STATE OF FLORIDA

OFFICE OF THE GENERAL COUNSEL
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Public Service Commission

September 18, 2014

Beth Keating, Esquire
215 South Monroe Street Suite 601
Tallahassee, Florida 32301
bkeating@gunster.com

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

Dear Ms. Keating:

Enclosed is the Staff Report regarding your depreciation study filed in the above referenced docket. Please provide your response to the attached report by Thursday, October 2, 2014. In your response, please identify areas of concurrences or differences, and any additional explanation you believe is pertinent.

If there are any questions, please contact me at mbarrera@psc.state.fl.us or (850) 413-6212, or Sue Ollila at sollila@psc.state.fl.us or (850) 413-6540.

Sincerely,

/s/ *Martha F. Barrera*

Martha F. Barrera
Senior Attorney

MFB:as

Enclosures

cc: Office of Commission Clerk
Office of Public Counsel (Vandiver)
Division of Economics (Ollila, McNulty, Wu, Higgins)
Division of Accounting and Finance (Trueblood, Fletcher, Cicchetti)

Florida Public Utilities Company (FPUC Division), Florida Public Utilities Company – Indiantown Division (Indiantown Division), and Florida Division of Chesapeake Utilities Corporation (Chesapeake Division), collectively, the Company or FPUC

2014 Depreciation Study
Docket No. 140016 – GU

Staff Report

This report represents staff's initial position. The report consists of four sections:

A. **Information** – includes information necessary to understand staff's proposals.

B. **Questions** – includes specific questions about the Companies' depreciation study.

C. **Staff's Initial Proposals** – includes staff's proposals for which staff seeks the ` Companies' concurrence or exceptions.

D. **Summary Tables** – these tables provide staff's initial position on inputs, rates, and resulting depreciation expense for all accounts.

A. Information

Commission Rounding Convention

Staff calculated the Company's and staff's proposed depreciation rates for each account shown in the Summary Tables (Section D) based on the Commission rounding convention. The rounding conventions are:

Remaining lives over 20 years:	rounded to the nearest whole year
Remaining lives less than 20 years:	rounded to one decimal place
Net salvage %:	rounded to the nearest whole number
Reserve %:	rounded to two decimal places
Depreciation rates:	rounded to one decimal place

General Statements

The Company's proposal for a Regulatory Asset will be addressed in the staff recommendation.

The areas addressed in the staff report (other than the proposed Regulatory Asset) are those areas where staff disagrees with the Company's proposals, where there is a need for further clarification, information or input, or where staff believes additional explanation is helpful to the Company. In your response, please identify areas of concurrences and differences, and any additional input that the Company believes would be pertinent.

B. Questions

Please refer to the Company's revised/updated schedules supporting the Company's Depreciation Study filed on July 2, 2014, for questions 1 - 8 below.

1. Account 374.1 Land Rights
   What is the Company's proposed curve shape for this account?

2. Account 376.1 Mains - Plastic
   a. Please provide the actual net salvage (NS) each division experienced in 2013.

   b. Please provide the consolidated NS for 2013 based upon your response to question 2a above.

3. Account 376.2 Mains - Steel
   On page 10 of its response to Staff's Second Data Request, No. 6b, FPUC stated "[t]he proposed NS of negative 30% represents a 30% decrease in the current NS for this account and represents a buffered estimation of what actual NS may be in the future."

   a. Given that FPUC's current NS is negative 23% (per page 1/5 of Exhibit AA of the Depreciation Study), FPUC's calculated consolidated NS for the period is negative 82.73% (per page 1/4 of Exhibit BB), and FPUC's proposed NS is negative 30%, please explain how the negative 30% represents a 30% decrease in the current NS.

   b. Please explain why, and how, the proposed negative 30% "represent a buffered estimation of what the actual NS may be in the future."

   c. Please provide the actual NS each division experienced in 2013.

   d. Please provide the consolidated NS for 2013 based upon your response to 3c.

4. Account 380.1 Service Plastic
   On page 13 of its response to Staff's Second Data Request, No. 7b, FPUC stated "[t]he proposed NS of negative 25% represents a 40% decrease in the current NS for this account and represents a buffered estimation of what the actual NS may be in the future."

   a. Given that FPUC's current NS is negative 17.8% (per page 1/5 of Exhibit AA), FPUC's calculated consolidated NS for the period is negative 79.77% (per page 1/4 of Exhibit BB), and FPUC's proposed NS is negative 25%, please explain how the negative 25% represents a 40% decrease in the current NS.

   b. Please explain why, and how, the proposed negative 25% "represent a buffered estimation of what the actual NS may be in the future."

   c. Please provide the actual NS FPUC division experienced in 2013.

   d. Please provide the consolidated NS for 2013 based upon your response to 4c.

5. Does the Company expect to commence any major program, such as the Gas Reliability Infrastructure Program (GRIP) approved in Order No. PSC-12-0490-TRF-GU, between 2014 through 2019 which may cause high COR to Accounts 376 and 380?

