State of Florida

# Public Service Commission

CAPITAL CIRCLE OFFICE CENTER • 2540 SHUMARD OAK BOULEVARD
TALLAHASSEE, FLORIDA 32399-0850

**-M-E-M-O-R-A-N-D-U-M-**

**DATE:** February 5, 2026

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

**FROM:** Division of Economics (Wu, Galloway, McNulty, Richards) EJP
Division of Accounting and Finance (D. Buys, Higgins, Souchik) MC
Office of the General Counsel (Sparks, Imig) SPS

**RE:** Docket No. 20250035-GU – Petition for approval of 2025 depreciation study and for approval to amortize reserve imbalance, by Florida City Gas.

**AGENDA:** 02/17/26 – Special Agenda – Post-Hearing Decision – Participation is Limited to Commissioners and Staff

**COMMISSIONERS ASSIGNED:** Passidomo Smith, Clark, La Rosa

**PREHEARING OFFICER:** Passidomo Smith

**CRITICAL DATES:** None

**SPECIAL INSTRUCTIONS:** None

## Case Background

On February 24, 2025, Florida City Gas (FCG or Company) filed a Petition for Approval of Depreciation Study and for Approval to Amortize Reserve Imbalance (Petition) under Rule 25-7.045, Florida Administrative Code (F.A.C.). The Petition included a depreciation study and proposed depreciation parameters that resulted in a total calculated reserve surplus of $27.3 million. In its Petition, FCG requested approval of its depreciation study; an effective date for new depreciation rates of January 1, 2025; and approval to amortize the Company's calculated $27.3 million reserve surplus over a 2-year period (2025 and 2026).

On February 26, 2025, the Office of Public Counsel (OPC) filed a Notice of Intervention pursuant to Section 350.0611, Florida Statutes (F.S.).[1] The following day, on February 27, 2025,

[1] Document No. 01130-2025

OPC filed a Motion to Hold Proceedings in Abeyance, which was denied by Order No. PSC-2025-0102-PCO-GU, issued April 1, 2025. On April 11, 2025, OPC timely filed a Motion for Reconsideration of that Order, along with a Request for Oral Argument. Separately, on June 20, 2025, OPC filed a Motion to Dismiss on jurisdictional grounds, along with a corresponding Request for Oral Argument. The Commission denied both Motions and Requests for Oral Argument by Order No. PSC-2025-0360-PCO-GU, issued September 24, 2025.

The current depreciation rates for FCG were approved in 2023, in connection with the Company's 2022 request for base rate increase.[2] The approved depreciation parameters resulted in a total reserve surplus of $52.1 million, of which $25 million could be amortized over a 4-year period using a Reserve Surplus Amortization Mechanism (RSAM) requested by FCG. OPC appealed the 2023 rate case Final Order, as well as the Commission's subsequent Clarifying Order.[3] The matter is currently pending before the Florida Supreme Court.

As part of its Petition and accompanying depreciation study filed on February 24, 2025, FCG initially calculated a $27.3 million reserve surplus. On August 5, 2025, FCG filed a Revised 2025 Depreciation Study in which the Company reduced its calculated reserve surplus to $22.3 million. On November 4, 2025, the Company amended its testimony with resulting changes to both the narrative and workbook schedules, and further reduced its calculated reserve surplus to $19.2 million. For purposes of this recommendation, the November 4, 2025 filing is the final depreciation study filed for review, and is referred to as the 2025 Depreciation Study or 2025 Study, and it supplants FCG's August 5, 2025 Revised 2025 Depreciation Study.

An evidentiary hearing was held on December 11, 2025. This recommendation addresses a threshold issue of whether FCG's depreciation rates should be revised; other issues that identify the appropriate depreciation parameters, rates, expenses, theoretical reserve imbalance, and related corrective measures; and further issues identified in the prehearing order.[4]

Jurisdiction over these matters is vested with the Commission through several provisions of Chapter 366, F.S., including Sections 366.04, 366.05, and 366.06, F.S.

[2] Order No. PSC-2023-0177-FOF-GU, issued June 9, 2023, in Docket No. 20220069-GU, *In re: Petition for rate increase by Florida City Gas.*
[3] Order No. PSC-2023-0299-FOF-GU, issued October 2, 2023, in Docket No. 20220069-GU, *In re: Petition for rate increase by Florida City Gas.*
[4] Order No. PSC-2025-0444-PHO-GU, issued December 9, 2025, in Docket No. 20250035-GU, *In re: Petition for approval of 2025 depreciation study and for approval to amortize reserve imbalance, by Florida City Gas.*

## Discussion of Issues

***Issue 1:*** Should currently prescribed depreciation rates for Florida City Gas be revised?

***Recommendation:*** Yes. A review of Florida City Gas' 2025 Depreciation Study indicates the need for revising the currently prescribed depreciation rates. The specific revisions are discussed in Issue 2. (Wu, Sparks, Imig)

### *Position of the Parties*

**FCG:** Yes. Given the change in ownership of FCG since its last study and other factors, such as the expansion of the SAFE program, it is necessary to update FCG's depreciation rates. Rule 25-7.045, F.A.C., does not require that a gas utility wait five years between the filing of depreciation studies, nor does it prohibit a gas utility from submitting a depreciation study unless it is part of a full, base rate request and MFRs.

**OPC:** No. FCG has not provided justification to support a change in depreciation parameters, rates, or costs. The filing is designed to boost earnings and is premature and inconsistent with the principles underlying depreciation and insufficient to change depreciation parameters, rates, and costs. It would improperly transfer customer-provided depreciation expense-related revenue over collections to shareholders. Rule 25-7.045, F.A.C., forbids the Commission from taking action to intentionally create a reserve imbalance for purposes of adjusting achieved earnings.

### *Staff Analysis:*

## ANALYSIS

Rule 25-7.045, F.A.C, requires regulated gas companies to file a comprehensive depreciation study at least once every five years from the date of the last study or pursuant to Commission order. The submission date of FCG's 2022 Depreciation Study (last depreciation study) was May 31, 2022.

At the time that FCG submitted its last depreciation study, the Company was owned by Florida Power & Light Company. Since December 2023, FCG has become a wholly owned subsidiary of Chesapeake Utilities Corporation (CUC). FCG claimed that its changed operating environment associated with a change in ownership and other factors led the Company to identify a need to seek to revise its depreciation rates. (TR 30-31; EXH 3, BSP C2-114; FCG BR 5, 7-9)

The crux of the dispute in this issue is OPC's assertion that FCG's depreciation study is unsupported and is contrary to FCG's commitments it made in its last rate case. OPC opposed FCG's request to revise the currently approved depreciation rates and the underlying parameters. OPC claimed that "FCG desires to establish or sustain a surplus through changing, without justification, logic, or evidence, certain parameters that have the effect of boosting the coveted surplus balance." (OPC BR 9) More specifically, OPC stated that FCG sought $19.2 million of customer money to boost earnings as a form of rate relief. (OPC BR 4) OPC recommended that "this case be closed and the current depreciation rates remain in effect" and "a new, correct

depreciation study be filed as part of the next rate case, which is coming within a year, or by May 31, 2027, whichever is earlier." (OPC BR 10)

Additionally, OPC argues that the instant case violates the "Four-Year Stay Out." (OPC BR 3-6) OPC next asserts that the Company pledged in its last rate case in 2023 to "stay out" and not come to the Commission with a request for rate relief for four years if it was allowed to use no more than $25 million of an identified $52 million depreciation reserve imbalance during that period. OPC argues that the Company's request in this docket is contrary to these representations. (OPC BR 3-6) OPC also asserts that FCG's instant depreciation study is insufficient due to it being two years premature. (OPC BR 12)

OPC further contends that FCG's 2025 Study is ill-timed because the study itself has serious flaws, including inconsistencies between study data and audited financials, missing cost of removal information, and lack of a statistical life analysis that was required by the rule. (OPC BR 10, 12-14) OPC witness Dunkel asserted that "[t]here are vast inconsistencies between the data on which FCG is basing its claimed depreciation rates, and the data in the audited FCG Annual Reports." (TR 267)

On the other hand, FCG argued and offered testimony that the instant request is justified due to changes in circumstances. Those circumstances include new ownership and accounting treatments. FCG also argues that these revisions will allow it to maintain earnings within its range. (FCG BR 7-8, TR 133)

FCG's argument regarding changed circumstances is in contrast to OPC's claim that FCG filed its depreciation study for the purpose of avoiding coming back in for rate relief. (OPC BR 4) FCG explained that, as the study neared completion, it became aware that a significant surplus reserve imbalance would likely result from the study, and a 2-year amortization was determined to be the most appropriate timeframe and methodology to resolve the reserve imbalance. FCG indicated that the study completion coincided with adverse financial conditions confronting the Company, including a $4.1 million decrease in net income and a $16.0 million increase in rate base versus the approved rate case amounts, and the utility had fully utilized $25 million of the RSAM reserve by the end of 2024. (EXH 27, BSP E-36 – E-37)

As to OPC's stay out argument, i.e., the commitment FCG made in its rate case, FCG maintained that Rule 25-7.045, F.A.C., neither requires that a gas utility wait five years to file a new study, nor restricts the filing of depreciation studies to coincide with a rate case. (FCG BR 5, 9) The Company claimed that "[b]y the clear language of the Rule, FCG was not barred from submitting more than one depreciation study within a 5-year period" and "[t]he plain language of the Rule allows a gas utility to file a depreciation study more often than the 5-year minimum." (FCG BR 6-7)

FCG presented testimony that its review of the January 1, 2025 plant investments, reserve, and account activity data show a need to revise the parameters and rates at this time. (TR 9; EXH 3, BSP C2-114) FCG witness Lee testified that:

> FCG is now operating in a different corporate environment, using the same operational and accounting procedures as other Chesapeake business units,

> and certain capital projects previously planned are no longer being pursued. For these reasons as well as changes in net plant (investment less reserve), there is a need to revise currently prescribed depreciation rates.

(TR 30-31)

FCG witness Everngam further testified that "updated depreciation parameters for FCG under CUC ownership will allow the Company to more effectively evaluate a potential future consolidated depreciation study or rate case." (TR 116)

In FCG's 2025 Study, book investments of various plant accounts, including all Office Furniture and Equipment, Software, and all Transportation assets, are restated based on proposed new subaccounts. Restated account numbers are based on the new owner's (CUC's) standard chart of accounts for all natural gas business units to streamline operations, as presented in Schedule A of the 2025 Study. (EXH 3, BSP C2-142)

Additionally, various accounts are reclassified to the corresponding newly proposed accounts, including: Misc. Intangibles from Account 30302 to Account 3031; Steel Mains from Account 3761 to Account 3762; Plastic Mains from Account 3762 to Account 3761; Steel Services from Account 3801 to Account 3802; Plastic Services from Account 3802 to Account 3801; and ERTs Meter from Account 3811 to Account 3812. The Company claimed that these reclassifications are also for consistency across all CUC business units and administrative ease. Details are shown in Schedules A through E-2. (EXH 3, BSP C2-142 − C2-148)

With respect to OPC's assertion that FCG did not include a historical life statistical analysis in the 2025 Study, FCG asserts that such an analysis is not required by Rule 25-7.045(5), which specifically prescribes the requirements of a depreciation study. (FCG BR 12-17)

FCG argues that all aspects of its depreciation study is consistent with Rule 25-7.045(5), F.A.C. (FCG BR 12-17) FCG acknowledged that, due to the change of its ownership, it "cannot provide complete supporting documentation for activities recorded prior to acquisition and must rely on source records from the prior owners." (TR 355) However, the Company presented testimony that "[w]hile detailed historical entries are unavailable, FCG's continuous property records are reliable." (TR 356) FCG witness Lee testified that "during discovery, FCG provided detailed reconciliations for all accounts with significant variances between the study data and Annual Reports (2021-2024)." (TR 357) She testified that:

> FCG has provided all known corrections to the OPC and Commission Staff in a transparent, straightforward manner, upon its own realization of errors made. Such transparency and due diligence should not be mistaken for a misunderstanding of the data or other ineptitude, but rather the appropriate refinement of an analysis as new, correct information comes to light.

