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Public Service Commission

April 10, 2025

Beth Keating
Gunster, Yoakley & Stewart, P.A.
215 South Monroe St., Suite 601
Tallahassee, FL 32301

Dkt #: 20250035

Re: Petition for approval of 2025 depreciation study and for approval to amortize reserve imbalance, by Florida City Gas.

Dear Ms. Keating:

By this letter, the Commission staff requests that Florida City Gas (FCG) provide responses to the following data requests:

1. Please refer to page 2 of Florida City Gas's Response In Opposition To Citizen's Motion To Hold Proceedings In Abeyance (Abeyance Response). Referring to the current depreciation study, Florida City Gas (FCG or Company) states, "The depreciation expert responsible for this Study has made the appropriate adjustments to accounts and service lives consistent with depreciation studies submitted for other entities under the Chesapeake Utilities Corporation corporate umbrella, both here in Florida and in other states."
   a. Please identify the depreciation expert referenced who prepared FCG's 2025 Depreciation Study. Please also include the depreciation experts' previous work experience preparing gas utility depreciation studies.
   b. Please list all entities under the Chesapeake umbrella that were utilized to develop the adjustments to accounts and service lives in FCG's 2025 Depreciation Study.
   c. Explain what is meant in this FCG statement by "consistent" and "appropriate" adjustments to accounts and service lives between the FCG study in this case and depreciation studies performed for other Chesapeake entities.

2. FCG's 2025 Depreciation Study Narrative, at Page 3, states, "The retirement rate for many FCG accounts is minimal, rendering statistical analysis results meaningless for life or salvage projections. These factors make it necessary to rely on prescribed life and salvage factors of other gas companies." FCG's most recent base rate case (Dkt.

20220069-GU), Gannett Fleming Valuation and Rate Consultants, LLC prepared a depreciation study (2022 Depreciation Study) for FCG's gas plant as of December 31, 2022 using FCG's own assets, based on recorded plant transactions from 2005 through 2020 (witness Allis direct testimony, page 14, lines 21-22).

a. Please refer to FCG's 2022 Depreciation Study, Exhibit NWA-1, pages 52-104, which contains retirement data and statistics used to determine average service lives and Iowa curve shapes for each account. Similarly, did FCG consider placement/experience bands in its 2025 Depreciation Study to determine the appropriate Iowa Curve for the accounts with low retirements? If not, please explain why not.
b. In FCG's 2022 Depreciation Study, Exhibit NWA-1, page 15, FCG witness Allis stated that FCG maintains aged accounting data allowing use of the retirement rate method. Please identify the reasons witness Allis could perform the statistical life analysis with existing retirement rates using FCG's own assets in the Company's 2022 Depreciation Study but FCG states it cannot do so now in the instant case. Please provide examples.
c. Please explain why FCG elected not to perform its life analysis for all accounts based on the retirement activity of FCG's own assets in the instant case given that FCG maintains aged accounting data.

3. Please refer to Florida PSC Rule 25-7.045, subsection 5(h), which states:
"The mortality and salvage data used by the company in the depreciation rate design must agree with activity booked by the utility."
Please explain whether FCG believes that this rule requires FCG's calculation of its proposed average service lives and net salvage for all accounts to be based upon activity booked by the utility, including retirements, and whether the utility's 2025 Depreciation Study is in compliance with the rule. As an example, please show how Account 3762-Mains-Steel complies with the rule.

4. In FCG's 2025 Depreciation Study Narrative, Page 1, FCG states, "Depreciation rates should be revised when the need arises. A review of the January 1, 2025 plant investments, reserve, and account activity data indicate there is a need to revise rates now." Please elaborate on what was discovered in FCG's review of plant investment, reserve, and account activity that necessitated the need for revised rates.

