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**WILL WEATHERFORD**  
*SPEAKER OF THE HOUSE OF REPRESENTATIVES*

September 5, 2014

Carlotta S. Stauffer, Director  
Office of Commission Clerk  
Florida Public Service Commission  
2540 Shumard Oak Blvd.  
Tallahassee, FL 32399-0850

Re: Docket No. 140016-GU; 2014 depreciation study by Florida Public Utilities Company

Dear Ms. Stauffer:

Our office has reviewed the filing and utility responses to staff's data requests in this docket. We would like to express our concern regarding two issues. The first issue we have is with the utility's statements regarding the accounting for FPUC's newly acquired Fort Meade division. Our second issue is with the utility request to establish a regulatory asset to address the costs associated with the development of the three depreciation studies.

1.) Regarding the first issue, we are concerned with the utility's response regarding the assets purchased from the City of Fort Meade (City) and recorded on the utility's books at the purchase price of \$670,000 instead of original cost. In response to Question 22 (Staff's Second Data Request), the utility stated that the City

did not maintain detailed records of assets by different asset name, type or category. . . .  
We were not able to assign the overall value to individual asset(s) due to lack of sufficient data from the previous owner.

However, in response to Question 23, the utility provided a schedule that showed natural gas plant and machinery and equipment by date purchased or installed. The schedule further shows the Asset Life and calculates an accumulated depreciation balance. The net book value of the assets on the schedule is \$91,632.91. The utility stated that these

assets had never previously been subject to rate regulations and therefore, the City of Fort Meade did not utilize the Uniform System of Accounts (USoA) or authorized composite rates to depreciate these assets. As far as we can gather from the fixed asset record provided by the City of Fort Meade, it did not track or apply gross salvage and cost of removal in its accounting for these assets.

The utility appears to indicate that because the utility has not been subject to rate base regulation that the Commission should abandon the requirements of the Code of Federal Regulations Part 201 which requires that gas utility plant be recorded at original cost, which is defined as the cost of the property to the person first devoting it to public service. The utility's response includes what appears to be a disguised acquisition adjustment of approximately \$578,000. We believe that this issue is important in this

docket since the staff must consider the type and amount of plant that is capitalized in setting depreciation rates based on the components of remaining life, salvage value, and cost of removal.

2.) Our second concern is with the utility's request to establish a regulatory asset to address the costs associated with the development of the three depreciation studies. The utility references two dockets in the 1990's to indicate that it is not unusual to incur outside services expense when preparing a depreciation study. However, in response to Questions 6 – 8 (Staff's First Data Request), the utility stated that there were no consulting/outside services expense incurred for the last depreciation study for either Chesapeake or FPUC. Both studies were prepared by in-house personnel. When these systems were merged, the Commission approved an acquisition adjustment based on evidence that the utilities would experience cost savings. If the utility has cut back on in-house personnel and is unable to complete these depreciation studies without utilizing outside services, we believe that these additional costs should be considered in offsetting the cost savings used to justify the acquisition adjustment.

We submit that the Commission should not allow the utility to create a regulatory asset to be amortized over five years. However, if the Commission determines that the utility should be allowed to create a regulatory asset, we request that the invoices submitted be reviewed to determine if they are reasonable and sufficient to justify the total expense of \$61,801 (Question 12, Staff's First Data Request). We reviewed the invoices submitted and found that the invoices submitted for "Accounting Principals" are devoid of any description of work performed that would indicate that the purpose was for the depreciation studies. In addition, the utility response does not explain the basis for the legal charges. While the invoices provided include tasks related to the depreciation studies, these tasks are combined with other tasks which are not related to the depreciation studies. Further, the utility has not provided any description or schedule indicating how the expenses related to these tasks are allocated to this docket. As stated earlier, we believe that no regulatory asset should be established, but if the Commission chooses to approve a regulatory asset, we believe that the costs associated with Accounting Principals and legal should be carefully evaluated to determine whether they are appropriate and related to the depreciation studies.

If you should have any questions, please feel free to call or e-mail me.

Respectfully submitted,

*s/ Denise N. Vandiver*

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Legislative Analyst

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