(TR 355)

In addition, witness Lee asserted that "OPC [w]itness Dunkel overstates the extent of the inconsistencies between FCG's study data and its audited annual reports, which have all been

reconciled. Many inconsistencies were due to timing differences between in-service date and late charges or true-ups related to the project." (TR 381) Witness Lee further contested that "[t]he study has been extensively reviewed by all parties (FCG, Commission Staff, and OPC), reconciled to Annual Reports for 2021-2024, revised and further amended to incorporate all known corrections. FCG provided these updates to ensure all stakeholders have the most complete and accurate data available." (TR 358)

## Staff Analysis

OPC reasserted several arguments regarding the Commission's jurisdiction over this matter. (OPC BR 3-4) Because these arguments have been considered and rejected by the Commission, some of them twice, staff believes no further reanalysis is required.[5] To the extent the prior Order Denying the Office of Public Counsel's Motion to Dismiss and Motion for Reconsideration relied on developing the differences between successive administrative proceedings, FCG has alleged that circumstances have changed from its last proceeding before the Commission, and these changes in circumstances warrant a revision to its depreciation rates.[6] Indeed the applicable Rule requires that a narrative be provided that describes the factors that lead to an application for a revision in depreciation rates.[7] Accordingly, staff's analysis in this recommendation will not reiterate any legal issues and argument that were previously disposed of in the motion for reconsideration order, but rather, staff will address the merits of FCG's depreciation study.

The depreciation rule, Rule 25-7.045(3)(b), F.A.C., prescribes that "upon establishing a new account or subaccount classification, each utility shall request Commission approval of a depreciation rate for the new plant category." The crux of OPC's issues with FCG's study is that it believes FCG did not provide the support required by the rule. OPC would have the Commission throw out the depreciation study in its entirety. While some portions of the FCG's study appear to be inconsistent or unsupported, overall, staff believes that the study complies with the rule, and there is evidence in the record support that FCG's depreciation rates should be revised.

Staff believes that, absent the Company filing its 2025 Depreciation Study as it did, a depreciation revision filing regarding the proposed new subaccounts, restatements and reclassifications, would have been necessary to comply with Rule 25-7.045(3)(b), F.A.C., which prescribes that "upon establishing a new account or subaccount classification, each utility shall request Commission approval of a depreciation rate for the new plant category."

OPC witness Dunkel's initial assertions regarding the inconsistencies between FCG's 2025 Study data and its audited annual report are not unfounded. Staff has reviewed the

[5] Order Nos. PSC-2025-0102-PCO-GU, issued April 1, 2025, and PSC-2025-0360-PCO-GU, issued September 24, 2025, in Docket No. 20250035-GU, *In re: Petition for approval of 2025 depreciation study and for approval to amortize reserve imbalance, by Florida City Gas.*

[6] *Delray Medical Center, Inc. v. State, Agency for Health Care Admin.*, 5 So. 3d 26, 29 (Fla. 4th DCA 2009) (stating Florida courts do not apply the doctrine of administrative finality when there has been a significant change of circumstances or there is a demonstrated public interest.)

[7] Rule 25-7.045(5)(e), F.A.C. (the Depreciation Rule).

aforementioned FCG's explanations, data reconciliations, and corrections regarding OPC's assertion, and considers them to be reasonable.

First, staff notes that the inconsistencies that were pointed out by OPC between FCG's 2025 Study data and its audited annual report and all of FCG's reconciliations and corrections were thoroughly reviewed in the discovery and hearing process of this case. OPC correctly asserts that FCG is missing cost of removal information for the following major accounts, including FCG's second and fourth largest Accounts 3761: Main-Plastic and 3802: Service-Steel, FCG booked significant amounts of retirement in 2024 with zero dollar corresponding cost of removal recorded. OPC issued discovery and conducted cross examination in this regard. FCG witness Lee testified that "there could have been a lag in reporting," and admitted that there may be some 2024 retirement-related removal costs recorded in 2025, but those removal cost are not included in the 2025 Study. (TR 85-87)

In this case, staff believes that there is evidence in the record that FCG's ownership, plant activities, accounting procedures, and assets' life and net salvage projections for various accounts have changed since its last depreciation study. (TR 30-31; EXH 3, BSP C2-114; FCG BR 5, 7-9; EXH 3, BSP C2-121 – C2-138, C2-142 – C2-143) Due to staff's extensive review of FCG's 2025 Study data, staff believes there is a sufficient basis for the Commission to set depreciation rates in this case, notwithstanding the "Four-Year Stay Out" as well as the 5-year timing contemplated by Rule 25-7.045, F.A.C. As such, staff recommends that FCG's currently prescribed depreciation rates be revised and the details of staff's recommended revisions are discussed in Issue 2.

## CONCLUSION

A review of FCG's 2025 Depreciation Study indicates the need for revising the Company's currently prescribed depreciation rates.

***Issue 2:*** Based on FCG's 2025 Depreciation Study, what are the appropriate depreciation parameters (e.g., service lives, remaining life, net salvage percentage, and reserve percentage) and resulting depreciation rates for each depreciable plant account?

***Recommendation:*** Staff recommends approval of the depreciation parameters and resulting depreciation rates for each depreciable plant account, as well as the amortization periods for each amortizable account, that are listed in Attachment A to the recommendation. (Wu)

### *Position of the Parties*

**FCG:** The appropriate depreciation parameters and resulting depreciation rates are those set forth in amended PSL-2 (Ex. 3). Witness Lee analyzed current plant and reserve data, historic average retirement rates for the plant accounts, consulted with FCG field personnel, and reviewed the service lives for similar assets owned by similarly situated, Florida natural gas utilities. The process utilized by Witness Lee resulted in a comprehensive, fully supported depreciation study that should be approved by the Commission.

**OPC:** FCG did not file the complete study required by rule, impairing the Commission's ability to perform statistical analyses of life and net salvage data, including any post-2020 data. Biased selection of parameters including negative net salvage values created a surplus to boost shareholder earnings. Commission's rules forbid intentionally creating reserve imbalances for adjusting earnings. Submission of a full study, including statistical analyses for life and salvage factors and include post-2000 actual data should be required.

### *Staff Analysis:*

## ANALYSIS

### Overview of Issue

This issue addresses the depreciation parameters and resulting depreciation rates for FCG's depreciable plant accounts. Staff's recommended depreciation parameters include an average service life (ASL), a curve shape, an average remaining life (ARL), and an average future net salvage percentage (NS) for each depreciable account.[8] The combination of these parameters and the net plant investment of the account can be used to provide an account-specific depreciation rate on a going-forward basis, which is also referred to as the remaining life depreciation rate (depreciation rate). This depreciation rate is designed to recover the remaining unrecovered plant balance, or investment, over the remaining life of the associated investment in the account. The formula for the remaining life depreciation rate is prescribed in the Commission's depreciation rule.[9]

[8] For a depreciation account, the ASL is the average number of years that the assets in the account are expected to be in-service; the curve shape is a graphical representation of the retirement pattern for the plant assets in the account; the ARL is the average number of in-service years left for plant currently in service; and the NS, also referred to as Net Salvage Factor, is gross salvage minus cost of removal of the retired plant assets.

[9] See Rule 25-7.045(1)(e), F.A.C., Remaining Life Rate = (100% - Reserve % - Average Future Net Salvage %) ÷ Average Remaining Life in Years.

For each plant account, FCG witness Lee proposed an ASL with a curve shape (life pattern), an ARL, a NS, and the resulting depreciation rate, all of which are detailed in FCG's 2025 Depreciation Study. (EXH 3, BSP C2-142)

OPC recommends the Commission reject the 2025 Study and order the Company to file a new depreciation study in its upcoming rate case.[10] (OPC BR 10, 20) OPC further recommends that the Company should retain the current approved depreciation parameters and rates for all accounts. (OPC BR 10, 20) OPC also recommends that "[t]o the extent the Commission nevertheless decides to grant FCG affirmative relief at this time and to revise currently prescribed depreciation rates for FCG [. . .], the Commission should adopt the recommendation of Staff witness Kunkler [. . .]." (OPC BR 21)

OPC posits various reasons for its position on this issue, some of which are addressed in Issue 1, such as lack of statistical life analysis, premature study filing, and violation of the "Four Year Stay Out". In each of these specific instances, staff has recommended in Issue 1 against OPC's arguments to deny FCG the opportunity to seek changes in depreciation rates at this time. As such, these OPC arguments related to this matters will not be further addressed in this issue.

Additionally, OPC witness Dunkel argues that FCG's proposal to transfer the reserve surplus to owners creates a conflict of interest in making the parameter selections used to calculate the surplus. (TR 276) Staff's analysis and recommendation regarding parameter selection, as presented below, is based on an analysis of the record. OPC's specific concerns regarding FCG's parameter development are addressed in the sections below.

As this case evolved, FCG made several revisions to its parameters in response to data requests and discovery. Staff thoroughly reviewed the data in this case. Notably, depreciation studies have not been litigated outside of a rate case and this is the first hearing track on a depreciation study for the Commission. For these reasons, staff believed a staff witness would be an efficient resource to complete the record and offer the Commission reasonable options supported by the record. Accordingly, Commission staff Witness Kunkler provided testimony on alternative depreciation parameters applicable to certain depreciable plant accounts contained in FCG's 2025 Depreciation Study. The witness' alternative parameters included a different Iowa curve shape for Account 3762: Mains-Steel, and a lower net salvage factor for Account 3762: Mains-Steel and Account 3801: Services-Plastic and are supported by the Company's historical retirement and salvage data. These two accounts are the second and third-largest accounts by plant investment, and together constitute nearly 40 percent of the Company's total plant investment.[11] Table 2-1 below outlines the depreciation parameters that are currently approved, as well as those that are proposed by witness Lee, witness Kunkler, and those recommended by staff.

[10] See Issue 1 for a detailed discussion regarding OPC claims of faulty, missing and inconsistent study data, lack of statistical life analysis, premature study filing, and contested legality.

[11] (Account 3762 plant invested + Account 3801 plant invested)/total plant invested = ($143,280,076 +$128,613,988) /$696,714,096 = 39.03 percent.

**Table 2-1**
**Comparison of the Proposed Depreciation Parameters**

| | Currently Approved | FCG Witness Lee Proposed | Staff Witness Kunkler Proposed | Staff Recommended |
|---|---|---|---|---|
| Account 3762: Mains-Steel | | | | |
| ASL/Curve Shape | 65/R1.5 | 65/R2.5 | 65/R4 | 65/R4 |
| Net Salvage (NS) | (50) percent | (40) percent | (50) percent | (50) percent |
| Account 3801: Services-Plastic | | | | |
| Net Salvage (NS) | (68) percent | (40) percent | (68) percent | (68) percent |

Source: (EXH 3, BSP C2-142; TR 334)

### Curve Shape for Account 3762: Mains-Steel[12]

Account 3762 includes the cost of FCG's steel distribution mains and related components. This account is the Company's second largest account by plant investment. As of January 1, 2025, the investment and restated reserve balances are $143,280,076 and $61,968,633, respectively, and the average age of the account's surviving investments is 21.7 years. For this account, the life pattern underlying the current approved ARL is an ASL of 65 years with an R1.5 curve shape, denoted as 65/R1.5.[13]

The selected curve shape of an account impacts the ARL calculation, subsequently impacting an account's theoretical reserve level, reserve imbalance, depreciation rate, and annual depreciation expense. For Account 3762, FCG proposed to change the curve shape from R1.5 to R2.5 while retaining the currently approve ASL of 65 years. (EXH 3, BSP C2-142) Staff witness Kunkler concurred with retaining a 65-year ASL but disagreed with FCG's proposed change in curve shape. He proposed using the R4 curve shape instead, believing "a 65/R4 life pattern is a better representation for this account's historical retirement dispersions." (TR 331)

Regarding the Company's proposed change in curve shape, witness Lee testified that:

> In this Study, the "Proposed" curve shapes shown in the workbook on amended Exhibit PSL-2, Schedule B, are based on existing curve shapes underlying the currently prescribed average remaining life for each account, a review of the curve shapes proposed in the 2022 Gannett Fleming Depreciation Study, actual retirement experience over the 2020-2024 period

[12] In depreciation studies, Iowa Curves, published in Bulletin 125, Statistical Analysis of Industrial Reporting, published in 1935, by Robley E. Winfrey of the Iowa State College Engineering Experimental Station, are widely used to depict the retirement pattern (mortality dispersion) of a plant asset. Each curve is denoted by a letter and number. The letter defines when retirements are more likely to occur. An L curve implies that retirements tend to occur prior to the ASL, an R curve implies that retirements tend to occur after the ASL. The number portion of the Iowa Curve designation indicates how steep or flat the curve's shape is. Lower numbers indicate a wide, broader variance of retirement ages around the ASL, while higher numbers indicate a narrow, less broad variance of retirement ages around the ASL.

