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October 3, 2014

BY E-PORTAL

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

Re: **Docket No. 140016-GU - 2014 Depreciation Study Filing by Florida Public Utilities Company, Florida Public Utilities Company-Indiantown Division, and Florida Division of Chesapeake Utilities Corporation**

Dear Ms. Stauffer:

Attached for filing in the above-referenced docket, please find Florida Public Utilities Company's response to the concerns and questions identified in the Staff Report sent to the Company on September 18, 2014.

As always, thank you for your assistance. Please do not hesitate to contact me if you have any questions whatsoever.

Sincerely,

Beth Keating
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MEK

Enclosures
cc:// Martha Barrera (PSC Staff Counsel)
Patricia Christensen (Office of Public Counsel)

2014 depreciation study by Florida Public Utilities Company.
Docket No. 140016 – GU

Company Response to Staff Report

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?

   Company Response:

   Based on our last electric depreciation study and those of other natural gas utilities, the Company proposes the SQ curve for this account. As has been noted, historically, the Company has relied upon staff's assistance in past depreciation studies with regard to curves, but believes that the proposed SQ curve is appropriate for the sake of consistency.

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.

   Company Response:

   a. The divisions experienced the following net salvage in 2013:

	Retirements	Salvage/(COR)	%
FPUC	**$42,530**	**($ 17,957)**	**-42.2%**
CFG	**$59,431**	**($ 8,705)**	**-14.6%**
IND	**$ - 0 -**	**$ - 0 -**	**0%**
Total	**$101,961**	**($26,662)**	**-26.1%**

   b. The consolidated NS for 2013 was ($26,662) or -26.1% for 376.1 Mains-Plastic. The figures vary from the 2013 Annual Report (CFG) due to misclassifications; $87,775 was recorded as cost of removal to account 376.1 when it should have been to account 376.2 on the Annual Report.

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.

Company Response:

a. The 30% decrease is the percentage change between the current NS of negative 23% and the proposed NS of negative 30% (30-23=7/23=30%). Since current and proposed NS are both negative and proposed NS is a larger negative, it creates a decrease. If the proposed NS was a smaller negative than the current NS, then it would be an increase.

b. The proposed NS of negative 30% represents a buffer since the current NS is negative 23% and the Company expects higher costs. Due to the implementation of GRIP, the Company does anticipate higher than normal retirements as well as cost of removal for several years since costs are more today than the original cost of the mains and services. The retirements will return to normal levels upon conclusion or ramping down of the GRIP program.

c. The divisions experienced the following net salvage in 2013:

	Retirements	Salvage/(COR)	%
FPUC	**$46,932**	**($77,639)**	**-165.4%**
CFG	**$333,553**	**($94,243)**	**-28.3%**
IND	**$ - 0 -**	**($41,174)**	**0%**
Total	**$380,485**	**($213,056)**	**-56.0%**

d. The consolidated NS for 2013 was ($213,056) or -56.0% for 376.2 Mains-Plastic. The figures vary from the 2013 Annual Report due to misclassifications for

FPUC and CFG. For FPUC, a portion of cost of removal ($71,723) was shown as separately in 376G instead of 3762 and for CFG $87,775 was recorded as cost of removal to account 376.1 when it should have been to account 376.2 on the Annual Report.

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.

Company Response:

a. **The 40% decrease is the percentage change between the current NS of negative 17.8% and the proposed NS of negative 25% (25-17.8=7.2/17.8=40%). Since current and proposed NS are both negative and proposed NS is a larger negative, it creates a decrease. If the proposed NS was a smaller negative than the current NS, then it would be an increase.**

b. **The proposed NS of negative 25% represents a buffer since the current NS is negative 17.8% and the Company expects higher costs. The higher negative NS will allow for the higher cost of removal associated with the account, yet not distort in the long term what is normal and expected for cost of removal.**

c. **The divisions experienced the following net salvage in 2013:**

	Retirements	Salvage/(COR)	%
FPUC	**$92,215**	**($148,025)**	**-160.5%**
CFG	**$14,828**	**($40,026)**	**-270.0%**
IND	**$ 252**	**($ 355)**	**-140.9%**
Total	**$107,295**	**($188,406)**	**-175.6%**

d. The consolidated NS for 2013 was ($188,406) or -175.6% for 380.1 Services-Plastic. The figures vary from the 2013 Annual Report (CFG) due to misclassifications; $45,435 was recorded as cost of removal to account 380.1 when it should have been to account 380.2 and gross salvage recorded as $38,977 but should be $40,026 on the Annual Report.

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?