6. Account 381.1 Meters - AMR Equipment
    a. Please explain why the Company proposes R3 curve shape for this account.

    b. Please explain how the Company's proposed remaining life of 17.1 years was derived.

7. Account 382.0 Meter Installations
    On page 18 of its response to Staff's Second Data Request, No. 9a, FPUC stated "[t]he Company will supplement its responses [...] as additional data is gathered and analyzed." When FPUC will provide its supplemental responses?

8. Account 382.1 Meter Installations - MTU/DCU
    a. This is a new account established during the study period. Given that there is no retirement activity since the account was established and no historical data available, please provide the basis for the Company's proposed NS of negative 10% for this new account.

    b. Please provide the basis for the Company's proposal of average service life of 36 years for this new account.

    c. Please explain why the Company proposes S2 as the curve shape for this new account?

9. In response to Staff's Second Data Request, Nos. 5b (on pages 8-9), 6d (page 11), 7c (page 13), 7d (page 14), 7e (page 14), 8c (page 16), 8e (page 17), 9d (page 20), 9e (page 20), FPUC indicated it could not provide the requested information without further detailed investigation. Understanding further investigation is necessary, please provide the requested information according to the response time requested in this staff report. If it is not possible to complete such investigation and report the cause of the COR within the requested time period, please provide, for each of the enumerated data requests, the following:

    a. An explanation what activities are included in such an investigation,

    b. The reasons why this information cannot be gathered in the time period requested, and

    c. The time period in which such information could be provided.

Please refer to Attachments 1 - 3 of the Company's Depreciation Study filed on January 13, 2014, for questions 10 - 17 below.

10. Please refer to *Report of Depreciation Data Under Rule 25-6.0436(8) 2010* in Exhibit G, page 52/96, of the Attachment 1 and Order No. PSC-09-0229-PAA-GU.[1]

    a. Account 378
    Given that the beginning balance of $334,342, zero addition, zero retirement, zero adjustment, zero transfer, and the Commission approved depreciation rate of 3.8%, the annual accruals should be $12,705. Please explain why the Company booked $13,104 as the accruals.

    b. Account 393
    Given that the beginning balance of $114,423, zero addition, zero retirement, zero adjustment, zero transfer, and the Commission approved depreciation rate of 4.0%, the annual accruals should be $457. Please explain why the Company booked $72 as the accruals.

11. Please refer to *Report of Depreciation Data Under Rule 25-6.0436(8) 2011* in Exhibit G, page 53/96, of the Attachment 1 and Order No. PSC-09-0229-PAA-GU.

    a. Account 391.3
    Given that the beginning balance of $157,450, zero addition, zero retirement, zero adjustment, zero transfer, and the Commission approved depreciation rate of 11.1%, the annual accruals should be $17,477. Please explain why the Company booked $7,421 as the accruals.

    b. Account 393
    Given that the beginning balance of $114,423, zero addition, zero retirement, zero adjustment, zero transfer, and the Commission approved depreciation rate of 4.0%, the annual accruals should be $457. Please explain why the Company booked $72 as the accruals.

12. Please refer to *Report of Depreciation Data Under Rule 25-6.0436(8) 2012* in Exhibit G, page 54/96, of the Attachment 1 and Order No. PSC-09-0229-PAA-GU.

    a. Account 397
    Given that the beginning balance of $464,346, zero addition, zero retirement, zero adjustment, zero transfer, and the Commission approved depreciation rate of 9.2%, the annual accruals should be $42,720. Please explain why the Company booked $28,525 as the accruals.

13. Please refer to *Indiantown Division Report of Depreciation Data Under Rule 25-6.0436(8) 2010* in Exhibit G, page 40/67, of the Attachment 2 and Order No. PSC-09-0328-PAA-GU.[2]

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[1] Order No. PSC-09-0229-PAA-GU, issued April 13, 2009, in Docket No. 080548-GU, In re: 2008 depreciation study by Florida Public Utilities Company.

[2] Order No. PSC-09-0328-PAA-GU, issued May 11, 2009, in Docket No. 080170-GU, In re: 2008 depreciation study by Indiantown Gas Company.

a. <u>Account 376.1</u>
Given that the beginning balance of $192,545, zero addition, zero retirement, zero adjustment, zero transfer, and the Commission approved depreciation rate of 3.2%, the annual accruals should be $6,161. Please explain why the Company booked negative $45,080 as the accruals.

b. <u>Account 376.2</u>
Given that the beginning balance of $249,316, zero addition, zero retirement, zero adjustment, zero transfer, and the Commission approved depreciation rate of 3.3%, the annual accruals should be $8,227. Please explain why the Company booked $28,582 as the accruals.