[13] The curve shape, and average age are used to develop the ARL of the account.

> as well as historical retirements, and the current average age. If the proportion surviving at the current age implies more or less retirements than those implied under the current curve shape, a change may be proposed for a curve considered indicative of future expectations.

(TR 48)

Specifically for Account 3762, witness Lee testified that:

> From conversations with FCG, its program to relocate mains from the customer's back yard to more accessible areas as well as the program to retire orange pipe due to safety concerns has led to increased future retirement expectations, and a mortality dispersion (curve shape) recognizing more early retirements. While the historical data may indicate a higher mode curve, taking the above into consideration supports a curve indicating more early retirements than historical indications. The existing curve shape underlying the currently prescribed average remaining life is an R1.5. My professional judgment is an R2.5 curve recognizes some increase in retirement expectations and is more indicative of the future.

(TR 364)

An account's curve shape is usually determined using the retirement rate method when sufficient detail exists. This method uses the average rate at which the account's plant for each age group is retired to calculate the percent surviving for the account's original life table and original stub curve shape.[14] The stub curve shape is then compared to the Iowa curves using visual and mathematical matching in order to determine the better fitting smooth curves. The average rate of retirement used in the calculation of the percent surviving requires two sets of data: the plant retired during a period of observation, identified by the plant's age at retirement; and the plant exposed to retirement at the beginning of the age intervals during the same period.[15,16] (TR 102) This method was used in FCG's last depreciation study, but in the 2025 Study, the Company did not use the method to calculate the retirement rate for each depreciable account, including Account 3762, for developing the corresponding original curve shape. (EXH 27, BSP E-81 – E-83; TR 330)

FCG's 2025 Study includes the calculated retirement rate for each depreciable account in Schedule (Sch) F-1 of the 2025 Study. (EXH 3, BSP C2-150 – C2-175; TR 101) These exhibits show that FCG calculated the retirement rate by dividing the total retirements by the total ending plant balance for each account for each year from 2021-2024. The nominator used in the calculation is a simple summation (not weighted) of the aged retirements. The denominator is the

[14] An account's original surviving curve is usually an incomplete curve (stub curve), one that does not extend to maximum life. It shows the percent of plant survivors in that account as function of the average age of the plant in the account, and is prepared from the Company's original life table. The curve shape is complete (extend to the maximum life) when the account is fully retired or approaches full retirement.
[15] *Depreciation Systems*, Frank K. Wolf and W. Chester Fitch, Iowa State University Press, 1994.
[16] In an account: Percentage of surviving = (1 - Percentage of retirement).

plant balance (exposure), which consists of multiple vintages with materially different ages and historical costs, as shown in Sch F-1 of the 2025 Study. (EXH 3, BSP C2-150 – C2-175, TR 101)

OPC disagreed with FCG's retirement rate calculations in the 2025 Study. Its witness Dunkel asserted that FCG's calculation was problematic. Witness Dunkel opined that:

> These calculations in the FCG filing divide dollar amounts which were recorded more recently, by dollar amounts that were recorded farther back in the past. Because of inflation, the number of dollars of original cost for an item which was installed decades ago, (for which the original cost was recorded in dollars decades ago), is a much lower number of dollars than the cost of a similar item which was recently installed (for which the original cost was recorded in recent dollars).

(TR 284)

Because the denominator reflects mixed-age exposures stated in nominal dollars, staff agrees with OPC that this approach does not account for inflation or the time value of money, effectively treating a dollar of plant added decades ago as equivalent to a dollar of recent investment. For this reason, staff believes that FCG's approach to calculating retirement rates described herein is not as precise as one that is based on retirements and the corresponding plant exposures by age interval data.

Witness Lee testified that FCG does not have the data of plant exposures by age interval because collecting such data would be very time consuming and expensive. (TR 101) Staff notes that FCG used a calculation method, as described above by witness Lee, which has been accepted by the Commission in prior cases, particularly for smaller utilities, largely because it is simpler, less time-consuming, and less expensive than vintage-based or age-weighted methods.[17]

With respect to the proposed curve shape for Account 3762, witness Lee first calculated the account's retirement rate for the 2004-2024 period, which is 0.26 percent, and compared that to the most recent 2021-2024 period average, which is 0.49 percent. (EXH 3, BSP C2-125 – C2-126) Witness Lee then testified that "[w]hile historical retirements have been miniscule, recent years indicate an increase in retirement rates. Recognizing future expectations of retiring early vintage orange pipe due to safety concerns as well as the Company's program to replace mains running through less assessable parts of customer property (e.g., backyards) with mains located in more accessible areas, an R2.5 curve shape is proposed." (EXH 3, BSP C2-126 − C2-127)

Witness Kunkler recommended 65/R4 and testified that the R4 curve shape is the curve shape proposed in FCG's last depreciation study, reviewed by witness Lee, and originally proposed in

[17] Order No. PSC-14-0698-PAA-GU, issued December 18, 2014, in Docket No. 20140016, *In re: 2014 depreciation study by Florida Public Utilities Company*; PSC-2023-0103-FOF-GU, issued March 15, 2023, in Docket No. 20220067-GU, *In re: Petition for rate increase by Florida Public Utilities Company, Florida Division of Chesapeake Utilities Corporation, Florida Public Utilities Company - Fort Meade, and Florida Public Utilities Company – Indiantown Division*; PSC-2023-0215-PAA-GU, issued July 26, 2023, in Docket No. 20230022-GU, *In re: Petition for approval of Depreciation Study by St. Joe Natural Gas*; PSC-2022-0153-PAA-GU, issued in Docket No. 20210183-GU, *In re: Petition for approval of 2021 depreciation study, by Sebring Gas System, Inc.*.

the current docket. (TR 331-332) Compared to a R2.5 curve shape, the R4 curve shape is a higher modal curve which reflects a retirement dispersion that is more concentrated around the ASL. (TR 331) Witness Kunkler pointed out that FCG's historical curve shape for Accounts 3761 and 3762 shows that up to age 50, plant assets in the accounts had few retirements (approximately 89 percent of these assets surviving at an age of 50.5 years). While immediately following age 50, a relatively rapid increase in the frequency of retirements are observed (approximately 70 percent of these assets surviving at an age of 57.5 years). (TR 331; EXH 19, BSP C4-774) In other words, the asset retirements of the accounts are concentrated towards 65 years (the ASL of Account 3762). Witness Kunkler further performed curve fitting by comparing the stub curve against both curve R2.5 and R4 curve shapes. (EXH 19, BSP C4-775) Witness Kunkler concluded that, visually, a 65/R4 life pattern appears to represent a better fit. (TR 331)

FCG argued witness Kunkler's curve shape selection, stating that it "fails to account for input from Company personnel, who indicate increased expectations for retirement." (FCG BR 21) Witness Lee asserted that witness Kunkler "based his recommendation for life/curve pattern for Steel Mains (Account 3762) on a curve derived from historical retirements in the Gannett Fleming Depreciation Study. He did not incorporate the Company's expectations or judgment about future retirements, including those influenced by FCG's SAFE program." (TR 369) She contended that "[b]ecause FCG's historical data is limited, it is critical to consider additional factors – such as future expectations under the SAFE program – which he ignores." (TR 370)

The crux of the issue here is the concern about the Company's sufficient consideration of historical data to support the underlying account estimates and analyses. Staff believes that an account's life pattern estimate should be based on a number of factors including historical data analysis; current Company management plans, policies and outlook; and the curve shape estimates that originate from previous studies of the Company. In staff's view, relying solely on historical data of an account is not ideal, nor is it appropriate to ignore the past behaviors of the account and its previous curve shape estimates.

Notably, as shown in FCG's 2025 Study, Sch F, Account 3762 was established in 1963, and the Company maintains more than 60 years of aged retirement data. (EXH 3, BSP C2-150, C2-156, C2-162, C2-168) Staff believes that use of historical retirement data is an important foundation to project the account's retirement behavior and related impact on remaining life estimates for the next five years.[18]

Further, staff believes that the current plans, policies and outlook of the Company's are important factors to be considered in deriving a 5-year projection of the parameters and rate for the account.[19] For developing a more informed life pattern recommendation, staff investigated FCG's future plans and expectations pertaining to the life pattern of Account 3762 under the SAFE and orange pipe replacement programs. (EXH 30, BSP E-170 − E-173) Results show that even with the commencement of orange pipe replacement in 2024, FCG's actual rate of pipe replacement, based on a five-year average of total miles of pipe replaced, is nearly the same in

[18] In line with Rule 25-7.045, F.A.C, all the parameters and rates of gas utility's accounts shall be reviewed at least every 5 years.
[19] The depreciation parameters and rates resulting from the current depreciation study will be reviewed by the Commission again in five years per Rule 25-7.045, F.A.C.

the current filing as it was at the time of FCG's last filing. The 2022 FCG Study had a five-year average replacement of 29.2 pipe miles, the 2025 FCG Study had a five-year average replacement of 31.5 pipe miles, and FCG projects that, in 2030, the Company will have a five-year average replacement of 31.6 pipe miles, as indicated in Table 2-2 below.

FCG opposed the R4 curve shape for Account 3762 and claimed that this curve shape selection fails to account for the Company's expectations of increased rate of retirements resulting from the SAFE program. (FCG BR 21, TR 369) However, as discussed above and as shown in Table 2-2, the detailed future retirement expectations provided by FCG seem not to deviate significantly from the historical pattern the Company experienced. Therefore, staff is not persuaded by the Company's argument and believes that a 65/R4 life pattern, derived based on historical data, is still indicative of the expected pattern of retirement for Account 3762 at the present. Taking into consideration both the historical data analysis and the current Company plans and outlook, as well as the curve shape the Company studied and derived just 3 years ago, staff recommends 65/R4 as an appropriate life pattern estimate for Account 3762.

**Table 2-2**
**FCG's SAFE and Orange Pipe Replacements**

| Year | Miles of Pipe Replaced | | | 5-yr Average of the Total Replacements | |
|---|---|---|---|---|---|
| | SAFE Replacements | Orange Pipe Replacements | Total Replacements | | |
| 2014 | | | | | |
| 2015 | | | | | |
| 2016 | 17.1 | | 17.1 | | |
| 2017 | 37.5 | | 37.5 | | |
| 2018 | 27.6 | | 27.6 | | |
| 2019 | 37.8 | | 37.8 | | |
| 2020 | 25.5 | | 25.5 | | |
| 2021 | 26.0 | | 26.0 | | |
| 2022 | 29.0 | | 29.0 | 29.2 | FCG filed its last depreciation study |
| 2023 | 23.7 | | 23.7 | | |
| 2024 | 23.7 | 5.6 | 29.3 | | |
| 2025 | 31.7 | 18.0 | 49.7 | 31.5 | FCG filed its current depreciation study |
| 2026 | 21.9 | 11.5 | 33.4 | | |
| 2027 | 14.5 | 18.0 | 32.5 | | |
| 2028 | 14.0 | 18.5 | 32.5 | | |
| 2029 | 12.5 | 17.5 | 30.0 | | |
| 2030 | 12.0 | 17.5 | 29.5 | 31.6 | FCG filing its next deprecation study |
| Annual Average | 23.6 | 15.2 | 30.7 | | Annual Average for SAFE + Orange Pipe |

Source of Data: EXH 30, BSP E-170 − E-173.