Company Response:

At present, the Company is not planning any new major initiative in the referenced time frame that would impact COR to these accounts. The Company does anticipate higher than normal retirements, as well as higher costs for removal for several years, since such costs are more today than the original cost of the mains and services. With the implementation of the GRIP program, retirements and COR for these accounts are currently higher than normal but, as this program concludes, retirements and COR should return to normal levels. To avoid significant swings in depreciation expense, expense should be normalized for these assets over the longer period of time and not just for a short term swing due to the GRIP program.

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.

Company Response:

a. For this account, the Company proposed the same curve shape, and believes the shape should be similar to, the Meters account, 381. As stated in the Discussion-Computation of Rates filed July 2, 2014, the current consolidated curves were based on the curves used in the previous individual depreciation studies, which, as mentioned, were "staff assisted. For determining the proposed curve, in situations where several curves were used, the curve of the division with the most significant account balance was the one chosen. In this case, FPUC curve (R3) for Meters was used for this account.

b. The proposed remaining life of 17.1 years was derived using figures from Exhibit DD Page 4/4-Consolidated Computation of Rates 123113 and the following computation:

(1/Remaining life rate)*(1-Reserve %) = (1/.05)*(1-14.5)
= 20*.855
= 17.1 years

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?

   Company Response:

   At this time, the Company has not been able to obtain any additional information regarding the non-typical salvage activity. As stated in the response to Staff's Second Data Request, No. 9a, the Company has been unable to definitively determine the origin of the anomaly regarding the non-typical salvage activity. Since the merger with Chesapeake Utilities, the Company has gone through some changes in which those familiar with the records and processes may no longer be with the company, making it difficult to obtain additional data (other than what is recorded in the general ledger). However, the Company will be reviewing its policies and procedures to determine whether changes are needed going forward and make the necessary corrections before the next study.

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?

   Company Response:

   a. Since this is a new account with little or no historical data, the Company proposed a NS of negative 10%, which is the same rate proposed for typical meter installations, Account 382-Meter Installation.

   b. In the last Florida Division of Chesapeake Utilities division rate case, a 5% depreciation rate for this account was granted. This rate would indicate an expected service life of approximately 20 years. However, the average service life should be more in line with the installation of typical meters. This proposed 36 year average service life is the same as the average service life being proposed for Account 382-Meter Installations.

c. **For this account, the Company proposed the same curve shape as, and believes it should be similar to, the installation of typical meters, Meter Installations-382. As stated in the Discussion-Computation of Rates filed July 2, 2014, the current consolidated curves were based on the curves used in the previous individual depreciation studies. For determining the proposed curve, in situations where several curves were used, the curve of the division with the most significant account balance was the one chosen. In this case, FPUC curve (S2) for Meter Installations was used for this account. As previously mentioned, the Company does not possess an expertise in curve shapes and has historically relied upon staff's assistance in this area.**

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.

Company Response:

To further investigate the anomalies pertaining to the large negative salvage/COR would entail reviewing and analyzing data for the past five years for two business units, FPUC and CFG, which are the largest divisions of this consolidation. This would be a huge undertaking and might require additional personnel. As previously mentioned, there have been a lot of changes since the merger and those employees most familiar with the records may not be with the Company any longer. A full investigation would require interviewing personnel, reviewing records for the five year period, and reviewing policies and procedures involved. This would, in the Company's best estimation, be a very lengthy process that could take up to six months. Such a review would likely result in increased costs to the Company, which would likely impact customers. Certainly, if the Commission were to direct the Company to conduct this level of review, the Company would do so. Otherwise, going forward, the Company does intend 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.

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.

    Company Response:

    The accrual shown in the study is incorrect but was recorded correctly in the general ledger.

    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.

    Company Response:
    Staff shows the balance of account 393 as $114,423, but the balance is $11,423 which is shown in this study. The Company booked less because a portion of the balance was fully depreciated for FPUC-South Florida division, $9,562. Depreciation was only calculated on the remaining balance for FPUC-Central Florida division of $1,861, which equates to $74 as the accrual.

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.

[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.

Company Response:

Depreciation in the ledger was calculated at 4.8%, which is the rate for Office Furniture. Since the merger with Chesapeake Utilities, this account, 3913, is no longer EDP equipment but Office Furniture, which is depreciated at 4.8%. In this study, the descriptions and dollars for the 391 accounts are correct but the subaccounts have been changed. The Company would like to have these subaccounts consistent amongst the divisions.

