

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-

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**DATE:** October 11, 2013

**TO:** Office of Commission Clerk (Cole)

**FROM:** Division of Accounting and Finance (Cicchetti) *MLC*  
Office of the General Counsel (Brownless) *CS* *CS* *@*

**RE:** Docket No. 130185-PU – Petition for approval of recognition of a regulatory liability and associated amortization schedule by Florida Public Utilities Company.

**AGENDA:** 10/24/13 – Regular Agenda – Proposed Agency Action – Interested Persons May Participate

**COMMISSIONERS ASSIGNED:** All Commissioners

**PREHEARING OFFICER:** Balbis

**CRITICAL DATES:** None

**SPECIAL INSTRUCTIONS:** None

**FILE NAME AND LOCATION:** S:\PSC\AFD\WP\130185.RCM.DOC

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#### Case Background

Through its petition filed July 2, 2013, Florida Public Utilities Company (FPUC or the Company) seeks Commission approval, pursuant to Section 366.076, Florida Statutes (F.S.), and consistent with Rule 25-14.013, Florida Administrative Code (F.A.C.), to record separate regulatory liabilities for its Electric and Natural Gas Divisions. The proposed regulatory liabilities are associated with a one-time gain the Company incurred due to a change made to the Company's post Retirement Health and Life benefits plans (Plan). The Company also seeks permission to amortize the proposed liabilities over a 34-month period, beginning January 1, 2012, and ending October 31, 2014. FPUC's proposal is revenue neutral and the Company is not requesting any rate adjustment. The Commission has jurisdiction pursuant to Sections 366.04, 366.06, and 366.07, F.S.

### Discussion of Issues

**Issue 1:** Should the Commission approve Florida Public Utilities Company's proposal to record separate regulatory liabilities for its Electric and Natural Gas Divisions for the one-time gain associated with the change made to the Company's Post Retirement Health and Life benefits plans and amortize the liability over a 34-month period to be reflected in Account 407.3, Regulatory Debits?

**Recommendation:** Yes. The one-time gain should be recorded as a regulatory liability in Account 254, Other Regulatory Liabilities and amortized as a credit in Account 407.3, Regulatory Debits over a 34-month period beginning January 1, 2012 and ending October 31, 2014. The amounts should be \$258,659 for the electric division and \$463,803 for the natural gas division for a total of \$722,462. Further, the Commission should find that the approval to record regulatory liabilities for accounting purposes does not limit the Commission's ability to review the amounts for reasonableness in future rate proceedings. (Cicchetti)

**Staff Analysis:** According to FPUC's petition, the Company modified the benefits offered to its employees under the plan effective January 1, 2012. This was done as part of a continued effort since the merger of Florida Public Utilities Corporation and Chesapeake Utilities Corporation, that occurred on October 28, 2009, to conform the benefits offered to the Company's employees to those offered by the parent company, Chesapeake Utilities Corporation. The change reduced the Company's obligation under the plan. The Company obtained a report from its actuaries indicating the change resulted in an overall reduction in the Company's liability of \$2,560,832, \$891,928 of which had previously been recognized as an expense by the Company. Pursuant to Accounting Standards Codification 715 of the United States Generally Accepted Accounting Principles, the change to the plan effective January 1, 2012 resulted in a one-time gain of \$891,928.

The Company currently allocates the costs associated with the plan to its two regulated divisions and one unregulated affiliate, Flo-Gas. The portion of the gain (\$722,642) allocated to the two regulated divisions, FPUC Electric Division and FPUC Natural Gas Division are shown below in Table 1. The remaining gain of \$169,466 ( $\$891,928 - \$722,462 = \$169,466$ ) was allocated to FPUC's unregulated affiliate, Flo-Gas.

**Table 1**

<u>Division</u>	<u>Allocation Percentage</u>	<u>Regulatory Liability</u>
Electric	29%	\$258,659
Natural Gas	52%	<u>\$463,803</u>
Total Allocated to Regulated Divisions		\$722,462

A regulatory liability is an obligation of the Company that is capitalized and amortized over a future period rather than being recognized when incurred. Account 254, Other Regulatory Liabilities, includes amounts for regulatory liabilities, not includable in other accounts, imposed on the service company by the ratemaking actions of regulatory agencies. (18 CFR 367.2540) Staff agrees with the Company that Account 254, Other Regulatory Liabilities, is the correct account to record the regulatory liabilities, with the amortization to be recorded in Account 407.3, Regulatory Debits.

FPUC is requesting that it be allowed to amortize the regulatory liabilities over a 34-month period beginning January 1, 2012 and ending October 31, 2014. The Company indicated the requested amortization period will synchronize the amortization of these new regulatory liabilities with the remaining amortization period of the regulatory asset recorded to reflect transaction and transition expenses associated with the merger between FPUC and Chesapeake in Order No. PSC-12-0010-PAA-GU (Acquisition Adjustment Order).<sup>1</sup> The Commission approved the establishment of a regulatory asset to be amortized over a 5-year period, beginning November 2009 and ending October 2014. FPUC states, and staff agrees, that the proposed 34-month amortization period for the regulatory liability in the instant case appropriately will be revenue neutral and amortized in a manner that will not only have no impact on rates, but will lessen the impact of the prior regulatory asset established in the Acquisition Adjustment Order.

Based on the aforementioned, staff recommends the Commission approve FPUC's request. The one-time gain should be recorded as a regulatory liability in Account 254, Other Regulatory Liabilities and amortized as a credit to in Account 407.3, Regulatory Debits. The amortization should be over a 34-month period beginning January 1, 2012 ending October 31, 2014. The amounts should be \$258,659 for the Electric Division and \$463,803 for the Natural Gas Division for a total of \$722,462. Further, the Commission should find that the approval to record the regulatory liabilities for accounting purposes does not limit the Commission's ability to review the amounts for reasonableness in future rate proceedings.

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<sup>1</sup> See Order No. PSC-12-0010-PAA-GU, issued January 3, 2012, in Docket No. 110133-GU, In re: Petition for approval of acquisition adjustment and recovery of regulatory assets, and request for consolidation of regulatory filings and records of Florida Public Utilities Company and Florida Division of Chesapeake Utilities Corporation.

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**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 issuance of a consummating order. (Brownless)

**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 issuance of a consummating order.