### Net Salvage for Accounts 3762: Mains-Steel and 3801: Services-Plastic[20]

The currently prescribed net salvage (NS) for Account 3762: Mains-Steel is (50) percent. FCG proposes to increase it from (50) percent to (40) percent due to "[...] recent trends, easier accessibility to retired pipe, and expectations of other Florida gas companies." (EXH 3, BSP C2-128 − C2-126)

Account 3801: Services-Plastic is FCG's third largest account by plant investment. Assets in this account represent plastic distribution service lines from the mains to the customers' property lines or meter location. The currently prescribed NS for this account is (68) percent. FCG proposes to increase the NS of this account from (68) percent to (40) percent due to "easier accessibility to the retired services as well as the expectations of other Florida gas companies." (EXH 3, BSP C2-128 − C2-129)

OPC objected to every NS change proposed by FCG. OPC witness Dunkel recommended that all accounts' current NS factors should remain in effect because, as shown in Table 2-3, FCG's proposed increase in NS "is contrary to even the net salvage data as calculated and filed by FCG." (TR 293, 298)

**Table 2-3**
**Comparison of Net Salvage Factors**

| Net Salvage Percentage | | | |
|---|---|---|---|
| | FCG Last 5-yr Avg. Per FCG Schedule | Currently Approved for FCG | FCG Proposed |
| Account 3762: Main-Steel | (73) | (50) | (40) |
| Account 3801: Services-Plastic | (132) | (68) | (40) |

Source: TR 293, 297

OPC issued a series of discovery questions to FCG regarding the Company's claimed supporting reasons for its proposed NS increase. (TR 295-296) Based on FCG's discovery responses, witness Dunkel contended that:

> The claim that the Cost of Removal for Service-Plastic will be much less in the future than it has been in the past, because [allegedly] plastic services are being retired from "less assessable parts of customer property (e.g., backyards)" and replaced with plastic "services" located in more accessible areas" does not appear to be true. The number of plastic service lines that happened to in 2024 is zero, and FCG did not have data showing it happened in any of the other years we asked about.

(TR 296)

[20] Net salvage (NS) is an important parameter for calculating the remaining life depreciation rate. It is gross salvage minus cost of removal of the retired plant assets. When an account's cost of removal is larger than the gross salvage of the retired assets in that account, the NS value of the account becomes negative.

Staff witness Kunkler also disagreed with FCG's NS proposals for Accounts 3762 and 3801. He believed that retaining the respective currently approved (50) percent and (68) percent net salvage factors is the most reasonable approach for these two accounts at this time. (TR 332, 333) The witness contended that "the Company's proposed increase is not supported by the Company's historical salvage data and exhibit(s) an over-reliance on expectations. [. . .] In addition, the Company did not provide any documentation supporting its claimed future net salvage projection." (TR 332-333)

Pertaining to the NS of Account 3762, witness Kunkler testified that:

> Schedule Q of FCG's 2025 Depreciation Study shows the realized average net salvage factor for the account over the past 20 years is (146) percent and the most recent 5 years (2020-2024) averaged (73) percent, which are both lower net salvage factors than the (50) percent factor currently prescribed.

(TR 332)

Regarding Account 3801, witness Kunkler testified that:

> Schedule Q of FCG's 2025 Depreciation Study shows the realized average net salvage factor for the account over the past 20 years was (398) percent and the most recent 4 years averaged (132) percent. Referring to the same schedule, with the exception of 2024 (in which the full cost of removal may not be fully processed as of yet), FCG has not experienced a single year in which the realized net salvage has been greater than (90) percent since 2008.

(TR 333)

FCG witness Lee argued that:

> FCG's proposals are based on multiple considerations. First, input from Company [subject matter experts] indicates that less negative net salvage is expected in the future, primarily due to improved accessibility to retired pipe, which will reduce labor costs − the largest component of removal expense. Second, the proposals reference net salvage estimates from other Florida gas companies, as shown in Exhibit PSL-4.

(TR 373)

When steel mains pipes [Account 3762 plants] are retired, they are usually permanently physically disconnected from all sources of gas and abandoned in place. When plastic services pipes [Account 3801 plants] are retired, they are cut and capped at the main and abandoned in place. There are costs associated to accessing the line, disconnecting it from all sources of gas, valves are locked to prevent gas flow, as well as any surface restoration. (EXH 30, BSP E215)

The cost of removal is part of the NS, which in turn is part of depreciation costs; hence, when the cost of removal of an account decreases, the NS of the account increases. FCG supported its

increase in NS via improved accessibility by claiming that the improved accessibility will make it easier for field personnel to cut and cap the pipes when the relocated mains/service lines were retired and abandoned. However, FCG and CUC were unable to state whether FCG's prior owner had experienced that same degree of accessibility. (EXH 30, BSP E215)

FCG further claimed that:

> For Steel Mains, net salvage has improved significantly, moving from negative 97% in 2021 to negative 1% in 2024, and under Chesapeake's removal practices, this trend is expected to continue. Plastic Services show a similar, though less pronounced, improvement.

(TR 373)

In terms of the "Chesapeake's removal practices," when requested to provide a comparison of before and after FCG's ownership change, the Company responded that:

> The Company continues to utilize the services of the same vendor and best practices to conduct the removal processes to minimize both customer impact and restoration costs. Retirements must go through a rigorous documentation process before assets are physically retired. The main difference is the amount of paperwork involved due to system changes. Company personnel has noted an ease with CUC's current work flow processes.

(EXH 30, E-216)

FCG's proposed increase in NS is not well supported. First, as noted in the Company's discovery response discussed above, the 'improved accessibility' seems observed before FCG's ownership change, but the data supporting the claim appears to be lacking, with no additional information available from either FCG or its current owner CUC. (EXH 30, BSP E215) Second, FCG did not report any major changes in removal practices (such as transforming from 'cut, physical removal, transport, and recycle' to 'cut, cap, and abandon in place'); hence, no substantial decrease in physical removal costs has been claimed. Staff is not persuaded that changes in the amount of paperwork related to work flow processes would be expected to cause a significant reduction in cost of removal of the pipelines.

Staff also reviewed the Company's claim that "[r]etirements are delayed because operations require newly installed mains and services to be fully operational before retiring the old ones. This delay also impacts net salvage." (EXH 30, BSP E-179 – E-180) As testified by FCG witness Lee, there could have been a lag in reporting and some 2024 retirement-related removal costs may have been recorded in 2025. (TR 85-87) Thus, the relatively high NS recorded in 2024 (negative one percent) highlighted by witness Lee is not a correct representation of the account's true NS value in that year. As such, more consideration should be given to FCG's historical 5-year average NS in determining the future NS estimate to be applied in this case.

Further, FCG witness Lee testified that the average NS for the most recent five years is (73) percent and (132) percent for Accounts 3762 and 3801, respectively. (TR 411; EXH 3, BSP C2-

349 − C2-352) This indicates that FCG's proposed (40) percent NS values deviates far from the Company's own historical data. On the other hand, a NS of (50) percent for Accounts 3762 and a NS of (68) for Account 3801, which are the currently approved and recommended to be retained by both OPC witness Dunkel and staff witness Kunkler, are more in line with the Company's historical data.

Based on the record evidence, staff believes that retaining a NS of (50) percent and (68) percent for Accounts 3762 and 3801, respectively, is appropriate. These NS estimates are within the industry range.[21] The Commission will review the appropriateness of these NS estimates in no more than five years pursuant to Rule 25-7.045 F.A.C.

### Parameters for Other Accounts

The appropriateness of FCG's proposed parameters and rates for all other depreciable accounts have been reviewed thoroughly through the discovery process, which led the Company to revise certain depreciation parameters and amend its proposals accordingly. Understanding that certain information is still not available due to the Company's ownership change, staff believes that FCG's 2025 Amended Study's proposed depreciation parameters for such accounts are reasonable at this point in time. (TR 271; EXH 41, BSP E4906)

Additionally, FCG has certain amortizable accounts submitted as part of its FCG 2025 Revised Study.[22] The Company proposed to synchronize the amortization periods with those of its parent Company, CUC, which has uniform amortization periods for amortizable accounts across all of its natural gas distribution business units. The Company indicated that:

> CUC seeks to adopt uniform amortization periods for these accounts across all natural gas distribution business units. If approved, FCG would adopt the same amortization periods as CUC's other natural gas business units. These amortization periods are based on judgement and were approved in the latest depreciation studies for CUC Florida Public Utilities Company's consolidated natural gas division and CUC-Maryland. They have also been proposed in the CUC-Delaware 2024 depreciation study.

(EXH 3, BSP C2-134)

[21] *See* Order Nos. PSC-2023-0177-FOF-GU, issued June 9, 2023, in Docket No. 20220069-GU, *In re: Petition for rate increase by Florida City Gas*; PSC-2023-0103-FOF-GU, issued March 15, 2023, in Docket No. 20220067-GU, *In re In re: Petition for rate increase by Florida Public Utilities Company, Florida Division of Chesapeake Utilities Corporation, Florida Public Utilities Company - Fort Meade, and Florida Public Utilities Company – Indiantown Division*; PSC-2023-0388-FOF-GU, issued December 27, 2023, in Docket No. 20220212-GU, *In re: Petition for approval of depreciation rate and subaccount for renewable natural gas facilities leased to others, by Peoples Gas System, Inc.*; PSC-2023-0215-PAA-GU, issued July 26, 2023, in Docket No. 20230022-GU, *In re: Petition for approval of 2022 Depreciation Study by St. Joe Natural Gas Company, Inc.*; PSC-2022-0153-PAA-GU, issued April 22, 2022, in Docket No. 20210183-GU, *In re: Petition for approval of 2021 depreciation study, by Sebring Gas System, Inc.*.

[22] An amortizable account is usually used to book intangible assets and small plant items such as office equipment, tools, and miscellaneous equipment. For each such account, the Commission prescribes an amortization period (e.g. 10 years) to allow the investment of the account to be recovered evenly throughout the plant's service life.

FCG's amortizable accounts' parameters and rates are reasonable. The Company's request regarding its proposed modifications to amortizable accounts to reflect the amortization of CUC's other gas business units comports with Rule 25-7.045(3)(b), F.A.C. (EXH 3, BSP C2-134)

## Summary

Staff thoroughly reviewed all depreciation parameters presented in the 2025 Study and believes adjustments to one account's proposed curve shape and two accounts' NS are necessary. As testified by witness Kunkler, there is some degree of subjectivity in depreciation studies. (TR 327-328) Staff's analysis weighed the arguments and support for parameter adjustments based on the degree of reliance placed on historical retirement/salvage activity as well as the reliance placed on future expectations and professional judgement.

Staff believes FCG's proposed R2.5 curve shape used to calculate remaining life rate for Account 3762: Mains-Steel that relies upon a claimed future increase in SAFE/Orange Pipeline retirements is unsupported by the Company, leading staff to believe that the Company's historic curve shape for this account is most appropriate. Staff recommends R4 as the appropriate curve shape for Account 3762.

The continuation of current NS percentages for accounts 3762 and 3801 are supported by both OPC witness Dunkel and staff witness Kunkler. FCG's proposed values of NS for these accounts are significantly higher than its experienced NS values. The Company failed to support its claimed increases in historic removal of accessible, thus less costly, pipelines. Staff agrees, and furthermore believes the Company has not supported its claims regarding the current and future less costly removal and improved degree of pipeline accessibility in the future and its impact on NS. Staff agrees, and further believes the Company has not supported its claims. However, if the Commission determines FCG's proposed parameters should be accepted, the resulting reserve imbalances (reserve surplus) will be as presented in Section III of Attachment B, and discussed in detail in Issue 4.

Each of these adjustments impact the reserve imbalance which is the subject of Issue 3.

## CONCLUSION

Staff recommends approval of the depreciation parameters and resulting remaining life depreciation rates for each depreciable account, as well as the amortization period for each amortizable account, as presented in Attachment A to the recommendation.

***Issue 3:*** Based on the application of the depreciation parameters that the Commission has deemed appropriate to FCG's data, and the comparison of the theoretical reserves to the book reserves, what, if any, are the resulting imbalances?

***Recommendation:*** If staff's recommendation on Issue 2 is approved, based on the application of that recommendation and a comparison of the theoretical reserves to the book reserves, the resulting theoretical reserve imbalances of FCG's total plant accounts, as of January 1, 2025, is a surplus of $6.8 million as shown in Table 3-1. (Wu)

### *Position of the Parties*

**FCG:** The application of the depreciation parameters set forth in the 2025 Depreciation Study results in an imbalance between the theoretical and book reserves in the amount of a $19.2 million surplus.