c. <u>Account 378</u>
Given that the beginning balance of $47,982, zero addition, zero retirement, zero adjustment, zero transfer, and the Commission approved depreciation rate of 3.7%, the annual accruals should be $1,775. Please explain why the Company booked $12,922 as the accruals.

d. <u>Account 380</u>
Given that the beginning balance of $106,770, zero addition, zero retirement, zero adjustment, zero transfer, and the Commission approved depreciation rate of 3.9%, the annual accruals should be $4,164. Please explain why the Company booked $34,143 as the accruals.

e. <u>Account 381</u>
Given that the beginning balance of $64,830, zero addition, zero retirement, zero adjustment, zero transfer, and the Commission approved depreciation rate of 5.0%, the annual accruals should be $3,242. Please explain why the Company booked $9,544 as the accruals.

f. <u>Account 382</u>
Given that the beginning balance of $15,792, zero addition, zero retirement, zero adjustment, zero transfer, and the Commission approved depreciation rate of 3.0%, the annual accruals should be $474. Please explain why the Company booked negative $692 as the accruals.

g. <u>Account 385</u>
Given that the beginning balance of $99,571 zero addition, zero retirement, zero adjustment, zero transfer, and the Commission approved depreciation rate of 3.3%, the annual accruals should be $3,286. Please explain why the Company booked negative $2,326 as the accruals.

h. <u>Account 390</u>
Given that the beginning balance of $171,895, zero addition, zero retirement, zero adjustment, zero transfer, and the Commission approved depreciation rate of 2.3%,

the annual accruals should be \$3,954. Please explain why the Company booked \$2,307 as the accruals.

14. Please refer to *Indiantown Division Report of Depreciation Data Under Rule 25-6.0436(8) 2011* in Exhibit G, page 41/67, of the Attachment 2 and Order No. PSC-09-0328-PAA-GU.

    a. Account 376.1
    Given that the beginning balance of \$192,545, zero addition, zero retirement, zero adjustment, zero transfer, and the Commission approved depreciation rate of 3.2%, the annual accruals should be \$6,161. Please explain why the Company booked \$6,667 as the accruals.

    b. Account 376.2
    Given that the beginning balance of \$249,316, zero addition, zero retirement, zero adjustment, zero transfer, and the Commission approved depreciation rate of 3.3%, the annual accruals should be \$8,227. Please explain why the Company booked \$8,905 as the accruals.

    c. Account 381
    Given that the beginning balance of \$64,830, zero addition, zero retirement, zero adjustment, zero transfer, and the Commission approved depreciation rate of 5.0%, the annual accruals should be \$3,242. Please explain why the Company booked \$3,510 as the accruals.

    d. Account 382
    Given that the beginning balance of \$15,792, zero addition, zero retirement, zero adjustment, zero transfer, and the Commission approved depreciation rate of 3.0%, the annual accruals should be \$474. Please explain why the Company booked negative \$520 as the accruals.

    e. Account 383
    Given that the beginning balance of \$20,316, zero addition, zero retirement, zero adjustment, zero transfer, and the Commission approved depreciation rate of 3.3%, the annual accruals should be \$670. Please explain why the Company booked negative \$728 as the accruals.

    f. Account 385
    Given that the beginning balance of \$99,571 zero addition, zero retirement, zero adjustment, zero transfer, and the Commission approved depreciation rate of 3.3%, the annual accruals should be \$3,286. Please explain why the Company booked negative \$2,562 as the accruals.

15. Please refer to *Chesapeake Division Report of Depreciation Data Under Rule 25-6.0436(8) 2010* in Exhibit G, page 53/89, of the Attachment 3 and Order No. PSC-08-0364-PAA-GU.[3]

    a. Account 380.2
    Given that the beginning balance of $1,030,625, zero addition, $15 retirement, zero adjustment, zero transfer, and the Commission approved depreciation rate of 3.6%, the annual accruals should be approximately $37,103. Please explain why the Company booked negative $36,072 as the accruals.

    b. Account 391.2
    Given that the beginning balance of $183,800, zero addition, zero retirement, zero adjustment, zero transfer, and the Commission approved depreciation rate of 5.0%, the annual accruals should be $9,190. Please explain why the Company booked negative $19,825 as the accruals.

    c. Account 392.3
    Given that the beginning balance of $18,920, zero addition, zero retirement, zero adjustment, zero transfer, and the Commission approved depreciation rate of 5.0%, the annual accruals should be $946. Please explain why the Company booked negative $3,555 as the accruals.

16. Please refer to *Chesapeake Division Report of Depreciation Data Under Rule 25-6.0436(8) 2011* in Exhibit G, page 54/89, of the Attachment 3 and Order No. PSC-08-0364-PAA-GU.

    a. Account 380.2
    Given that the beginning balance of $1,030,610, zero addition, zero retirement, zero adjustment, zero transfer, and the Commission approved depreciation rate of 3.6%, the annual accruals should be $37,102. Please explain why the Company booked negative $36,071 as the accruals.