See below for the current and proposed subaccounts:

Description	Current Subaccount*	Proposed Subaccount
FPUC:		
Office Furniture	**3911**	**3913**
Office Equipment	**3912**	**3910**
Computer Equipment	**3913**	**3912**
Software	**3914**	**3914**
Florida Division of CPK:		
Office Furniture	**3912**	**3913**
Office Equipment	**3913**	**3910**
Computer Equipment	**3911**	**3912**
Software	**3914**	**3914**
Indiantown:		
Office Furniture	**3910**	**3913**
Office Equipment	**3910**	**3910**
Computer Equipment	**3913**	**3912**
Software	**3914**	**3914**

***Per the last Depreciation Studies for the individual divisions**

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.

Company Response:
Staff shows the balance of account 393 as $114,423, but the correct balance is $11,423 which is shown in this study on Exhibit G, page 53/96. The Company booked less because a portion of the balance was fully depreciated for FPUC-

South Florida division, $9,562. Depreciation was only calculated on the remaining balance for FPUC-Central Florida division of $1,861, which equates to $74 as the accrual.

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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.

Company Response:

The difference in the accruals is due to the accrual for common assets being input incorrectly on Exhibit G although recorded correctly in the general ledger. Accrual recorded as $2,336, should have been $22,488, which puts the accrual at $48,677. The difference, between this revised accrual and Staff's calculated accrual of $42,720, is $5,957 and due to the accrual for four months of 2011 being calculated at the incorrect rate. An adjustment to correct shown in the reclass column.

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]

    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 negative $45,080 as the accruals.

    Company Response:

    The Commission balance adjustment required a transfer of $67,967.37 was included in the accrual column of Exhibit G. Removing this amount leaves a remaining accrual of $22,887.37. Due to the acquisition, estimated depreciation expense for all accounts in 2010 was recorded to account 376.1 instead of the individual subaccounts.

[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.

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 $28,582 as the accruals.

Company Response:

The Commission balance adjustment for this account was included in the accrual column of Exhibit G. Due to the acquisition, estimated depreciation expense for all accounts in 2010 was recorded to account 376.1.

c. Account 378
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.

Company Response:

The Commission balance adjustment for this account was included in the accrual column of Exhibit G. Due to the acquisition, estimated depreciation expense for all accounts in 2010 was recorded to account 376.1.

d. Account 380
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.

Company Response:

The Commission balance adjustment for this account was included in the accrual column of Exhibit G. Due to the acquisition, estimated depreciation expense for all accounts in 2010 was recorded to account 376.1.

e. 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 $9,544 as the accruals.

Company Response:

The Commission balance adjustment for this account was included in the accrual column of Exhibit G. Due to the acquisition, estimated depreciation expense for all accounts in 2010 was recorded to account 376.1.

f. 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 $692 as the accruals.

Company Response:

The Commission balance adjustment for this account was included in the accrual column of Exhibit G. Due to the acquisition, estimated depreciation expense for all accounts in 2010 was recorded to account 376.1.

g. 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 $2,326 as the accruals.

Company Response:

The Commission balance adjustment for this account was included in the accrual column of Exhibit G. Due to the acquisition, estimated depreciation expense for all accounts in 2010 was recorded to account 376.1.

h. Account 390
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.

Company Response:

The Commission balance adjustment for this account was included in the accrual column of Exhibit G. Due to the acquisition, estimated depreciation expense for all accounts in 2010 was recorded to account 376.1.

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.

    Company Response:

    For the first five months of 2011, depreciation expense was not recorded to each subaccount. Therefore, in May 2011, the Company booked an entry to record the depreciation expense for those five months to each subaccount. However, the Company inadvertently recorded an additional month of expense, which is the cause of the variance in the expense calculated versus booked.

    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.

    Company Response:

    For the first five months of 2011, depreciation expense was not recorded to each subaccount. Therefore, in May 2011, the Company booked an entry to record the depreciation expense for those five months to each subaccount. However, the Company inadvertently recorded an additional month of expense, which is the cause of the variance in the expense calculated versus booked.

    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.

    Company Response:

    For the first five months of 2011, depreciation expense was not recorded to each subaccount. Therefore, in May 2011, the Company booked an entry to record the depreciation expense for those five months to each subaccount. However, the

Company inadvertently recorded an additional month of expense, which is the cause of the variance in the expense calculated versus booked.

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.

Company Response:

For the first five months of 2011, depreciation expense was not recorded to each subaccount. Therefore, in May 2011, the Company booked an entry to record the depreciation expense for those five months to each subaccount. However, the Company inadvertently recorded an additional month of expense, which is the cause of the variance in the expense calculated versus booked.

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.

Company Response:

For the first five months of 2011, depreciation expense was not recorded to each subaccount. Therefore, in May 2011, the Company booked an entry to record the depreciation expense for those five months to each subaccount. However, the Company inadvertently recorded an additional month of expense, which is the cause of the variance in the expense calculated versus booked.