**OPC:** FCG didn't produce a complete study as required by Rule 25-7.045, F.A.C., and information is insufficient to determine correct parameters. No basis exists to determine any resulting imbalance. Commission rules forbid intentionally creating reserve imbalances for adjusting earnings. The Commission should direct that a new, correct, depreciation study be filed as part of the coming rate case, when FCG will have had more time to assemble more accurate data and perform the required statistical analyses.

### *Staff Analysis:*

## ANALYSIS

The Commission's natural gas utility depreciation Rule 25-7.045(4)(k), F.A.C., provides that an account's theoretical reserve amount is determined by the account's book investment minus the account's future accruals and future net salvage. The theoretical reserve is a calculated reserve based on the proposed parameters of that account.[23]

The reserve imbalance of the account is the difference between the account's theoretical reserve and its book reserve. If the book reserve amount is larger than the theoretical reserve amount for a particular account, then this account presents a reserve surplus at a specific point in time. If the book reserve amount is less than the theoretical reserve amount, the account presents a deficit.

Applying the depreciation parameters and depreciation rate proposed in the 2025 Study, FCG witness Lee calculated the Company's theoretical reserve and reserve imbalance for each depreciable account. The resulting total imbalance calculated by the Company is a surplus of $19.2 million, as of January 1, 2025. (EXH 3, BSP C2-145).

OPC recommended that FCG's 2025 Study should be rejected but, in the alternative, OPC proposed that the Commission should adopt the recommendation of Staff witness Kunkler. (OPC BR 22)

[23] Rule 25-7.045(1)(k), F.A.C..

Staff has reviewed FCG's reserve imbalance for each depreciable account. Staff also reviewed the reserve imbalance provided by staff witness Kunkler and agree with his reserve imbalance as calculated. The resulting reserve imbalance is a surplus of $6,716,759 for the depreciable accounts. Adding in the Company's identified reserve surplus of $43,469 associated with the amortizable accounts, upon which staff agrees, the total amount of reserve imbalance for FCG's is a surplus of $6,760,228, or $6.8 million approximately. These are the same as what witness Kunkler proposed in his direct testimony, Exhibit EAK-3 − Errata. (EXH 21, BSP C4-781) If the Commission determines FCG's proposed parameters should be accepted, the resulting reserve imbalances (reserve surplus) will be as presented in Section III of Attachment B, and discussed in detail in Issue 4.

Table 3-1 below shows the staff's recommended theoretical reserve imbalances for each FCG depreciable plant account. Note that the table includes some inter-account reserve transfers, and these inter-account transfers are all within a same plant category (distribution). These transfers do not impact the reserve imbalance calculation in this issue because they net to zero. This type of reserve transfers will be further discussed in Issue 4.

**Table 3-1**
**Staff Recommended Theoretical Reserve Imbalance (as of 1/1/2025)**

| Acnt No. | Account Description | Book Reserve | Theoretical Reserve | Imbalance (+) = surplus (-) = deficit | Staff Proposed Reserve Transfer | Restated Book Reserve |
|---|---|---|---|---|---|---|
| 3642 | Structures & Improvements | $807 | $717 | $90 | | $807 |
| 3643 | LNG Processing Terminal Equipment | $2,464 | $4,795 | ($2,331) | | $2,464 |
| 3645 | Measuring and Regulating Equip. | $808 | $718 | $90 | | $808 |
| 3646 | Compressor Station Equipment | $1,922,731 | $1,194,047 | $728,684 | | $1,922,731 |
| 3743 | Right-of-Way | $0 | $4,601 | ($4,601) | | $0 |
| 3750 | Structures & Improvements | $8,672 | $39,118 | ($30,446) | | $8,672 |
| 3761 | Mains - Plastic (Formally Acct 3762) | $49,591,899 | $41,145,183 | $8,446,716 | ($8,446,716) | $41,145,183 |
| 3762 | Mains - Steel (Formally Acct 3761) | $67,160,281 | $69,435,729 | ($2,275,448) | $2,275,448 | $69,435,729 |
| 3780 | Measuring and Regulating Equip. - General | $410,733 | $492,151 | ($81,418) | | $410,733 |
| 3790 | Measuring and Regulating Equip. - City Gates | $5,689,779 | $5,075,410 | $614,369 | | $5,689,779 |
| 3801 | Services - Plastic (Formally Acct 3802) | $32,898,453 | $31,428,582 | $1,469,871 | | $32,898,453 |
| 3802 | Services - Steel (Formally Acct 3801) | $18,490,162 | $15,969,307 | $2,520,855 | | $18,490,162 |
| 3810 | Meters | $6,267,515 | $9,351,739 | ($3,084,224) | $3,084,224 | $9,351,739 |
| 3812 | Meters - ERTs (Formally Acct 3811) | $301,699 | $641,492 | ($339,793) | $339,793 | $641,492 |
| 3820 | Meter Installations | $256,072 | $1,372,701 | ($1,116,629) | $1,116,629 | $1,372,701 |
| 3821 | Meter Installations - ERT | ($1,172,264) | $5,868 | ($1,178,132) | $1,178,132 | $5,868 |
| 3830 | House Regulators | $1,225,606 | $1,613,062 | ($387,456) | $387,456 | $1,613,062 |
| 3840 | House Regulators Installations | $432,366 | $613,491 | ($181,125) | $65,034 | $497,400 |
| 3850 | Indus. Meas. & Reg. Station Equip | $2,309,679 | $2,160,730 | $148,949 | | $2,309,679 |
| 3870 | Other Equipment | $713,530 | $556,798 | $156,732 | | $713,530 |
| 3900 | Structures & Improvements | $2,490,539 | $2,295,127 | $195,412 | | $2,490,539 |
| 3921 | Cars (revised subaccount) | $163,750 | $203,248 | ($39,498) | | $163,750 |
| 3922 | Light -Med. Trucks, SUVs & Vans (revised subaccount) | $3,453,447 | $2,530,685 | $922,762 | | $3,453,447 |
| 3923 | Heavy Trucks | $591,746 | $556,287 | $35,459 | | $591,746 |
| 3924 | Trailers (formally account 3920) | $137,364 | $87,623 | $49,741 | | $137,364 |
| 3941 | Natural Gas Vehicle Equipment | $826,016 | $664,662 | $161,354 | | $826,016 |
| 3960 | Power Operated Equipment | $84,705 | $97,926 | ($13,221) | | $84,705 |
| | Total - Depreciable Accounts | $194,258,559 | $187,541,800 | $6,716,759 | $0 | $194,258,559 |
| | Total - Amortizable Account | | | $43,469 | | |
| | Grand Total | | | $6,760,228 | | |
| | Rounded | | | $6.8 Million | | |

## CONCLUSION

If staff's recommendation on Issue 2 is approved, based on the application of the recommendation and a comparison of the theoretical reserves to the book reserves, the resulting theoretical reserve imbalances for FCG's depreciable plant accounts are shown in Table 3-1.

***Issue 4:*** What, if any, corrective depreciation reserve measures should be taken with respect to any imbalances identified in Issue 3?

***Recommendation:*** Staff recommends using the remaining life technique to correct the depreciation reserve imbalances identified in Issue 3. The resulting annual depreciation rates and expenses are presented in Attachment B, Section I. If the Commission approves FCG's proposed corrective measure of 2-year amortization and staff's recommended depreciation parameters in Issue 2, the corresponding annual depreciation rates and expenses are presented in Section II of Attachment B to the recommendation. (Wu, Higgins, McNulty)

### *Position of the Parties*

**FCG:** FCG believes that amortization of the reserve surplus over two years is appropriate in this case. This action will timely correct the reserve imbalance by way of an annual credit to depreciation expense. In this way, the reserve imbalance will be corrected for the current generation of ratepayers, appropriate depreciation rates will be established, which will reduce depreciation expense, and rate base will be corrected in advance of the next rate case.

**OPC:** FCG failed to produce the required complete study as required by Commission rule. There is insufficient information provided to determine the correct parameters. No basis exists to determine any resulting imbalance. If, over the OPC objection, any imbalance is identified in this case, it should be addressed in the remaining life calculations using remaining life technique and any reserve transfers should only be undertaken in a manner that would not artificially increase depreciation costs.

### *Staff Analysis:*

## ANALYSIS

This issue addresses whether any corrective measures should be taken with regard to the theoretical reserve imbalances identified in Issue 3. The remaining life technique is the most common method the Commission uses to address reserve imbalances (surplus or deficit).[24] Other corrective measures have also been approved by the Commission including amortization of a certain portion of the surplus over a period of time that is shorter than the remaining life, or

[24] Order Nos. PSC-14-0514-PAA-GU, in Docket No. 20140051-GU, issued September 25, 2014, *In re: 2014 depreciation study by Florida City*; PSC-2018-0190-FOF-GU, issued April 20, 2018, in Docket No. 20170179-GU, *In re: Petition for rate increase by Florida City Gas*; PSC-17-0066-AS-GU, issued February 28, 2017, in Docket No. 160159-GU, *In re: Petition for approval of settlement agreement pertaining to Peoples Gas System's 2016 depreciation study, environmental reserve account, problematic plastic pipe replacement, and authorized ROE*; PSC-2023-0388-FOF-GU, issued December 27, 2023, in Docket No. 20220219-GU, *In re: Petition for approval of 2022 depreciation study by Peoples Gas System, Inc.*; PSC-14-0698-PAA-GU, issued December 18, 2014, in Docket No. 20140016*, In re: 2014 depreciation study by Florida Public Utilities Company*; PSC-2023-0103-FOF-GU, issued March 15, 2023, in Docket No. 20220067-GU, *In re: Petition for rate increase by Florida Public Utilities Company, Florida Division of Chesapeake Utilities Corporation, Florida Public Utilities Company - Fort Meade, and Florida Public Utilities Company – Indiantown Division*; PSC-2023-0215-PAA-GU, issued July 26, 2023, in Docket No. 20230022-GU, *In re: Petition for approval of Depreciation Study by St. Joe Natural Gas*; PSC-2022-0153-PAA-GU, issued April 4, 2022, in Docket No. 20210183-GU, *In re: Petition for approval of 2021 depreciation study, by Sebring Gas System, Inc.*.

amortization of the entire surplus over a specific period (years) shorter than the remaining life.[25] In this issue, the dispute is over the methodology to address reserve imbalances.