17. Please refer to *Chesapeake Division Report of Depreciation Data Under Rule 25-6.0436(8) 2012* in Exhibit G, page 55/89, of the Attachment 3 and Order No. PSC-08-0364-PAA-GU.

    a. Account 380.2
    Given that the beginning balance of $1,030,610, zero addition, zero retirement, zero adjustment, zero transfer, and the Commission approved depreciation rate of 3.6%, the annual accruals should be $37,102. Please explain why the Company booked negative $36,072 as the accruals.

[3] Order No. PSC-08-0364-PAA-GU, issued June 2, 2008, in Docket No. 070322-GU, In re: depreciation study by Florida Division of Chesapeake Utilities Corporation.

b. Account 392.3
Given that the beginning balance of $18,920, zero addition, zero retirement, zero adjustment, zero transfer, and the Commission approved depreciation rate of 5.0%, the annual accruals should be $946. Please explain why the Company booked negative $2,402 as the accruals.

18. Account 399 – Miscellaneous Tangible - According to Revised Exhibit AA, the accumulated depreciation for Account 399 – Miscellaneous Tangible is $35,207 while the investment is $27,967, resulting in an overage in accumulated depreciation of $7,240. Based on individual company data, it appears as if this account (and its overage) is in both FPUC Division's and Chesapeake Division's books. Given that estimated 2013 data was used and that we are now in September 2014, staff is uncertain whether there continues to be an overage in accumulated depreciation, and if there is, what the amount is.

    a. Based on the most recent available data, what is the investment and accumulated depreciation for this account?

    b. If there is currently an overage in accumulated depreciation, what is FPUC's proposal for correcting the overage? Please be specific and include dollar amounts as well as any other information necessary to understand your proposal.

19. Is the Company currently amortizing any investment tax credits or flowing back any excess deferred income taxes that will be affected by a change to depreciation rates?" Please explain your answer.

20. Reason for Depreciation Rate Consolidation - In its Waiver Petition in Docket No. 120178-EI (Waiver Petition), FPUC Division, Chesapeake Division, and Indiantown Division (the Companies) stated that the divisions were "working towards a full consolidation of their operations, including consolidation of their tariffs and filing requirements." The Waiver Petition stated that the Companies would request approval of a blended depreciation rate for the divisions, "such that once all three Companies' rates and tariffs are combined, there will not be a need to file a subsequent, revised depreciation study," which would "avoid unnecessary duplication of efforts by the Companies' personnel and the Commission." According to the Waiver Petition, 2013 was the target date for "full consolidation" of the divisions.

    a. Is this reasoning for requesting consolidated depreciation rates still accurate? Please explain your answer and provide any additional information that the Company believes would be useful in explaining the reason for consolidation.

    b. Is there a target date for full consolidation? If yes, what is the date? If not, when does FPUC anticipate a date will be available?

21. Consolidation and Annual Status Reports - Staff believes the Company's proposed consolidation methodology (i.e., developing a weighted age for each account and building

from that foundation) is reasonable. In its response to staff's second data request, the Company stated that it "does not currently intend to file annual status reports for investment and accumulated depreciation using consolidated accounts until such time that the base rates are consolidated. However, the Company would provide a consolidated report if requested." Without annual status reports for investment and accumulated depreciation using consolidated accounts, staff, and the Company itself, will not be able to discern and study the pattern of the consolidated account activity during the study period of the Company's next depreciation study, because such pattern is the starting point upon which the new depreciation rates (for the next depreciation study) will be set for each consolidated account.

a. Staff requests that the Company file annual status reports for investment and accumulated depreciation using the consolidated accounts provided in this study, beginning with the 2014 calendar year. The filing of these reports should continue until FPUC's base rates are consolidated and the Company has filed its first consolidated annual status reports. Does the Company agree?

22. Consolidated Depreciation Rates - Assuming the Commission orders consolidated depreciation rates, how will the Company apply those rates? For example, will FPUC apply the depreciation rate on a consolidated basis by account and then allocate the expense back to each division's individual accounts? Please explain your response.

23. Fort Meade Division - The Company's new Fort Meade division (acquired in December 2013) requests that it be permitted to adopt the depreciation rates approved in this proceeding for the Company. Please explain with specificity how the Company plans to analyze Fort Meade's assets and integrate those assets into the Company's accounts. The response should include an explanation of how the Company will ascertain the original cost, date of placement, age, average service life, salvage, cost of removal, curve shape, net salvage, accumulated depreciation, and a description of how the Company will determine the appropriate USOA accounts for the assets.

Please refer to the *Office of Public Counsel's September 5, 2014 letter* to the Commission Clerk (Document Number 04965-14), Item 1, for questions 24-26.

24. Is FPUC requesting or suggesting that the Commission "abandon the requirements of the Code of Federal Regulations Part 201 which requires that gas utility plant be recorded at original cost"? Please explain your response.

