 and amortize the amounts over a specified period to be reflected in Account No. 407.4. In this context, the Company suggests that the straight-line methodology historically preferred by the Commission be used in this instance as well. Without regulatory approval for amortization and deferral of the gain, US GAAP would require immediate recognition of a one-time gain.

5. As for the amortization period to be applied, the Company asks that it be allowed to implement an amortization period that will synchronize the amortization of these new regulatory liabilities with the remaining amortization period of the regulatory asset recorded to reflect the transaction and transition expenses associated with the merger between FPUC and Chesapeake.[1] Specifically, by Order No. PSC-12-0010-PAA-GU ("Acquisition Adjustment Order"), the Commission allowed the Company to record these expenses under Account 182.3 - Other

[1] *See* Order No. PSC-12-0010-PAA-GU at p. 12.

Regulatory Assets, which includes "the amounts of regulatory-created assets, not includible in other accounts, resulting from the ratemaking actions of regulatory agencies." (18 CFR 182.3) The Commission further approved amortization of that regulatory asset over a 5-year period, beginning November 2009, with amortization recorded in Account 407.3 - Regulatory Debits. Acquisition Adjustment Order at p. 12. As such, that regulatory asset will be fully amortized by October 2014.

6. The requested amortization period is also consistent with the amortization period applied to the regulatory asset that the Company was allowed to record in Docket No. 120189-PU. In that case, the Commission recognized that the amortization period for the regulatory liability would be revenue neutral, would not impact rates, and would provide some offset for the regulatory asset established pursuant to Order No. PSC-12-0010-PAA-GU.[2] The same rationale is equally applicable to this request. Application of the requested amortization schedule to the instant request will be revenue neutral and result in no impact on the rates for either division. Moreover, it will provide some additional offset to the referenced regulatory asset. As such, FPUC asks that it be allowed to record the proposed regulatory liabilities to be amortized over the period beginning January 1, 2012 and ending October 31, 2014. The Company believes this proposal is in the best interests of both the Company and its ratepayers.

7. Attachment A to this Petition is the Expense Information Report prepared by the Company's benefits auditors, Bolton Partners, Inc., regarding the Company's Post Retirement Benefits Plan.

WHEREFORE, for all the foregoing reasons, FPUC respectfully requests that the

[2] *See* Order No. PSC-12-0574-PAA-PU at p. 2.

Commission granted the relief requested herein.

Respectfully submitted this 2nd day of July, 2013.

Beth Keating
Gunster, Yoakley & Stewart, P.A.
215 South Monroe St., Suite 601
Tallahassee, FL 32301
(850) 521-1706
Attorneys for Florida Public Utilities Company

ATTACHMENT A

EXPENSE INFORMATION REPORT FOR THE FLORIDA PUBLIC UTILITIES COMPANY FOR POSTRETIREMENT BENEFITS OTHER THAN PENSION FOR THE FISCAL YEAR ENDING DECEMBER 31, 2012

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ATTACHMENT A

BOLTON PARTNERS

January 21, 2013

Ms. Beth W. Cooper
Senior Vice President and CFO
Chesapeake Utilities Corporation
909 Silver Lake Blvd.
Dover, Delaware 19904

Re: Accounting for Postretirement Health and Life Benefits

Dear Beth:

The This report presents the FASB Accounting Standards Codification 715 (formerly known as FASB 106) expense information for the Florida Public Utilities Company for the fiscal year ending December 31, 2012.

This report has been prepared for the Florida Public Utilities Company, for the purposes of complying with the FASB ASC 715 accounting standard and Statutory Accounting as promulgated by the National Association of Insurance Commissioners (NAIC). It is neither intended nor necessarily suitable for other purposes. Bolton Partners is not responsible for the consequences of any other use.

In general Post Retirement medical valuations are based on an assumption for post-retirement medical increases. If medical costs increase at a rate greater than our assumption there could be a dramatic increase in the cost. The report shows the impact of 1 percent (over all years) increase in the medical trend assumption on APBO and Service and Interest Cost. Future actuarial measurements may differ significantly from the current measurements presented in this report, due to such factors as the following: plan experience differing from that anticipated by the economic or demographic assumptions; changes in economic or demographic assumptions; increases or decreases expected as part of the natural operation of the methodology used for these measurements (such as the end of an amortization period); and changes in plan provisions, applicable law or accounting rules.

The actuarial methods and assumptions used in this report comply with FASB ASC 715, NAIC Statutory Accounting and the actuarial standards of practice promulgated by the American Academy of Actuaries.