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.

Company Response:

Staff states that the Company booked negative $2,562 when the study actually reports $3,562 on Exhibit G. The difference between the $3,562 in the study and staff's $3,286 of $276 is due to the Company recording the monthly expense twice in May 2011.

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.

   Company Response:

   The correct rate for this account is 3.5% instead of the rate listed above by the Commission of 3.6%. The Company used the correct rate of 3.5% to calculate depreciation.

   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.

   Company Response:

   In total, the accruals for the three 391 accounts are correct. However, in the study, the accruals were recorded in the incorrect account. The correct accruals should be:

391.1	**$45,267**
391.2	**$ 9,190**
391.3	**$34,919**

   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.

[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.

Company Response:

In total, the 392 accruals agree to the ledger. However, on Exhibit G account 392.1 is understated by $2,609 and account 392.3 is overstated by the same amount.

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.

    Company Response:

    The correct rate for this account is 3.5% instead of the rate listed above by the Commission of 3.6%. The Company used the correct rate of 3.5% to calculate depreciation.

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.

    Company Response:
    The correct rate for this account is 3.5% instead of the rate listed above by the Commission of 3.6%. The Company used the correct rate of 3.5% to calculate depreciation.

    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.

    Company Response:
    This account was depreciated at the incorrect rate of 12.7%, which is the rate for Transportation-Autos.

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?

    Company Response:
    As of August 31, 2014 the investment and accumulated depreciation for this account is $24,970.34 and $32,510.60, respectively.

    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.

    Company Response:
    Since an overage exists, the Company plans to stop amortizing this asset and reverse the overage of $7,540.26; debiting accumulated depreciation and crediting expense.

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.

    Company Response:
    Yes, the Company is currently amortizing investment tax credits. Although the rates will impact the amortization, the future amortization is only $5,000. Deferred taxes will not be impacted by a change to depreciation rates as they are amortized through the average rate assumption method based on the tax rate of the accumulation.

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?

Company Response:

The Company is continuing its ongoing efforts to consolidate the operations of the divisions, including taking steps to ensure tariffs and services are similarly aligned. However, at this time the Company has not determined a specific date for full consolidation. While there are many factors that contribute to the timing of such filings, the Company has been particularly concerned that it does not want to unduly burden its customers with unnecessary rate case expense, until conditions warrant a necessary rate change. Currently, the Company does not see need for a rate case. Therefore, the process envisioned would be to consolidate the gas operations over time, by roles and functions, on a gradual basis that will reduce the burden on both the Company and Commission staff, while avoiding a full blown rate case until one is absolutely necessary.. To this end, the Company has been undertaking portions of the consolidation as timing and conditions permit. For instance, the Company has requested a Consolidated Conservation program and depreciation rates in 2014. The Company is expected to request consolidation of the general rules and non rate portions of the tariffs with best practices or common rules and regulations as possible during 2015/2016 timeframe. At the appropriate time, the Company will certainly request consolidation of its base rates. Until then, the Company has given some consideration to requesting consolidation of its tariff terms, conditions, and fees, while retaining separate rates until such time that a full rate proceeding would be appropriate.

The Company plans to consolidate its natural gas operations, and is taking measures to consolidate the natural gas unit and rates as conditions warrant. Consolidation of administrative functions will save time and create efficiencies in operations. To avoid consolidation of all gas functions at one time, the Company believes that doing so over several years provides for the most efficient and effective way to consolidate these units for regulation purposes. The Company anticipates that it will likely be necessary to file for a rate proceeding before the next depreciation study is required, and accordingly , consolidating this study at this time, will create an efficient step towards that endeavor.

At this time the Company does not have a specific target date for full consolidation. There are many factors that go into this determination. The Company as a general rule tries to avoid a base rate proceeding as long as possible, to avoid unnecessary rate case expense, and to not burden our customers. At this time the Company anticipates a rate proceeding may be necessary within the next five years; however, depending on many factors, the Company does not have a target date for full consolidation at this time.

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?

Company Response:

The Company does agree that, if the Consolidation is approved, the Company should file consolidated annual status reports beginning in 2014.

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.

Company Response:

The Company will retain the assets by division (regulated unit) and apply the composite rates to calculate the expense specifically applied to each division. The Company believes this is the cleanest way to track different assets and depreciation records for each separate division and report accordingly, until full consolidation of natural gas divisions.

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.