25. Public Counsel alleges that there "appears to be a disguised acquisition adjustment of approximately $578,000." Is this allegation true? Please explain your response.

26. Please respond with specificity to Public Counsel's statement in the last sentence in Item 1, which states, "[W]e believe that this issue ["disguised acquisition adjustment of approximately $578,000"] 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."

C. Staff's Initial Proposals

Florida Common Accounts

The Company proposes that the depreciation rates approved in this proceeding be applied to its Florida Common Assets, which are included in the FPUC study. The Company further proposes that it be allowed to allocate such assets and associated rates consistent with their current allocation methodology. Staff agrees that the depreciation rates approved in this proceeding be applied to the Florida Common Assets and believes that, for the purpose of this proceeding, the allocation factors used are appropriate. If the Company desires to address the allocation factors it should do so in the next base rate proceeding.

Fort Meade Division

According to Revised Exhibit AA and the Company's response to Staff's Second Data Request No. 24, $670,000 is the value of the property, plant, and equipment as of December 2, 2013, which equates to approximately 0.3% of the Company's investment. Based on the Company's filing, responses to staff's data request, and the amount of Fort Meade's investment relative to the Company, staff believes that, for the purpose of this proceeding, it is reasonable to apply the depreciation rates approved in this proceeding to Fort Meade.

Reserve Transfers

The remaining life rate is self-correcting; that is, the rate increases or decreases based on whether there is a reserve imbalance, and if there is, the size of the reserve imbalance. The Commission has approved reserve transfers to reduce or eliminate reserve imbalances in past depreciation studies. However, Rule 25-7.045(7)(b), Florida Administrative Code, does not require that reserve transfers be made, only that the possibility of reserve transfers be investigated.

This depreciation study proposes the consolidation of depreciation rates for FPUC Division, Chesapeake Division, and Indiantown Division. Staff has investigated the use of reserve transfers in this proceeding, but believes that with the complexity of this proceeding, it is reasonable to postpone any use of reserve transfers until at least the next depreciation study. That depreciation study, which will have five years of consolidated data, will provide a better indication of whether reserve transfers are necessary, and if they are, what they should be.

Account 376.1 Main - Plastic

The current consolidated NS is negative 16.7%. The Company proposes a NS of negative 15%. In its Depreciation Study, the Company calculated consolidated actual average NS is 40.63% for the study period, but acknowledged that the data contained non-typical salvage activity[4] and judged the historical data unusable for setting future depreciation rates.[5] The Company indicated that the salvage activity of the FPUC division, whose NS was negative 17.76%, was considered more reliable and appeared to be more typical of what would be expected going forward, and this division represented the vast majority of retirement activity for this account at 66%.[6] The Company also acknowledged that it was unable to conduct a timely comprehensive analysis necessary to determine the precise cause for this anomaly to provide a

[4] Page 5/7 of the Narrative of the Depreciation Study.
[5] The Company's response to Staff's Second Data Request, No. 5a.
[6] The Company's response to Staff's Second Data Request, No. 5b.

specific explanation regarding the abnormality;[7] but it intended to conduct a review to determine, going forward, if there are changes in its practices or policies that would help avoid such anomalies and atypical data in future.[8] Based on the above and in the absence of reliable historical data for the consolidated account, staff proposes a NS of negative 16% which is closer to (a) what the Commission prescribed for the account (three division consolidated) during the last Depreciation Studies, (b) what the Commission prescribed for the FPUC division during its last Depreciation Study, (c) what the FPUC division actually experienced during the current study period, and (d) the industry average.

Account 376.2 Main - Steel

The current consolidated NS is negative 23.0%. The Company proposes a NS of negative 30%. In its Depreciation Study, the Company calculated consolidated actual average NS is negative 82.7% for the study period, but acknowledged that the data contained non-typical salvage activity[9] and deemed the historical data unusable for setting future depreciation rates.[10] The Company indicated that the salvage activity of the FPUC division, whose NS was negative 35.6%, was considered more reliable and appeared to be more typical of what would be expected. For this account, the Chesapeake divisions represented slightly higher percentage of the retirement activity (Chesapeake 53.6% versus FPUC 46.4% and Indiantown 0%). Staff notes that Chesapeake experienced a very large amount of COR annually through out the study period (from 67% to 1,445%). Staff also notes that the Company could not determine the cause(s) of the large COR for most of the years at this moment. Given the lack of full understanding of the historical data, staff proposes a NS of negative 28% which is (a) closer to what the Commission prescribed for the account (three division consolidated based on the respective previous Depreciation Studies), (b) within the range of the industry average, and yet (c) reflecting the appearing increase trend of a higher COR shown in the current study period.