Bolton Partners, Inc.
100 Light Street • 9th Floor • Baltimore, Maryland 21202 • (410) 547-0500 • (800) 394-0263 • Fax (410) 685-1924
Actuarial, Benefit and Investment Consultants

The plan incurred a curtailment gain over the past year due to plan changes that eliminated benefits from the plan for any participant retiring after 12/31/2014. This plan change reduced the liability by $2,560,832 and was treated as a plan curtailment under SFAS88 accounting rules. The reduction in liability due to the plan change was first used to eliminate the unrecognized loss. The remaining $891,928 reduction is recognized as income in 2012 and reduces the accrued liability.

Bolton Partners is completely independent of the Florida Public Utilities Company, its programs, activities, or any of its officers of key personnel. We and anyone closely associated with us does not have any relationship which would impair our independence on this assignment.

Mark Lynne is a Certified Employee Benefit Specialist with special expertise in health benefit consulting. Kevin Binder is a Fellow of the Society of Actuaries and meets the Qualification Standards of the American Academy of Actuaries to render the actuarial opinion contained herein.

After you have had the opportunity to review this report, should you have any questions or desire additional information, please do not hesitate to contact us.

Sincerely,

BOLTON PARTNERS, INC.

Mark L. Lynne, CEBS

Kevin Binder, FSA, MAAA, EA

MLL/KSB/mmg

NET PERIODIC POSTRETIREMENT BENEFIT COST

	2011	2012
Service Cost	$ 125,097	$ 547
Interest Cost	175,808	79,411
Amortization of:		
Unrecognized Prior Service Cost	0	0
Unrecognized Loss/(Gain)	55,102	0
Net Periodic Postretirement Benefit Cost	$356,007	$79,958
Curtailment Loss (Gain) Recognized in 2012		($891,928)
Total 2012 Expense		($811,970)

EMPLOYEES IN THE VALUATION

	2011	2012
Retirees and Dependents	30	33
Actives Fully Eligible	42	28
Actives Not Yet Fully Eligible	152	16
Total Employees In The Valuation	224	77

ACCUMULATED POSTRETIREMENT BENEFIT OBLIGATION (APBO)

	2011	2012
Retirees and Dependents	$ 550,334	$1,686,689
Actives Fully Eligible	1,149,193	$206,222
Actives Not Yet Fully Eligible	1,737,892	18,727
Total APBO	$3,437,419	$1,911,638

CHANGES IN APBO FROM PRIOR YEAR EXPENSE REPORT

APBO as of January 1, 2011		$3,437,419
Prior Year Service Cost	$ 125,097	
Prior Year Interest Cost	175,808	
Benefits paid	(119,896)	
Participants' Contributions	0	
Amendments	0	
Changes in Discount Rate	304,766	
Changes in Baseline Costs	1,121,622	
Changes in Plan	0	
Curtailment Gain	(2,650,832)	
Other Actuarial Loss/(Gain)	(482,346)	
		$(1,525,781)
APBO as of January 1, 2012		$1,911,638

EFFECT OF A 1% CHANGE IN THE ASSUMED HEALTH CARE COST TREND RATE

Increase 1%

Increase in APBO	$ 122,803
Increase in Aggregate of Service Cost and Interest Cost	$ 5,587

Decrease 1%

Decrease in APBO	$ 109,428
Decrease in Aggregate of Service Cost and Interest Cost	$ 4,978

EXPECTED FUTURE BENEFIT PAYMENTS

Year	Amount
2012	293,878
2013	257,760
2014	240,671
2015	221,464
2016	182,732
2017	147,408
2018 – 2022	441,286

SUMMARY OF PLAN PROVISIONS

Employee Eligibility:

Prior to 01/01/2012, employees are covered by the plan if they retired after meeting the following conditions:

- Age 65 with 5 Years of Service
- Age 60 with 10 Years of Service
- Age 55 with 20 Years of Service

Effective 01/01/2012 participants must retire after having attained a minimum age of 55 with at least 20 years of service with Florida Public Utilities (including any time worked for Chesapeake Utilities).

Retiree Contributions:

Prior to 01/01/2012, Participants retiring Pre-Medicare are eligible to continue coverage until they reach Medicare age. Participants that retire at Medicare age can continue coverage for life.

Effective 01/01/2012 eligible employees who retire will be required to pay a portion of the total cost based on the year in which they retire in accordance with the following schedule: (The cost will be determined for retirees separately and will be based on the cost of FPU and Chesapeake Utilities retirees)

Retirement Date	Employee %	Employer Subsidy %
2012	60%	40%
2013	75%	25%
2014	90%	10%
2015 +	100%	0%

These subsidies are for both Pre-Medicare and Post-Medicare age retirees and continue for the participant's lifetime regardless of their age at retirement date.