FCG witness Lee calculated the Company's total theoretical reserve imbalance, resulting in a surplus of $19,200,911 for depreciable accounts. Adding in the Company's identified reserve imbalance of $43,469 associated with the amortizable accounts, FCG's total reserve imbalance is $19,244,380, or $19.2 million approximately. (FCG BR 32; EXH 3, BSP C2-148 − C2-149) The Company requested the total of its calculated $19.2 million reserve surplus be amortized over 2 years. (TR 33, 61; EXH 3, BSP C2-148)

OPC opposed FCG's proposed corrective measure of a 2-year amortization of the Company's calculated reserve surplus and asserted if there is any imbalance identified in this case, it should be addressed in the remaining life calculations using the remaining life technique. (OPC BR 23) Further, OPC witness Dunkel testified that the Company's amortization proposal would result in future service rates being higher than if the surplus were not removed from the depreciation reserve. (TR 259) If the Commission were to approve any reserve surplus amortization in this docket, the associated value would be collected through future depreciation expense and ultimate service rates. Meaning in general, a reserve amortization dollar today would be equal to a depreciation expense dollar and the additional grossed-up return on the increased rate base in the future. (EXH 29, BSP E146-E147, BSP E156-E157; TR 223-226; TR 259-262) The additional return would result from the corresponding increase in rate base caused by the reduction of the depreciation reserve. Based on the Company's latest depreciation parameters and associated reserve surplus, witness Dunkel estimated the initial annual (return-related) revenue requirement, or grossed-up return on the increased rate base associated with FCG's proposal, to be $1,676,453. (TR 261) This figure correlates to the Company's calculated depreciation reserve surplus in the amount of $19.2 million, the last-authorized overall rate of return of 6.44 percent, and gross-up factor of 1.3527 used in setting current customer base rates.[26] (TR 261) In conclusion, Witness Dunkel posits that FCG's amortization proposal is "absurdly one sided" and "nowhere near a reasonable balancing of the investor and the consumer interests." (TR 266)

Additionally, the OPC appears to indicate that reliance on Rule 25-7.1352, F.A.C., "Earnings Surveillance Report[s]," may be insufficient to form a basis for understanding a regulated natural gas company's earnings position. In its Brief, the OPC stated that a "necessary detailed earnings review to determine FCG's true earnings posture can only be done in a rate case, where adequate discovery opportunities exist." (OPC BR 10)

In support of its 2-year amortization request, FCG witness Everngam testified that the Company is "currently earning far below its authorized rate of return." Further, had FCG known that this depreciation study would take longer than anticipated to be resolved, it would have likely filed for a base rate increase in 2025. (TR 125; TR 129) Witness Everngam further contended that this earnings posture implies FCG customers are not paying rates sufficient to allow the Company to cover operating expenses and earn an adequate return on its investments. Specifically, for the 12

[25] Order Nos. PSC-2023-0177-FOF-GU; PSC-2020-0485-FOF-GU, issued December 10, 2020, in Docket 20200051-GU, *In re: Petition for rate increase by Peoples Gas System*; PSC-2021-0446-S-EI, issued December 2, 2021, in Docket No. 20210015-EI, *In re: Petition for increase in rates by Florida Power & Light Company*.
[26] *Id*.

months ended June 30, 2025, the Company reported under-earning its mid-point rate of return (mid-point equity return of 9.50 percent and a weighted average cost of capital of 7.65 percent) by approximately $10.8 million.[27] (TR 126; EXH 33, BSP E257) The Company is under-earning the low-point of its earnings range by approximately $8.4 million. (TR 126) Additionally, FCG is projected to under-earn by an even greater margin at year end 2025. (TR 126; EXH 28, BSP E112) Witness Everngam believed the 2-year amortization proposal is a fair balance between the ongoing benefits of a delayed rate case filing and associated delayed rate increase for customers. Witness Everngam also believes FCG's proposal would promptly correct the reserve imbalance and allow the Company a better opportunity to earn near or within its approved rate of return range. (TR 133)

FCG witness Everngam further testified, as an additional customer benefit, that the Company's proposal for the 2-year amortization of the $19.2 million depreciation reserve surplus would put downward pressure on future (rate case) interim service rates. This is because the amortization amount would be accounted for in determining the level of under-earnings reflected in the Company's historic test year, provided such amortization occurs in that year. Stated alternatively, the amount of under-earnings would be greater absent amortization of any reserve surplus. Interim service rates would be based on the level of under-earnings; thus, the greater level of under-earnings, the higher the interim service rates. FCG reiterated this point in its Brief supporting the proposed 2-year amortization of $19.2 million. (FCG BR 37)

## Staff Analysis

The technique that can be utilized to address a surplus is a policy decision that is well within the discretion of the Commission. As previously noted, the Commission has used different methodologies. The dispute in this case stems from FCG requesting a 2-year amortization for correcting its identified reserve surplus.

Staff does not agree with FCG's proposal of the 2-year amortization for correcting the Company's total depreciable plants' theoretical reserve surplus. Staff recommends using the remaining life technique to address the reserve surplus identified based on the following analysis. Because reserve imbalances change in each depreciation study, the exact amount of surplus or deficit at one point in time can vary based on many different factors, including the different ways by which an analyst chooses to interpret the data pertaining to the plant asset.

The use of the remaining life technique in calculating depreciation rates will spread any surplus (or deficit) over the remaining life of the asset group by adjusting the depreciation rate up or down.[28] In essence, the remaining life technique either slows down the rate of depreciation in the case of a surplus, or increases the rate of depreciation in the case of a deficit. As such, the resulting remaining life rate for each account is self-correcting with regard to the imbalance (surplus or deficit) over the remaining life of the asset. FCG witness Lee also testified that:

[27] *Id*.
[28] Order No. PSC-2023-0388-FOF-GU, at page 26.

> When remaining life rates are used, the theoretical reserve provides the basis for any over or under-recovery in setting the depreciation rates at the appropriate level based on the current life and salvage expectations. The remaining life depreciation rates will self-adjust for any over or under-recovery.

(TR 53)

In support of its proposal of 2-year amortization for correcting its identified reserve surplus, the Company argued that:

> Typically, if the imbalance is relatively small, it is addressed by allocation over the remaining life of the plant. Another option for addressing a reserve imbalance is to make transfers between individual accounts, such that surpluses in certain accounts are used to offset deficits in other accounts. In some instances, the better way to address a reserve imbalance is to calculate the bottom-line, total deficits and surplus amounts in all accounts and then amortize the total (net) amount over a shorter period of time.

(FCG BR 31)

FCG argued that its calculated total reserve imbalance of $19.2 million represents nearly 10 percent of the calculated theoretical reserve; using the remaining life technique to correct it will take too many years so that a short 2-year amortization period is justified. (TR 54-55) Staff does not concur with this argument. As FCG and witness Lee agreed, the matter of how a reserve imbalance should be corrected is not a subject of depreciation theory but is instead a policy decision. (BR 37; TR 55-56, 376) Staff notes that, in prior cases, the Commission has approved using the remaining life technique to address varying levels of reserve imbalances, some of which are relatively large in size, as shown in Table 4-1 below.

**Table 4-1**
**Total Theoretical Reserve Imbalance and the Corrective Measure**

| | | | | Depreciable Plant Investment | Depreciable Plant Book Reserve | Theoretical Reserve | Reserve Imbalance: Surplus | Surplus/ Theoretical Reserve | Surplus/ Book Reserve | Surplus/ Investment | Corrective Measure |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | | ($) | ($) | ($) | ($) | (%) | (%) | (%) | |
| | Utility | Docket No. | Status | (1) | (2) | (3) | (4)=(2)-(3) | (5)=(4)/(3) | (6)=(4)/(2) | (7)=(4)/(1) | (8) |
| 1 | FCG | 20250035-GU | Staff Proposed | 682,544,588 | 194,258,559 | 187,541,800 | 6,716,759 | 3.6% | 3.5% | 1.0% | Remaining life |
| | | | FCG Proposed | 682,544,588 | 194,258,559 | 175,057,648 | 19,200,911 | 10.9% | 9.9% | 2.8% | 2-yr amortization |
| 2 | FCG | 20170179-GU | PSC-2018-0190-FOF-GU | 425,352,480 | 180,638,460 | 169,129,311 | 11,509,149 | 6.8% | 6.4% | 2.7% | Remaining life |
| 3 | PGS | 20220219-GU | PSC-2023-0388-FOF-GU | 3,186,513,154 | 889,076,505 | 728,684,347 | 160,392,158 | 22.0% | 18.0% | 5.0% | Remaining life |
| 4 | PGS | 20180044-GU | PSC-2018-0501-S-GU | 1,378,109,097 | 664,335,975 | 515,783,674 | 148,552,301 | 28.8% | 22.4% | 10.8% | Remaining life |
| 5 | FPUC | 20220067-GU | PSC-2023-0103-FOF-GU | 572,352,652 | 140,037,855 | 119,869,638 | 20,168,217 | 16.8% | 14.4% | 3.5% | Remaining life |

Source: Commission Orders

Each of the orders cited in rows 3 through 5 of Table 4-1 address a reserve surplus that is relatively large in size, when measured against the corresponding theoretical reserve, the book reserve, and the plant investment. In essence, the Commission has ordered using the remaining life technique as the corrective measure for relatively large reserve imbalances. Compared with

these cases, FCG's currently calculated total reserve surplus is small, when measured against the theoretical reserve, the book reserve, or the investment. The Company claimed that another reason for its proposed corrective measure of a 2-year amortization was that "using the remaining life technique would mean that it would take 43 years to correct the imbalance." (FCG BR 32) FCG witness Lee testified that:

> Correction over a period less than remaining life ensures that the life and salvage values are corrected sooner, rather than later, so that the now misstated values are not perpetuated and the book reserve and theoretical reserve are brought in line as soon as possible, such that, going forward, rates are set on a more accurate basis, based upon more accurate, and in this case lower, depreciation expense.

(TR 54-55)

However, "tak[ing] 43 years to correct FCG's calculated reserve surplus" can only be realized if FCG's currently proposed depreciation parameters are not changed throughout the 43 years, which is the estimated average remaining life of the Company's total depreciable plant. Moreover, Rule 25-7.045, F.A.C., provides that the calculated reserve imbalance and its underlying depreciation parameters will be reviewed at least every five years. Consequently, the resulting theoretical reserve imbalances are calculated and action is taken to address such imbalance on that same schedule.

There is testimony supporting both the remaining life technique and FCG's 2-year amortization proposal. FCG witness Lee testified that amortizing the reserve surplus over a period of two years ensures that those customers who contributed to the surplus are more likely to receive the benefit promptly by reducing depreciation expense. (TR 374-375) OPC witness Dunkel counters this "ratepayer benefit" argument by stating that the utility has no proposal to reduce prices/tariffs charged to ratepayers that would be reflective of such a reduced depreciation expense, so its true intent is giving the surplus to the owners. (TR 258) FCG witness Lee admits that a decrease in depreciation expenses will simply allow the Company to earn within its authorized rate of return range. (TR 374)

Furthermore, FCG witness Everngam's argument for transferring depreciation reserves to earnings is based on his claim that current customers are underpaying for service. However, a depreciation reserve surplus indicates that - based on current information - depreciation expense has been greater than necessary. The depreciation expense customers have paid to this point did not cause FCG to under-earn its authorized return. Such a surplus should be returned to customers through the remaining life technique. It is management's decision on when to file a rate case.

The record shows that if the $6.8 million reserve imbalance recommended in Issue 3 is amortized over a 2-year period, the resulting annual depreciation expenses (as shown in Section II of Attachment B to the recommendation) would be lower than the annual depreciation expenses resulting from applying the remaining life technique to correct the reserve imbalance (see

Section I of Attachment B). However, "amortization of the reserve imbalance over less than remaining life" "would, all else being equal, cause future depreciation rates and revenue requirements to increase." (FCG BR 32, 34) More specifically, FCG indicated that, with respect to the impact of its proposed surplus corrective measure on customer's rates in next base rate case, "correction of the reserve surplus over the proposed 2-year period compared to correction through the remaining life rate design could, in a vacuum, result in an increased rate base and depreciation expenses in FCG's next rate case proceeding." (EXH 27, BSP E88, E28, E106)

An impact of FCG's proposed 2-year amortization would be increased Company earnings. (TR 125) This is because the depreciation reserve would be used to offset or credit 2025 and 2026 depreciation expenses. (TR 67) Given that the Company is under-earning through June 30, 2025, and projected to under-earn for calendar year 2025, FCG's amortization proposal "would be acting as a bridge" in terms of earnings support between now and a future rate case/implementation of revised base rates. (TR 118) However, the 2-year amortization proposal is not being offered as a definitive postponement of a future rate case. (TR 117-118)

The specific accounting entries associated with the Company's 2-year amortization proposal consist of debits to accumulated depreciation by Federal Energy Regulatory Commission plant account and credits to depreciation expense. (EXH 28, BSP E98) While the Company's under-earnings level quoted in this issue is associated with the first half of 2025 and the proposed amortization occurs over calendar year 2025, approving the Company's requested depreciation parameters and $19.2 million 2-year amortization proposals could potentially bring it inside the authorized earnings range for 2025. If the Commission were to approve staff's depreciation parameters which correspond to a reserve surplus of approximately $6.8 million, while also ordering a 2-year amortization of that surplus, the Company would still likely be earning outside its approved range for 2025 and in 2026. (TR 334)

The matter of how a reserve imbalance should be corrected is not a subject of depreciation theory but is instead a policy decision. (FCG BR 37; TR 376). In this case, approving a 2-year amortization for correcting staff's calculated $6.8 million reserve surplus, which can help in addressing FCG's short term under earnings, is one direction available to the Commission. However, there are also compelling reasons to support using the remaining life technique to address the identified theoretical reserve surplus as outlined in this recommendation by staff and joined by OPC. Staff recommends that the remaining life technique should be taken as the appropriate measure to correct the reserve imbalance for this case. However, that is a policy decision within the discretion of the Commission and FCG offered testimony as to the benefits of adopting its proposal.