Account 380.1 Service - Plastic

The current consolidated NS is negative 17.8%. The Company proposes a NS of negative 25%. In its Depreciation Study, the Company calculated consolidated actual average NS is negative 79.77% for the study period, but acknowledged that the data was deemed non-typical for abnormal results and judged the historical data unusable for setting future depreciation rates.[11] The Company indicated that the salvage activity of the FPUC division, whose NS was negative 38.75%, was considered more reliable and appeared to be more typical of what would be expected.[12,13] The Company also acknowledged that it was unable to conduct a timely comprehensive analysis necessary to determine the precise cause for this anomaly to provide a specific explanation regarding the abnormality;[14] and stated that "the Company intend[s] to undertake efforts to review its practices in this regard in an effort to determine whether changes need to be implemented in order to reduce or avoid the occurrence of such abnormal results."[15]

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[7] The Company's response to Staff's Second Data Request, No. 5c.
[8] The Company's response to Staff's Second Data Request, No. 5a.
[9] Page 5/7 of the Narrative of the Depreciation Study.
[10] The Company's response to Staff's Second Data Request, No. 6a.
[11] The Company's response to Staff's Second Data Request, No. 7a.
[12] The Company's response to Staff's Second Data Request, No. 7b.
[13] For this account, FPUC divisions represented 99.4 % of the retirement activity.
[14] The Company's response to Staff's Second Data Request, Nos. 7c, 7d and 7e.
[15] The Company's response to Staff's Second Data Request, No. 7a.

Based on the above and in the absence of reliable historical data for the consolidated account, staff proposes a NS of negative 22% which is (a) closer to what the Commission prescribed for the account (three division consolidated based on the respective previous Depreciation Studies), (b) closer to what the Commission prescribed for the FPUC division during its last Depreciation Study, (c) staying close to what the FPUC division actually experienced during the current study period, and (c) within the industry average.

Account 381.1 Meters - AMR Equipment

Chesapeake is the only division who has assets recorded in this account. During Chesapeake's last rate case, the Commission granted depreciation rate of 5% and prescribed average service life of 20 years and zero NS for this account.[16] Staff concurs with the Company's proposed average service life of 20 years, R3 curve shape and plant age of 3.5 years. Using these parameters as the inputs, the calculated remaining life for this account is 16.7 years, rather than 17.1 years as the Company proposed.

Account 390 – Structures and Improvements

The Company is proposing 0% net salvage. This account saw a significant positive NS from the sale of a building in 2012, resulting in a total consolidated NS of 66%. In general staff believes that one-time events are not necessarily predictive of the future. However, this positive NS is so significant, staff believes increasing the NS from 0% to 10% is a reasonable recognition of an unusual event that resulted in significant positive NS. Staff proposes a 10% NS for this account.

Account 392.3 - Transportation – Heavy Trucks & Account 395 - Laboratory Equipment

These accounts have no investment. The Company proposes retaining these accounts for possible future use and asks the Commission to set an "initial Remaining Life Rate that would be used for the accounts based on industry average or tax life." Staff notes that it can only recommend a whole life rate; there must be investment and accumulated depreciation in order to have a remaining life rate. FPUC made the same request of the Commission in its last depreciation study, Docket No. 080548-GU (2008 FPUC study) for the same reason. Staff reviewed industry data for Florida as well as what the Commission ordered in the 2008 study. For Account 392.3, staff recommends an average service life of 11 and a NS of 10, which results in a whole life rate of 8.2%. For Account 395, staff recommends an average service life of 20 and a zero NS, which results in a whole life rate of 5%. Staff's recommendations for both accounts are identical to what the Commission ordered in the 2008 FPUC study.

Account 399 – Miscellaneous Tangible

The Company proposes to retain the five-year amortization currently authorized for this account. According to Revised Exhibit AA, the reserve for Account 399 – Miscellaneous Tangible is $35,207 while the investment is $27,967, resulting in an overage in accumulated depreciation of $7,240. In essence, then, this account is fully depreciated. Staff's proposal is to apply the five-year amortization only to new investment.

[16] Order No. PSC-10-0029-PAA-GU, issued January 14, 2010, in Docket No. 090125-GU, In re: Petition for increase rates by Florida Division of Chesapeake Utilities Corporation.

D. Summary Tables

The summary tables, Attachments A-C are included below.