5. Please refer to FCG's 2025 Depreciation Study Narrative, Page 12, Account 3761: Mains – Plastic. FCG proposes a (30)% net salvage factor in the instant case, an increase from the currently approved (33)% net salvage factor. FCG states the 2004-2024 average net salvage factor for the account is (70)%, while the most recent 2021-2024 period averaged (30)%. In FCG's 2022 Depreciation Study, FCG witness Allis recommended a (60)% net salvage factor for the account (Exhibit NWA-1, Page 157 of 179). Please explain the

reason(s) why FCG elected to give more credence to the short-term net salvage trend ((30)%) verses the longer term trend ((70)%) and the previous recommendation of witness Allis ((60)%).

6. Please refer to FCG's 2025 Depreciation Study Narrative, Pages 12-13, Account 3762: Mains – Steel. FCG proposes a (40)% net salvage factor in the instant case, an increase from the currently approved (50)% net salvage factor. FCG claims the reason behind this proposed increase is that removal costs "...should continue to decrease..." FCG states that the 2004-2024 average net salvage for the account is (146)% and the most recent 2021-2024 period averaged (64)% which is consistent with FCG's 2022 Depreciation Study, in which FCG witness Allis recommended a (75)% net salvage for the account (Exhibit NWA-1, Page 155-156 of 179). Please provide:
   a. The rationale behind FCG's claim that removal costs should continue to decrease.
   b. Summary support, as well as any additional documentation (e.g. industry reviews) FCG relied upon in its answer to 6.a. above.
   c. Calculations, if any, supporting FCG's proposed (40)% net salvage estimate.
   d. An explanation for why there exists a 35% difference in the net salvage estimates for this account between FCG's 2022 and 2025 Depreciation studies, despite less than 3 years of elapsed time between studies.

7. Please refer to FCG's 2025 Depreciation Study Narrative, Page 15, Account 3801: Services – Plastic. FCG proposes (40)% net salvage factor in the instant case, an increase from the currently approved (68)% net salvage factor. FCG claims the reason behind this proposed increase is "easier accessibility to the retired service as well as projections from other Florida gas utilities." However, FCG states the 2004-2024 average net salvage factor for the account is (398)% and the most recent 2021-2024 period averaging (132)%. In addition, in FCG's 2022 Depreciation Study, FCG witness Allis recommended a (60)% net salvage factor for the account (Exhibit NWA-1, Page 162 of 179). Please provide:
   a. An explanation of how the retired services are more easily accessible now compared to the past.
   b. Summary support, as well as any additional documentation (e.g. industry reviews) FCG relied upon in its answer to 7.a. above.
   c. Calculations, if any, supporting FCG's proposed (40)% net salvage estimate.
   d. An explanation for why FCG is recommending an increase to the approved (68)% net salvage factor given the (132)% average net salvage factor experienced over the 2021-2024 period and (398)% average net salvage factor experienced over the 2004-2024 period.

8. Please refer to FCG's 2025 Depreciation Study Narrative, Pages 15-16, Account 3802: Services – Steel. FCG states, "Average service life estimates for other gas companies in

Florida range from 48 years to 60 years, averaging 54 years. Based on input from the Company, the type of assets in this account, and judgment, this Study proposes a slight increase in average service life to 60 years." With a current service life of 52 years (Study, Page 15), please explain how FCG determined a 60 year average service life is appropriate for this account, and how that proposed service life may be reflective of changes (please specify) since FCG's 2022 Depreciation Study, wherein witness Allis recommended a 50 year average service life (Exhibit NWA-1, Page 160 of 179).

9. Please refer to FCG's 2025 Depreciation Study Narrative, Pages 17-18, Account 3820: Meter Installations. FCG states "The retirement rate during the 2021-2024 period averaged 14.97% with the 2004-2024 averaging 4.27%." In addition, in FCG's 2022 Depreciation Study, witness Allis recommended a 35 year average service life for the account (Exhibit NWA-1, Page 165 of 179). Please explain why FCG does not recommend any change to the 44 year average service life or curve shape.

10. Please refer to FCG's 2025 Depreciation Study Narrative, Pages 18-19, Account 3821: Meter Installations –ERT. please explain the reasons why FCG is proposing to increase net salvage for this account from (25)% to 0%.