## CONCLUSION

Staff recommends using the remaining life technique to correct the theoretical reserve imbalances identified in Issue 3. The resulting total annual depreciation expense is $17.3 million, as shown in Attachment B, Section I. If the Commission approves corrective measure of 2-year amortization and staff's recommended depreciation parameters in Issue 2, the corresponding total annual depreciation expense is $14.2 million, as detailed in Attachment B, Section II.

***Issue 5:*** What should be the implementation date for revised depreciation rates and amortization schedules?

***Recommendation:*** If staff's recommendation on Issue 1 is approved, the implementation date for revised depreciation rates and amortization schedules should be January 1, 2025. (Galloway, Richards)

### *Position of the Parties*

**FCG:** The appropriate implementation date is January 1, 2025. All data contained in FCG's depreciation study matches that date.

**OPC:** There should be no new implementation of revised depreciation rates and amortization schedules. Instead of attempting to implement FCG's attempted "study," the Commission should direct that a new, correct, depreciation study be filed as part of the coming rate case. By then FCG will have had more time to assemble more accurate data and perform the statistical analyses. In any event, a new depreciation study does not have to be filed until May 31, 2027.

### *Staff Analysis:*

## ANALYSIS

Rule 25-7.045(5)(b), F.A.C., states, in part, a depreciation study shall include "a comparison of current and proposed annual depreciation rates and expenses. The comparison of current and proposed rates shall identify the proposed effective date for the proposed rates." FCG's 2025 Depreciation Study included a proposed effective date of January 1, 2025, for the proposed depreciation rates as required by this Rule. (FCG BR 44)

OPC recommended that FCG's 2025 Depreciation Study should be rejected and that any implementation date should be no sooner than the effective date of new end user rates resulting from the Company's next rate case, arguing that,

> To the extent the Commission nevertheless decides to grant FCG affirmative relief at this time and to revise currently prescribed depreciation rates for FCG … The implementation date should be no sooner than the effective date of new end user rates resulting from the Company's next rate case. (OPC BR 24)

If staff's recommendation on Issue 1 is approved, an implementation date must be set. FCG's proposed effective date of January 1, 2025 is in line with the Company's data and proposals set forth in this docket. Additionally the Company's investments and reserves used for calculating the reserve imbalance are as of January 1, 2025. Staff believes the appropriate implementation date should be January 1, 2025.

## CONCLUSION

If staff's recommendation on Issue 1 is approved, the implementation date for revised depreciation rates and amortization schedules should be January 1, 2025.

***Issue 6:*** Should the current amortization of investment tax credits (ITCs) and flow back of excess deferred income taxes (EDITS) be revised to reflect the approved depreciation rates and amortization schedules?

***Recommendation:*** Yes. The current amortization of ITCs, if any, and flow back of EDITs should be revised to reflect the depreciation rates and amortization schedules approved by the Commission. FCG should file detailed calculations of the revised EDITs at the same time it files its earnings surveillance report as specified in Rule 25-7.1352, F.A.C. (Souchik)

### *Position of the Parties*

**FCG:** If the Commission approves the 2025 Depreciation Study, the flow back of excess deferred income taxes should be revised to reflect the depreciation rates and amortization schedules ultimately approved by the Commission in this proceeding. Currently, however, FCG does not have any investment tax credits.

**OPC:** Since FCG did not file a complete depreciation study as required by Rule 25-7.045, F.A.C., there is no lawful basis to change depreciation rates and amortization schedules and thus this issue is moot.

### *Staff Analysis:*

**ANALYSIS**

FCG argued if the Commission approves the 2025 Depreciation Study, the flow back of EDITs should be revised to reflect the depreciation rates and amortization schedules ultimately approved by the Commission in this proceeding. FCG explained that if the Commission approves changing the remaining lives of depreciable property, it would also be necessary to change the amortizations of ITCs and EDITs to avoid conflict with provisions of the Internal Revenue Code (IRC) and Tax Cuts and Jobs Act. (FCG BR 46) The flow back of EDITs should be revised to reflect the depreciation rates and amortization schedules ultimately approved by the Commission in this proceeding. (FCG BR 46) FCG affirmed it does not have any ITCs at this time. (FCG BR 46; EXH 28, BSP E109)

Office of Public Counsel (OPC) contended FCG did not file a complete depreciation study as required by Rule 25-7.045, F.A.C.; therefore, there is no lawful basis to change depreciation rates and amortization schedules, thus rendering this issue moot. (OPC BR 24) OPC acknowledged in the event the Commission grants FCG's request, the Commission should follow Commission practice. (OPC BR 24)

The amortization of EDITs should be revised to reflect the Commission approved rates in Issues 1 and 2. In response to a staff interrogatory, FCG acknowledged the flow back of EDITs must be revised to reflect the depreciation rates and amortization schedules ultimately approved by the Commission in this proceeding. (EXH 28, BSP E109)

In addition, FCG confirmed it does not have any ITCs. (FCG BR 45; EXH 28, BSP E109) FCG agreed that if the Company changes the remaining lives of depreciable property, it is also important to change the amortization of ITCs and EDITs to avoid violation of provisions of IRC

Section 50(d)(2) for ITCs, and IRC Section 168(i)(9), former Section 167(1), and Section 13001(d) of the Tax Cuts and Jobs Act for EDITs, and their underlying Treasury Regulations. (EXH 28, BSP E110-E111)

Revising a utility's book depreciation lives in general results in a corresponding change in its rates of ITC amortization and flow back of EDITs. This revision is implemented in order to comply with normalization requirements of the IRC as set forth in Federal Tax Regulations under the Code sections,[29] Sections 168(f)(2) and (i)(9),[30] former IRC Sections 167(1), and 46(f),[31] and Section 203(e) of the Tax Reform Act of 1986 (the Act).[32]

Former IRC Section 46(f)(6) of the Code indicated that the amortization of the ITC should be determined by the period of time actually used in computing depreciation expense on the regulated books of the utility for ratemaking purposes.[33] While Section 46(f)(6) was repealed, under IRC Section 50(d)(2), the terms of former IRC Section 46(f)(6) remain applicable to public utility property for which a regulated utility previously claimed ITCs. FCG confirmed in response to staffs 3rd set of interrogatories, No. 55, that 26 U.S.C 46(f)(6) has been repealed and at the time of filing, it did not have any ITCs. (EXH 28) The Company is requesting changes to the remaining lives and the EDITs must also be changed to avoid a potential IRC violation. Changes in the ITCs and EDITs are needed to avoid violations of the provisions of IRC Section 50(d)(2) for ITCs, and IRC Section 168(i)(9), former Section 167(I), and Section 13001(d) of the Tax Change and Jobs Act for EDITs, and their underlying U.S. Treasury Regulations. The consequence of an ITC or EDIT normalization violation is a repayment of unamortized ITC balances to the IRS and the inability to utilize accelerated depreciation. Therefore, staff recommends the flow back of EDITs be revised to match the actual recovery periods for the related property.

## CONCLUSION

The current amortization of ITCs, if any, and the flow back of EDITs should be revised to reflect the depreciation rates and amortization schedules approved by the Commission. FCG should file detailed calculations of the revised EDITs at the same time it files its earnings surveillance report as specified in Rule 25-7.1352, F.A.C.

[29] Treas. Reg. §1.167; Treas. Reg. §1.46.
[30] Title 26 US Code §§168(f)(2) and (i)(9).
[31] Under IRC Section 50(d)(2), the terms of former 26 US Codes §167(1) and §46(f), which were repealed by the Revenue Reconciliation Act of 1990 (Pub. L. No. 101-508, §11812(a)(1-2)(1990)), remain applicable to public utility property for which a regulated utility previously claimed ITCs, which is the case here. (I.R.S. Priv. Ltr. Rul. 200933023, 1n.1 (May 7, 2009).
[32] Tax Reform Act of 1986, Pub. L. No. 99-514 (100 State, 2085, 2146)(1986).
[33] Former 26 US Code §46(f)(6) (establishing proper determination of ratable portion).

***Issue 7:*** Should this docket be closed?

***Recommendation:*** After the Final Order is issued, this docket should be closed. (Sparks, Imig)

### *Position of the Parties*

**FCG:** Upon approval of the 2025 Depreciation Study submitted by FCG in this proceeding, this docket should be closed once the time for filing an appeal has run.