Attachment A

		Comparison of Rates and Components						
		Company Proposed			Staff Recommended			
Distribution Plant								
Account #	Account Title	Average Remaining Life (Yrs.)	Future Net Salvage (%)	Remaining Life Rate (%)	Average Remaining Life (Yrs.)	Reserve (%)	Future Net Salvage (%)	Remaining Life Rate (%)
374.1	Land Rights	7.4	0	17.2	7.4	(27.05)	0	17.2
375	Structures & Improvements	18.9	0	2.5	18.9	53.46	0	2.5
376.1	Mains - Plastic	35.0	(15)	2.6	35.0	23.55	(16)	2.6
376.2	Mains - Steel	28.0	(30)	2.9	28.0	48.28	(28)	2.8
378	Measuring and Regulating Equip. - General	21.0	(5)	3.3	21.0	35.35	(5)	3.3
379	Measuring and Regulating Equip. - City Gate	22.0	(5)	3.4	22.0	29.44	(5)	3.4
380.1	Services - Plastic	34.0	(25)	2.7	34.0	31.65	(22)	2.7
380.2	Services - Other	24.0	(125)	6.5	24.0	69.43	(125)	6.5
381	Meters	16.2	0	3.7	16.2	39.47	0	3.7
381.1	Meters - AMR Equipment	17.1	0	4.4	16.7	25.40	0	4.5
382	Meter Installations	25.0	(10)	3.1	25.0	31.29	(10)	3.1
382.1	Meter Installations - MTU/DCU	33.0	(10)	2.6	33.0	24.39	(10)	2.6
383	House Regulators	16.7	0	3.3	16.7	45.59	0	3.3
384	House Regulator Installations	21.0	0	2.7	21.0	42.34	0	2.7
385	Industrial Meas. & Reg. Station Equip	16.9	0	3.4	16.9	43.13	0	3.4
387	Other Equipment	15.7	0	4.0	15.7	36.46	0	4.0
General Plant								
390	Structures & Improvements	31.0	0	2.4	31.0	26.69	10	2.0
391	Office Furniture	15.6	0	3.7	15.6	41.95	0	3.7
391.2	Office Equipment	10.1	0	6.1	10.1	38.67	0	6.1
391.3	Computer Hardware / Software	4.3	0	5.2	4.3	77.50	0	5.2
392.1	Transportation - Cars	5.1	10	11.0	5.1	33.94	10	11.0
392.2	Transportation - Light Trucks & Vans	4.8	20	8.0	4.8	41.84	20	8.0

Attachment A

Account #	Account Title	Company Proposed: Average Remaining Life (Yrs.)	Company Proposed: Future Net Salvage (%)	Company Proposed: Remaining Life Rate (%)	Staff Recommended: Average Remaining Life (Yrs.)	Staff Recommended: Reserve (%)	Staff Recommended: Future Net Salvage (%)	Staff Recommended: Remaining Life Rate (%)
	Comparison of Rates and Components							
	Distribution Plant							
392.3	Transportation - Heavy Trucks[17]	0.0	10	8.2	0.0	0.00	10	8.2
392.4	Transportation - Other	9.9	0	3.3	9.9	67.58	0	3.3
393	Stores Equipment	5.8	0	5.8	5.8	66.40	0	5.8
394	Tools, Shop & Garage Equipment	3.8	0	7.4	3.8	71.94	0	7.4
395	Laboratory Equipment[18]	0.0	0	5.0	0.0	0.00	0	5.0
396	Power Operated Equipment	6.0	10	1.1	6.0	83.21	10	1.1
397	Communication Equipment	8.1	0	7.0	8.1	43.27	0	7.0
398	Miscellaneous Equipment	10.5	0	4.6	10.5	52.13	0	4.6
399	Miscellaneous Tangible	5 Year Amortization			5 Year Amortization			

[17] Company requested new rate establishment.
[18] Company requested new rate establishment.

Current Depreciation Rates and Expenses by Company		Indiantown[19]		Chesapeake[20]		FPUC[21]	
Distribution Plant		Rate	Expenses	Rate	Expenses	Rate	Expenses
Acct. #	Account Name	(%)	($)	(%)	($)	(%)	($)
374.1	Land Rights					3.3	426
375	Structures & Improvements			2.8	11,719	3.1	16,707
376.1	Mains - Plastic	3.2	6,161	3.3	859,388	2.5	1,134,005
376.2	Mains - Other	3.3	8,227	3.3	495,569	2.8	1,057,772
378	Meas. & Reg. Station Equip - General	3.7	7,220	3.5	45,819	3.8	16,938
379	Meas. & Reg. Station Equip - City Gate			3.5	157,535	3.8	162,306
380.1	Services - Plastic	3.9	4,164	3.6	370,807	3.4	974,349
380.2	Services - Other			3.5	36,061	11.1	445,251
381	Meters	5.0	3,215	4.0	110,556	3.4	249,098
381.1	Meters - AMR Equipment			5.0	110,821		
382	Meter Installations	3.0	473	3.4	77,323	3.0	129,375
382.1[22]	Meter Installations - MTU/DCU			5.0	29,652		
383	Regulators	3.3	670	3.3	53,002	3.4	86,522
384	Regulator Installations			3.2	0	3.0	31,412
385	Industrial Meas. & Reg. Station Equip.	3.3	3,286	4.1	68,089	7.8	4,326
387	Other Equipment			5.6	40,447	4.7	44,767
Distribution Plant Totals			$33,416		$2,466,788		$4,353,254
General Plant							
390	Structures & Improvements	2.3	3,864	2.0	11,843	2.6	42,516
391	Office Furniture					4.8	24,019
391.1	Data Processing Equipment	9.8	2,031	12.5	88,327		
391.2	Office Furniture	4.7	1,344	5.0	15,876		
391.2	Office Equipment					7.3	132,046
391.0/3	Office Equipment	4.7	318	7.3	42,118		
391.3	EDP Equipment					11.1	77,586
391.4	System Software	10.2	4,703	12.5	26,834	11.1	279,401
392.1	Transportation - Cars and Light Trucks	11.5	219	12.7	127,220	13.1	43,007
392.2	Transportation - Other	11.5	70	5.0	946	8.6	381,007

[19] See Order No. PSC-09-0328-PAA-GU, issued May 11, 2009, in Docket No. 080170-GU, In re: 2008 depreciation study by Indiantown Gas Company.