11. Please refer to FCG's 2025 Depreciation Study Narrative, Page 21-22, Account 3900: Structures and Improvements. FCG is proposing to extend the Average Service Life (ASL) of this account from 25 years to 40 years, an increase of 60%. Why did FCG propose to increase the service life to 40 years in a single ASL adjustment rather than in stages under the concept of Gradualism?

12. Please refer to FCG's 2025 Depreciation Study, page 7, "Account Analysis and Proposals" section. For many accounts the study references the support of other Florida gas utilities for service life and/or net salvage values. For each such reference, by account, please provide the data, calculations, associated time periods of the data, and source of all such data.

13. Please provide a side-by-side chart comparing FCG's 2022 Depreciation Study parameters to FCG's 2025 Depreciation study parameters. In the comparison chart, please include all depreciation parameters proposed in each study (Average Service Life, Average Remaining Life, Net Salvage, Iowa Curve Shape, Age, and where appropriate, amortization periods) for all accounts.

14. In the Company's last base rate case (Dkt 20220069-GU), FCG witness Campbell stated in his direct testimony (DN 03278-2022), "The Company is proposing a Reserve Amount of $25 million to be available for use in the RSAM as described above for the 2023-2026 period, which will enable FCG to avoid another base rate increase until at least the end of

2026 while continuing to earn a reasonable rate of return." (Page 28, Lines 15-18) Ultimately, the Commission approved FCG's four-year rate plan in conjunction with approval of its use of the RSAM in Order No. PSC-2023-0177-FOF-GU, issued June 9, 2023. Please explain the changes and events within the Company since its last rate case that have resulted in FCG's petition to amortize an additional proposed reserve surplus of $27.3 million over the next two years in order to avoid a rate proceeding (2025 Depreciation Study, Pages 4 and 5).

15. Please refer to FCG's Earnings Surveillance Report (ESR) for the 12 month period ending December 31, 2024, and FCG's Forecasted ESR for the 12 months ending December 31, 2024, filed with the Commission on March 28, 2025, and March 15, 2024, respectively.
    a. In FCG's ESR for 12 month period ending December 31, 2024, for each of the instances from May 31, 2023 to date where FCG has amortized a portion of the Commission-approved $25 million reserve surplus, please explain in detail FCG's process for deciding how much of the aforementioned reserve surplus needed to be amortized.
    b. In FCG's Forecasted ESR for the 12 months ending December 31, 2024, filed March 15, 2024, FCG projected $6,879,538 of the aforementioned Commission-approved $25 million reserve surplus to remain through December 31, 2024. However, according to FCG's ESR for the 12 month period ending December 31, 2024, only $2.00 of the $25 million reserve surplus remained as of December 31, 2024. Please explain the changes and events within the Company since its March 15, 2024 Forecasted ESR filing, that have resulted in FCG amortizing $6,879,536 more than what was projected in 2024.

16. Please refer to FCG's ESR for the 12 month period ending September 30, 2024, filed December 13, 2024. According to Schedule 1 of this filing, FCG's return on equity (ROE) was 10.50 percent, which is at the top of FCG's currently authorized ROE range by Order No. PSC-2023-0177-FOF-GU. This filing also states that FCG amortized $3,182,574 of the $25 million reserve surplus in September 2024 (Attachment 1).
    a. Please explain why FCG elected to amortize $3,182,574 of the reserve surplus in September 2024, thereby earning at the top of its authorized ROE range for the 12 month period.
    b. Given the Company's previous commitment to the four-year plan proffered by FCG witness Campbell in FCG's 2022 rate case (DN 03278-2022, Page 28, Lines 15-18), please explain why FCG did not elect to amortize a lesser amount of the reserve surplus, resulting in an ROE closer to the midpoint (9.5 percent) of FCG's authorized ROE range.