**OPC:** Yes.

***Staff Analysis:*** After the Final Order is issued, this docket should be closed.

**Attachment A: Depreciation Parameters and Amortization Periods with Resulting Depreciation/Amortization Rates**

| | | | | CURRENT* | | | | STAFF RECOMMENDED | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Acnt No. | Acnt Description | Book** Investment | Book Reserve | Curve | ASL | ARL | NS | Curve | ASL | ARL | NS | Reserve Ratios | RL Depreciation /Amortization Rate*** | MORT Depreciation /Amortization Rate**** |
| | | (As of 1/1/2025) | (As of 1/1/2025) | | (Yrs.) | (Yrs.) | (%) | | (Yrs.) | (Yrs.) | (%) | (%) | (%) | (%) |
| 3031 | Miscellaneous Intangible Plant (formally Acct 30302) | $2,126,505 | $313,262 | SQ | 12 Yr Amortization | | | SQ | 15 Yr Amortization | | | 14.7 | 6.7 | 6.7 |
| 3032 | Miscellaneous Intangible Plant | $6,944,592 | $1,358,546 | SQ | 20 Yr Amortization | | | SQ | 20 Yr Amortization | | | 19.6 | 5.0 | 5.0 |
| | Total Intangible Plant | *$9,071,097* | *$1,671,808* | | | | | | | | | | | |
| 3642 | Structures & Improvements | $35,843 | $807 | S4 | 50 | 50 | - | S4 | 50 | 49 | 0 | 2.3 | 2.0 | 2.0 |
| 3643 | LNG Processing Terminal Equipment | $239,769 | $2,464 | S4 | 50 | 50 | - | S4 | 50 | 49 | 0 | 1.0 | 2.0 | 2.0 |
| 3645 | Measuring and Regulating Equip. | $35,905 | $808 | S4 | 50 | 50 | - | S4 | 50 | 49 | 0 | 2.3 | 2.0 | 2.0 |
| 3646 | Compressor Station Equip. | $59,702,374 | $1,922,731 | S4 | 50 | 50 | - | S4 | 50 | 49 | 0 | 3.2 | 2.0 | 2.0 |
| | Total Storage Plant | *$60,013,891* | *$1,926,810* | | | | | | | | | | | |
| 3743 | Right-of-Way | $11,132 | *$0* | | | | | SQ | 75 | 44 | 0 | 0.0 | 2.3 | 1.3 |
| 3750 | Structures & Improvements | $273,829 | $8,672 | L0 | 33 | 31 | - | R4 | 35 | 30 | 0 | 3.2 | 3.2 | 2.9 |
| 3761 | Mains - Plastic (Formally Acct 3762) | $237,376,057 | $49,591,899 | R2 | 75 | 66 | (33) | R2.5 | 75 | 65 | (30) | 20.9 | 1.7 | 1.7 |
| 3762 | Mains - Steel (Formally Acct 3761) | $143,280,076 | $65,981,846 | R1.5 | 65 | 50 | (50) | R4 | 65 | 44 | (50) | 46.1 | 2.3 | 2.3 |
| 3780 | Measuring and Regulating Equip. - General | $2,556,627 | $410,733 | R1.5 | 40 | 37 | (10) | S3 | 40 | 33 | (10) | 16.1 | 2.8 | 2.8 |
| 3790 | Measuring and Regulating Equip. - City Gates | $17,746,190 | $5,689,779 | R2.5 | 50 | 41 | (10) | R3 | 50 | 37 | (10) | 32.1 | 2.1 | 2.2 |
| 3801 | Services - Plastic (Formally Acct 3802) | $128,613,988 | $32,898,453 | R1.5 | 55 | 47 | (68) | R1.5 | 55 | 47 | (68) | 25.6 | 3.0 | 3.1 |
| 3802 | Services - Steel (Formally Acct 3801) | $16,378,776 | $18,490,162 | R0.5 | 52 | 32 | (125) | R1.5 | 60 | 34 | (125) | 112.9 | 3.3 | 3.8 |
| 3810 | Meters | $24,050,241 | $6,267,515 | R2 | 19 | 12.4 | 3 | R2 | 20 | 12.6 | (5) | 26.1 | 5.3 | 5.3 |
| 3812 | Meters - ERTs (Formally Acct 3811) | $4,266,834 | $301,699 | R2 | 19 | 14.4 | 3 | R2 | 20 | 17.0 | 0 | 7.1 | 5.0 | 5.0 |
| 3820 | Meter Installations | $6,710,985 | $256,072 | R1 | 44 | 35 | (25) | R1 | 44 | 35 | 0 | 3.8 | 2.3 | 2.3 |
| 3821 | Meter Installations - ERT | $258,204 | $6,171 | R1 | 44 | 36 | (25) | R1 | 44 | 43 | 0 | 2.4 | 2.3 | 2.3 |
| 3830 | House Regulators | $7,527,623 | $1,225,606 | S1 | 42 | 33 | - | S0 | 42 | 33 | 0 | 16.3 | 2.4 | 2.4 |
| 3840 | House Regulators Installations | $2,065,464 | $432,366 | R1 | 47 | 35 | (25) | R1 | 47 | 33 | 0 | 20.9 | 2.3 | 2.1 |
| 3850 | Indus. Meas. & Reg. Station Equip | $3,740,797 | $2,309,679 | R3 | 37 | 17.8 | (2) | S3 | 40 | 16.9 | 0 | 61.7 | 2.3 | 2.5 |
| 3870 | Other Equipment | $2,783,990 | $713,530 | L2 | 24 | 18.1 | - | R3 | 35 | 28 | 0 | 25.6 | 2.7 | 2.9 |
| | Total Distribution Plant | *$597,640,813* | *$184,584,182* | | | | | | | | | | | |
| 3900 | Structures & Improvements | $13,115,013 | $2,490,539 | L0 | 25 | 20 | - | S0.5 | 40 | 33 | 0 | 19.0 | 2.5 | 2.5 |
| 3910 | Office Equipment | $36,234 | $40,214 | SQ | 15 Yr Amortization | | | SQ | 14 Yr Amortization | | | 111.0 | 7.1 | 7.1 |
| 3912 | Computer Hardware (Combines Accounts 39112 and 3915) | $1,062,207 | $913,452 | SQ | 5 Yr Amortization | | | SQ | 10 Yr Amortization | | | 86.0 | 10.0 | 10.0 |
| 3913 | Office Furniture (formally account 3910) | $1,280,582 | $447,729 | SQ | 15 Yr Amortization | | | SQ | 20 Yr Amortization | | | 35.0 | 5.0 | 5.0 |
| 3914 | Computer Software (formally account 39111) | $0 | $0 | SQ | 12 Yr Amortization | | | SQ | 10 Yr Amortization | | | - | 10.0 | 10.0 |
| 3921 | Cars (revised subaccount) | $324,144 | $163,750 | L2.5 | 9 | 4.2 | 11 | S2 | 12 | 3.7 | 10 | 50.5 | 10.8 | 7.5 |
| 3922 | Light -Med. Trucks, SUVs & Vans (revised subaccount) | $8,392,837 | $3,453,447 | L3 | 10 | 6.1 | 11 | S2 | 12 | 7.5 | 20 | 41.1 | 5.2 | 6.7 |
| 3923 | Heavy Trucks | $1,040,846 | $591,746 | L2 | 12 | 6.5 | 4 | L3 | 13 | 5.3 | 10 | 56.9 | 6.3 | 6.9 |
| 3924 | Trailers (formally account 3920) | $174,493 | $137,364 | L2 | 12 | 4.7 | 4 | L2 | 20 | 9.5 | 0 | 78.7 | 1.8 | 4.8 |
| 3930 | Stores Equipment | $32,400 | $1,566 | SQ | 25 Yr Amortization | | | SQ | 26 Yr Amortization | | | 4.8 | 3.8 | 3.8 |
| 3940 | Tools, Shop & Garage Equip. | $965,394 | $327,689 | SQ | 15 Yr Amortization | | | SQ | 15 Yr Amortization | | | 33.9 | 6.7 | 6.7 |
| 3941 | Natural Gas Vehicle Equip. | $1,564,204 | $826,016 | S4 | 20 | 13.5 | - | S4 | 20 | 11.5 | 0 | 52.8 | 4.1 | 5.0 |
| 3950 | Laboratory Equip. | $0 | $0 | SQ | 20 Yr Amortization | | | SQ | 20 Yr Amortization | | | - | 5.0 | 5.0 |
| 3960 | Power Operated Equip. | $278,349 | $84,705 | SQ | 15 | 10.3 | 10 | L2 | 15 | 9.1 | 10 | 30.4 | 6.5 | 6.0 |
| 3970 | Communication Equip. | $1,202,866 | $290,423 | SQ | 12 Yr Amortization | | | SQ | 13 Yr Amortization | | | 24.1 | 7.7 | 7.7 |
| 3980 | Miscellaneous Equip. | $505,540 | ($51,276) | SQ | 20 Yr Amortization | | | SQ | 17 Yr Amortization | | | (10) | 5.9 | 5.9 |
| | Total General Plant | *$29,975,107* | $9,717,364 | | | | | | | | | | | |
| | Total Gas Plant | $696,700,908 | $197,900,164 | | | | | | | | | | | |

* Current parameters are approved by Order No. PSC-2023-0177-FOF-GU and Order No. PSC-2018-0190-FOF-GU.

** Some accounts were restated by FCG to reflect FCG's parent company CUC's standard natural gas subaccounts, or retirement adjustments. (EXH 3, MPN C2-142, C2-146 )

*** Represents Depreciation Rates and Annual Expense using Remaining Life technique to address calculated reserve surplus

**** Represents Depreciation Rates and Annual Expense using 2-year amortization to address calculated reserve surplus

## Attachment B: Comparison of Annual Expenses

| | CURRENT* | | Section I<br>Staff Recommended<br>Corrective Measure for Theoretical Reserve Imbalance<br>Remaining Life Technique | | Section II<br>Alternative Option<br>Corrective Measure for Theoretical Reserve Imbalance<br>2-Year Amortization | | Section III<br>Company Proposed<br>Corrective Measure for Theoretical Reserve Imbalance<br>2-Year Amortization | |
|---|---|---|---|---|---|---|---|---|
| Acnt No. | Depreciation/ Amortization Rate (%) | Annual Expense | Depreciation/ Amortization Rate (%) | Annual Expense | Depreciation/ Amortization Rate (%) | Annual Expense | Depreciation/ Amortization Rate (%) | Annual Expense |
| 3031 | 8.3 | $176,500 | 6.7 | $141,782 | 6.7 | $141,782 | 6.7 | $141,767 |
| 3032 | 5.0 | $347,230 | 5.0 | $347,230 | 5.0 | $347,230 | 5.0 | $347,230 |
| 3642 | 2.0 | $717 | 2.0 | $715 | 2.0 | $717 | 2.0 | $717 |
| 3643 | 2.0 | $4,795 | 2.0 | $4,843 | 2.0 | $4,795 | 2.0 | $4,795 |
| 3645 | 2.0 | $718 | 2.0 | $716 | 2.0 | $718 | 2.0 | $718 |
| 3646 | 2.0 | $1,194,047 | 2.0 | $1,179,176 | 2.0 | $1,194,047 | 2.0 | $1,194,047 |
| 3743 | | $0 | 2.3 | $253 | 1.3 | $148 | 1.3 | $148 |
| 3750 | 3.8 | $10,406 | 3.2 | $8,839 | 2.9 | $7,824 | 2.9 | $7,832 |
| 3761 | 1.6 | $3,798,017 | 1.7 | $4,114,518 | 1.7 | $4,114,518 | 1.7 | $4,106,606 |
| 3762 | 2.0 | $2,865,602 | 2.3 | $3,306,463 | 2.3 | $3,306,463 | 2.1 | $3,080,522 |
| 3780 | 2.6 | $66,472 | 2.8 | $72,774 | 2.8 | $70,307 | 2.8 | $70,307 |
| 3790 | 2.0 | $354,924 | 2.1 | $373,812 | 2.2 | $390,416 | 2.2 | $390,416 |
| 3801 | 3.1 | $3,987,034 | 3.0 | $3,897,299 | 3.1 | $3,928,573 | 2.6 | $3,279,657 |
| 3802 | 2.5 | $409,469 | 3.3 | $540,061 | 3.8 | $614,204 | 3.8 | $614,204 |
| 3810 | 6.9 | $1,659,467 | 5.3 | $1,262,638 | 5.3 | $1,262,638 | 5.3 | $1,262,638 |
| 3812 | 9.7 | $413,883 | 5.0 | $213,342 | 5.0 | $213,342 | 5.0 | $213,342 |
| 3820 | 3.6 | $241,595 | 2.3 | $152,522 | 2.3 | $152,522 | 2.3 | $152,339 |
| 3821 | 10.3 | $26,595 | 2.3 | $5,868 | 2.3 | $5,868 | 2.3 | $5,861 |
| 3830 | 2.3 | $173,135 | 2.4 | $179,229 | 2.4 | $179,229 | 2.4 | $179,157 |
| 3840 | 3.4 | $70,226 | 2.3 | $47,460 | 2.1 | $43,946 | 2.1 | $43,994 |
| 3850 | 2.3 | $86,038 | 2.3 | $84,704 | 2.5 | $93,520 | 2.5 | $93,520 |
| 3870 | 4.4 | $122,496 | 2.7 | $73,945 | 2.9 | $79,543 | 2.9 | $79,622 |
| 3900 | 4.0 | $524,601 | 2.5 | $321,954 | 2.5 | $327,875 | 2.5 | $327,875 |
| 3910 | 6.7 | $2,428 | 7.1 | $2,588 | 7.1 | $2,588 | 7.1 | $2,588 |
| 3912 | 20.0 | $212,441 | 10.0 | $106,221 | 10.0 | $106,221 | 10.0 | $106,221 |
| 3913 | 6.7 | $85,799 | 5.0 | $64,029 | 5.0 | $64,029 | 5.0 | $64,029 |
| 3914 | 8.3 | $0 | 10.0 | $0 | 10.0 | $0 | 10.0 | $0 |
| 3921 | 6.0 | $19,449 | 10.8 | $35,163 | 7.5 | $24,311 | 7.5 | $24,311 |
| 3922 | 6.6 | $553,927 | 5.2 | $436,110 | 6.7 | $559,522 | 6.7 | $559,746 |
| 3923 | 7.7 | $80,145 | 6.3 | $65,343 | 6.9 | $72,059 | 6.9 | $72,034 |
| 3924 | 13.4 | $23,382 | 1.8 | $3,161 | 4.8 | $8,376 | 5.0 | $8,725 |
| 3930 | 4.0 | $1,296 | 3.8 | $1,246 | 3.8 | $1,246 | 3.9 | $1,246 |
| 3940 | 6.7 | $64,681 | 6.7 | $65,224 | 6.7 | $65,224 | 6.7 | $64,360 |
| 3941 | 3.0 | $46,926 | 4.1 | $64,181 | 5.0 | $78,210 | 5.0 | $78,210 |
| 3950 | 5.0 | $0 | 5.0 | $0 | 5.0 | $0 | 5.0 | $0 |
| 3960 | 6.5 | $18,093 | 6.5 | $18,148 | 6.0 | $16,701 | 6.0 | $16,701 |
| 3970 | 8.3 | $99,838 | 7.7 | $92,528 | 7.7 | $92,528 | 7.7 | $92,528 |
| 3980 | 5.0 | $25,277 | 5.9 | $29,738 | 5.9 | $29,738 | 5.9 | $29,738 |
| Total Annual Expenses | | $17,767,649 | | $17,313,823 | | $17,600,979 | | $16,717,752 |
| 2-Year Amortization of Reserve Surplus | | | | | | | | |
| Total amount amortized | | | | | | ($6,760,228) | | ($19,244,380) |
| Annual amount amortized | | | | | | ($3,380,114) | | ($9,622,190) |
| Annual Expense over 2-Year Amortization Period | | | | | | $14,220,865 | | $7,095,562 |