[20] See Order No. PSC-08-0364-PAA-GU, issued June 2, 2008, in Docket No. 070322-GU, In re: 2007 depreciation study by Florida Division of Chesapeake Utilities Corporation.

[21] See Order No. PSC-09-0229-PAA-GU, issued April 13, 2009, in Docket No. 080548-GU, In re: 2008 depreciation study by Florida Public Utilities Company.

[22] See Order No. PSC-10-0029-PAA-GU, issued January 14, 2010, in Docket No. 090125-GU, In re: Petition for increase in rates by Florida Division of Chesapeake Utilities Corporation.

Attachment B

Current Depreciation Rates and Expenses by Company		Indiantown[19]		Chesapeake[20]		FPUC[21]	
Distribution Plant		Rate	Expenses	Rate	Expenses	Rate	Expenses
Acct. #	Account Name	(%)	($)	(%)	($)	(%)	($)
392.4	Transportation - Trailers					5.2	4,638
393	Stores Equipment					4.0	671
394	Tools, Shop & Garage Equipment	4.6	564	3.1	5,615	7.2	32,277
396	Power Operated Equipment	6.6	1,584	7.7	38,883	6.8	37,586
397	Communications Equipment	9.1	164	7.1	67,445	9.2	39,254
398	Miscellaneous Equipment	8.9	1,243	6.7	4,772	6.0	14,071
399	Other Tangible Property	8.9	22			5 Year Amortization	
	General Plant Totals		$16,126		$429,879		$1,108,079
	Individual Company Plant Totals		$49,542		$2,896,667		$5,461,333
	Plant Total (All Companies)						$8,407,542

Attachment C

Comparison of Proposed Depreciation Rates and Associated Expenses					
		Company Proposed		Staff Proposed	
Distribution Plant		Rate	Expenses	Rate	Expenses
Acct. #	Account Name	(%)	($)	(%)	($)
374.1	Land Rights	17.2	2,220	17.2	2,220
375	Structures & Improvements	2.5	23,937	2.5	23,937
376.1	Mains - Plastic	2.6	1,861,464	2.6	1,861,464
376.2	Mains - Other	2.9	1,538,280	2.8	1,485,236
378	Meas. & Reg. Station Equip - General	3.3	64,349	3.3	64,349
379	Meas. & Reg. Station Equip - City Gate	3.4	298,255	3.4	298,255
380.1	Services - Plastic	2.7	1,054,735	2.7	1,054,735
380.2	Services - Other	6.5	327,703	6.5	327,703
381	Meters	3.7	375,721	3.7	375,721
381.1	Meters - AMR Equipment	4.4	97,522	4.5	99,738
382	Meter Installations	3.1	204,677	3.1	204,677
382.1	Meter Installations - MTU/DCU	2.6	15,419	2.6	15,419
383	Regulators	3.3	137,650	3.3	137,650
384	Regulator Installations	2.7	28,271	2.7	28,271
385	Industrial Meas. & Reg. Station Equip.	3.4	61,736	3.4	61,736
387	Other Equipment	4.0	66,991	4.0	66,991
	Distribution Plant Totals		$6,158,930		6,108,102
General Plant					
390	Structures & Improvements	2.4	57,488	2.0	47,907
391	Office Furniture	3.7	31,320	3.7	31,320
391.2	Office Equipment	6.1	145,947	6.1	145,947
391.3/391.4	Computer Hardware & Software	5.2	218,619	5.2	218,619
392.1	Transportation - Cars	11.0	36,322	11.0	36,322
392.2	Transportation - Light Trucks & Vans	8.0	434,612	8.0	434,612
392.4	Transportation - Other	3.3	3,567	3.3	3,567
393	Stores Equipment	5.8	973	5.8	973
394	Tools, Shop & Garage Equipment	7.4	47,484	7.4	47,484
396	Power Operated Equipment	1.1	11,899	1.1	11,899
397	Communications Equipment	7.0	96,488	7.0	96,488
398	Miscellaneous Equipment	4.6	14,706	4.6	14,706
399	Other Tangible Property	5 Year Amortization		5 Year Amortization	
	General Plant Totals		$1,099,425		$1,089,844
	All Plant Totals		$7,258,355		$7,197,946