Company Response:

The Company has acquired a distribution system consisting of mains, services, meters and a gate station. Although the records are not sufficient to clearly determine the assets by vintage year, FERC account and components of remaining life, the Company is able to estimate the overall value of the assets acquired, and has information relating to the number of services and meters, miles of mains, and the gate station. Using information from other natural gas systems in our Florida territory, the records we were able to ascertain from the City of Ft Meade and DOT reports, the Company can reasonably estimate the values for the purposes of asset records going forward, and can utilize the results of the Consolidated Natural Gas study for other Florida units as a basis for setting depreciation rates. The Company can submit this estimate to the Florida PSC for their review upon completion of this estimate.

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.

    Company Response:
    No, FPUC is not suggesting or requesting any deviation from the Code of Federal Regulation Part 201, which is commonly referred to as Uniform System of Accounts (USoA). On the contrary, FPUC is simply following the requirement prescribed in the USoA in its accounting for the assets acquired from the City of Fort Meade. The assets acquired from the City of Fort Meade were not subject to, and thus were not accounted for in accordance with, the USoA. The accounting procedures prescribed in the USoA, which require the original historic cost to be used to account for plant assets, apply to only the entity that "first devoted those assets to utility service." The USoA defines the term "utility" as an entity to which the USoA is applicable. Since the USoA was not applicable to the City of Fort Meade, these assets were not subject to utility service for accounting purposes as prescribed in the USoA. Therefore, the use of the historic cost of plant assets in purchases of utility assets pursuant to the USoA does not apply in this case. Since FPUC is the first entity required to apply the USoA to these assets, FPUC should state these assets at the cost it incurred to acquire these assets.

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.

Company Response:

No. As explained in FPUC's response to the previous question, FPUC is simply following the accounting rules prescribed in the USoA in its accounting for the assets acquired from the City of Fort Meade. The value assigned to the plant assets of $670,000 represents the fair value of these assets paid by FPUC at the time of the purchase, which both FPUC and the City of Fort Meade agreed in the purchase price allocation in the agreement. This value was based on a valuation estimate of the entire natural gas distribution system provided by an independent consultant. FPUC believes the correct accounting pursuant to the USoA in this case is to record these assets at the cost it incurred to acquire those assets.

Unlike a purchase of utility assets under the USoA, which records assets by historic cost and accumulated depreciation, this purchase is accounted for based on the price/value paid to purchase the assets. The net plant amount of $670,000 represents the fair value of these assets at the time of the purchase, which both Florida Public Utilities Company and the City of Fort Meade agreed in the purchase price allocation. This fair value was based on the estimate of the value of the entire natural distribution system provided by an independent consultant.

We are unable to further assign this value to individual assets due to lack of detailed asset records maintained by the City of Fort Meade. Since $670,000 represents the price/value paid by Florida Public Utilities Company to purchase these assets, there is no accumulated depreciation associated with these assets as of the date of the purchase.

Additionally, 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, further indicating that this system was not a "utility" as defined in the USoA.

The previous owner of the assets, the City of Fort Meade, Florida, from which we purchased these assets in December 2013, did not maintain detailed records of assets by different asset name, type or category. Therefore, we are unable to provide asset information by different FERC account. The value assigned to plant assets at the time of the purchase was based on the estimated value of the entire natural gas distribution system as provided by an independent consultant. We were not able to assign the overall value to individual asset(s) due to lack of sufficient data from the previous owner. Nonetheless, the Company purchased the physical assets only based upon a reasonable, third party, valuation of the system at $670,000.

The Company is requesting that the fair value of assets acquired be used as the basis for cost of assets and that the depreciation rates be set equal to those of similarly

situated assets within the Company's other Florida Natural Gas divisions. The Company is not requesting a change in base rates associated with this division at this time. The Commission can review the appropriateness of rate base at the time of the Company's first rate proceeding for Ft Meade. The Company has in good faith made the best estimate possible to determine the value of the assets acquired, a third party consultant valued these assets and this is the most appropriate treatment for an acquisition of a municipality not subject to the same rules and regulations as investor owned utilities.

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."

Company Response:

The Company has acquired a distribution system consisting of mains, services, meters and a gate station. Although the records are not sufficient to clearly determine the assets by vintage year, FERC account and components of remaining life, the Company is able to estimate the overall value of the assets acquired, and has information relating to the number of services and meters, miles of mains, and the gate station. Using information from other natural gas systems in our Florida territory, the records we were able to ascertain from the City of Ft Meade, and DOT reports, the Company can reasonably estimate the values for the purposes of asset records going forward, and can utilize the results of the Consolidated Natural Gas study for other Florida units as a basis for setting depreciation rates.

C. Staff's Initial Proposals

Company Response: The Company concurs with the Staff's Initial Proposals set forth in Section C of the report.