17. Please refer to page 4 of the Abeyance Response. FCG states, "In fact, as will be evidenced in FCG's forecasted earnings surveillance report, which is anticipated to be filed soon, an extended delay in the processing of FCG's Study will necessitate that FCG file a base rate case, which FCG believes is not in the best interest of its customers or FCG at this time."
    a. Is FCG asserting that it is projected to be earning below its authorized ROE range in 2025?
    b. If the answer to 6.a. is affirmative, please provide all workpapers, documents, and calculations that support FCG's claim.

18. Does FCG believe that a consideration of its earnings should be part of the Commission's standard review and processing of depreciation studies? Please explain.

19. Please identify any prior depreciation study dockets (adjudicated separate and apart from a base rate proceeding) wherein the utility requested, and the Commission considered, projected over- or under-earnings to be reviewed in conjunction with the depreciation study. Please provide docket and order numbers.

20. If FCG's 2025 Depreciation Study and requested 2-year amortization of the proposed $27.3 million surplus is approved as filed, please explain if:
    a. an amortization of any portion or all of FCG's proposed $27.3 million surplus would result in a requested rate base increase by the same amount and such increase reflected in the requested revenue requirements of the Company the next time FCG petitions the Commission for a base rate increase. Please explain.
    b. an amortization of such surplus amount to support earnings would result in FCG double recovering the cost of plant from its customers beginning with base rate recovery amounts following the next rate case? Please explain.

21. Please refer to FCG's page 4 for the following question. Here the Company writes "[c]orrection of the reserve imbalance over a short period will result in a return to the matching principle as opposed to returning it over the remaining life." In this docket, who would the Company be returning the surplus to if it was amortized over the remaining life, i.e., customers or shareholders?

22. Please refer to FCG's 2025 Depreciation Study, pages 5-6. Here the Company writes "[t]his will have the effect of reducing depreciation expenses for the amortization period resulting in the added benefit of delaying a rate proceeding now." Has the Company quantified the difference of a potential near-term rate case and its impact on customer rates, relative to the future "re-collection" of the $27.3 million in future depreciation expenses (including the return on the newly created unamortized balance/rate base)? If so, please provide the results of that analysis.

23. Does the Company allege that its current proposal, reducing depreciation expense by $27.3 million over two years, and the associated/follow-on effects of that proposal, i.e., "re-collection" of depreciation and additional return, is the "lower cost" option to its customers relative to a near-term rate case?

24. Please refer to the FCG's 2025 Depreciation Study, page 6. Here the Company writes "[t]here are numerous cases where the Commission has approved amortization of reserve imbalances over a period shorter than the remaining life." Please provide examples of this amortization where the reserve surplus was used to reduce depreciation expense in support of company earnings rather than flowed directly to, or recovered from, customers. Please limit this response to identifying only instances where the relative issues in the docket were not part of a settlement.

25. Please refer to the FCG's 2025 Depreciation Study, page 6. In the third paragraph, the Company writes, "FCG has identified a reserve surplus of $27.3 million that it proposes to amortize over the years 2025 and 2026. This action allows a return to the matching principle and correction of intergenerational inequities." Please fully explain the concept of relieving intergenerational inequities by transferring customer value to Company shareholders, which has the direct effect of customers having to pay for that depreciation and return twice no matter the generation of customer base.

26. In FCG's 2022 Depreciation Study, the Company identified an approximate $52.1 million of reserve surplus. Of that $52.1 million, $27.1 million remained - as proposed - in accumulated depreciation following the disposition of the rate case. Please explain the Company's current position that the $27.3 million of reserve surplus as calculated in FCG's 2025 Depreciation Study indicates an intergenerational inequity which needs to be corrected but a similar amount did not need such a correction in 2022.

Please file all responses electronically no later than Wednesday, April 30, 2025, through the Commission's website at www.floridapsc.com, by selecting the Clerk's Office tab and Electronic Filing Web Form. *In addition, please email the filed response to discoverygcl@psc.state.fl.us.*

Please feel free to call me at (850) 413- 6648 if you have any questions.

Sincerely,

Andrew Kunkler
Public Utility Analyst IV