Participants who retire in 2015 and after are required to pay the full cost to participate in the plan and there will be no OPEB liability associated with these people.

Spouses of eligible retirees are eligible to receive the same subsidy as the participant.

Surviving Spouses of eligible retirees are not eligible to continue to participate in the plan.

ACTUARIAL METHODS AND ASSUMPTIONS

Attribution Method: Projected Unit Credit.

Discount Rate: 4.50% per annum. The discount rate is chosen by the plan sponsor. (5.25% last year)

Mortality: RP-2000 IRS Generational Non-Annuitant/Annuitant Mortality Table for Males and Females

Retirement:

Age	< 20 YOS	>= 20 YOS
55 - 59	1.50%	2.50%
60	11.25%	18.75%
61	3.75%	6.25%
62	22.50%	37.50%
63	15.00%	25.00%
64	15.00%	25.00%
65	75.00%	75.00%
66	50.00%	50.00%
67	60.00%	60.00%
68	70.00%	70.00%
69	80.00%	80.00%
70	100.00%	100.00%

Turnover:

Age	Male	Female
25	5.00%	10.00%
30	6.83%	13.67%
35	4.99%	9.77%
40	4.66%	9.33%
45	3.69%	7.39%
50	2.88%	5.76%
55	6.96%	13.92%
60	7.50%	15.00%

Disability:

Age	Rates
25	0.08%
30	0.10%
35	0.13%
40	0.17%
45	0.25%
50	0.42%
55	0.76%
60	1.50%

ACTUARIAL METHODS AND ASSUMPTIONS

(continued)

Health Care Cost Trend Rate:

Fiscal Year	Base	Sensitivity
2012	8.5%	9.5%
2013	7.5%	8.5%
2014	6.5%	7.5%
2015	5.5%	6.5%
Thereafter	5.0%	6.0%

Election Rate: All active employees who will meet the Plan's eligibility requirements on or before the 01/01/2015 are included in the calculations. The following election rates are assumed for the active population:

	Election Percentage
Pre-Medicare Age	90%
Medicare Age	30%
Spousal Coverage	50%

Non-subsidized Participants: We assume that non-subsidized participants will not enter the plan.

Marriage: For active employees, 80% of participants are expected to be married with male spouses assumed to be 3 years older.

Curtailment Date: The Plan Change was effective on January 1, 2012. Accordingly the Curtailment date is January 1, 2012 and the 2012 expense is measured under the new plan provisions.

Amortization of Gain/Loss: Since almost all of the participants in the plan are inactive, the gain/loss outside the 10% corridor is amortized over the average life expectancy of the inactive population.

Plan Change Accounting: There could be an increase in benefits provided for a handful of participants if they retire before 2015 and receive lifetime benefits because before the benefit change benefits for employees retiring prior to age 65 stopped at age 65. Liabilities for these benefits were valued, but not treated as a plan change under SFAS106 accounting as the liability increase due to these benefit improvements would be very small and therefore the amount deferred after 2012 would not be material.

ACTUARIAL METHODS AND ASSUMPTIONS
(continued)

Baseline Costs:

The annual per person costs assumed for the current retiree population are based on the experience for Chesapeake Retirees:

Age	Medical Base Cost	Drug
Under 55	$6,546	$935
55-59	7,431	1,062
60-64	8,846	1,264
65-69	2,375	1,943
70-74	2,886	2,361
75-79	2,976	2,435
80-84	3,156	2,582
85+	3,006	2,459

Prior Year:

Age	Medical Base Cost	Drug
Under 55	$5,946	$849
55-59	6,750	964
60-64	8,035	1,148
65-69	2,172	1,777
70-74	2,639	2,160
75-79	2,722	2,227
80-84	2,887	2,362
85+	2,749	2,250

The baseline costs are derived from a combination of actual costs and national data on retiree medical and drug costs.

GLOSSARY

Accumulated Postretirement Benefit Obligation (APBO):	The APBO is a ratable allocation of the EPBO to employee service already rendered.
Service Cost:	Service Cost is the cost of benefits assumed to accrue during the year, based on the attribution method, for active employees not yet eligible for benefits.
Interest Cost:	Interest Cost is the cost attributable to the passage of time during the year, and is equal to interest (at the discount rate) on the beginning of year APBO less expected benefit payments during the year.
Transition Obligation:	The Transition Obligation is equal to the APBO at implementation of FAS106, less any assets or prior accruals (assumed to be zero). Under the delayed recognition alternative, the Transition Obligation is amortized over the greater of 20 years or the expected future working lifetime of employees expected to receive benefits. The Transition Obligation may be expensed during the first year.