



**BEN ALBRITTON**  
*President of the Senate*

**STATE OF FLORIDA**  
**OFFICE OF PUBLIC COUNSEL**

c/o THE FLORIDA LEGISLATURE  
111 WEST MADISON ST.  
ROOM 812  
TALLAHASSEE, FLORIDA 32399-1400  
850-488-9330  
  
EMAIL: [OPC\\_WEBSITE@LEG.STATE.FL.US](mailto:OPC_WEBSITE@LEG.STATE.FL.US)  
[WWW.FLORIDAOPC.GOV](http://WWW.FLORIDAOPC.GOV)



**DANIEL PEREZ**  
*Speaker of the House of Representatives*

March 2, 2026

**VIA: ELECTRONIC FILING**

Adam Teitzman  
Office of Commission Clerk  
Florida Public Service Commission  
2540 Shumard Oak Boulevard  
Tallahassee, FL 32399-0850

**Docket No. 20260026-GU – Application for rate increase by Florida City Gas.**

Dear Mr. Teitzman:

The intent of this letter is to advise the Commission Staff of the Office of Public Counsel's ("OPC") observations and recommendations, based on a preliminary review of the February 26, 2026 transcripts of Chesapeake Utilities Corporation's Q4 & Full-Year 2025 Earnings Call and associated investor presentation slides (See Attachment A), concerning the forthcoming interim rate request for Florida City Gas ("FCG" or "Company") that was referenced during the investor call.

On February 18, 2026, FCG filed its test year notification letter (See Attachment B) to the Commission pursuant to Rule 25-7.140, Florida Administrative Code, with a filing date contemplated on or after April 20, 2026. On page 4 of that letter, it states the following:

**D. Interim Rates and Procedure**

The Company will also be requesting interim rate relief in accordance with Section 366.071, Florida Statutes, using the period January 1, 2025 through December 31, 2025, as the test period. The Company will be seeking interim relief to allow the Company the opportunity to earn within its authorized range while its request for permanent rate relief is processed. The period January 1, 2025

through December 31, 2025 will serve as both the Company's interim test year, as well as its historic test year period for purposes of the Petition.

Based on the February 26, 2026 earnings call, the following statements, in pertinent part, were made by Jim Moriarty, Executive Vice President, General Counsel, Corporate Secretary, and Chief Policy and Risk Officer, Chesapeake Utilities Corporation:

Our Florida City Gas depreciation study also concluded last week. The Florida Public Service Commission denied our request for a 2-year amortization of the \$19 million excess depreciation reserve and adopted its staff recommendation of only \$6.8 million of excess depreciation recovered over the life of the assets. This results in annual depreciation savings of approximately \$500,000.

Given the timing of the order, we opted to not reopen the books for 2025, and instead will apply 2 years' worth of reduced depreciation expense, or close to \$1 million, in 2026.

(Attachment A, Transcript at 5-6. Underline emphasis added)

On February 5, 2026, the Commission Staff filed its post-hearing recommendation (See Attachment C) for Docket No. 20250035-GU, Petition for approval of 2025 depreciation study and for approval to amortize reserve imbalance, by Florida City Gas. At the Special Agenda Conference held on February 17, 2026, the Commission approved that recommendation for all issues. As reflected on page 3 of the Vote Sheet (See Attachment D), the Commission approved an implementation date for revised depreciation rates and amortization schedules of January 1, 2025. Even though FCG opted to not reopen the books to adjust reduced depreciation expense by \$500,000 in 2025, the OPC asserts that, for interim purposes, the Commission must recognize the \$500,000 depreciation expense reduction, consistent with its previous decision above, for the implementation date for revised depreciation rates and amortization schedules of January 1, 2025.<sup>1</sup>

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<sup>1</sup> The Corporate parent acknowledged this – while complaining about the Commission's decision not to allow them to continue the RSAM – when it claimed that the accelerated amortization of the surplus would have been available to reduce the interim request. See Attachment A, Transcript at 20. By this claim, FCG, through its parent, is admitting that the reduction in the depreciation expense is properly included in the historical interim test year.

Based on the February 26, 2026 earnings call, the following statements, in pertinent part, were made by Jeff Householder, Chair of the Board, President, and Chief Executive Officer, Chesapeake Utilities Corporation:

I don't think at this point we're quite ready to describe what we believe that interim rate calculation will result in. There are some things that we are and will, I'm sure, debate with the Florida Public Service Commission as we file for interim rate. One of those, as you may recall, is that the current return on equity for Florida City Gas is about 100 basis points lower than what we would traditionally see at other gas utilities in Florida. That was set because of the RSAM, and so the rate-making deal that was established by NextEra Energy before we acquired the company reduced ROEs from the more traditional levels, down about 100 basis points. We'll argue that that's no longer applicable, and there are a couple of other things that we'll roll around in there.

(Attachment A, Transcript at 20. Underline emphasis added)

The OPC asserts that there is no statutory leeway permitted to change the currently authorized ROE and ROE range for interim purposes as suggested above. In further support on this point, the OPC notes that Section 366.071(5)(b)2, Florida Statutes, states the following:

“Required rate of return” shall be calculated as the weighted average cost of capital for the most recent 12-month period, using the last authorized rate of return on equity of the public utility, the current embedded cost of fixed-rate capital, the actual cost of short-term debt, the actual cost of variable-cost debt, and the actual cost of other sources of capital which were used in the last individual rate proceeding of the public utility.

(Underline emphasis added)

The problem with the Company's suggested method of calculating interim rates is that the FCG rate case order<sup>2</sup> makes no mention of the ROE being temporary or voided if FCG overspends. The Company's decision to spend the RSAM funds twice as fast as planned in order

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<sup>2</sup> 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*. (“2023 FCG Order”).

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to boost profits, followed by a steep decline in earnings immediately afterwards, was entirely within the control and discretion of the Company and does not justify a corporate bailout on the customers' dime. A self-help change to its ROE based on non-existent language is not authorized. Making its own decision(s) to draw down the Reserve Amount does not authorize the company to bypass the statute and self-regulate or self-determine its authorized ROE.

### **Conclusion**

In conclusion, the OPC respectfully requests the Staff and the Commission consider these above-mentioned observations and concerns.

Respectfully submitted,

/s/ *Bart Fletcher*

Bart Fletcher  
Legislative Analyst

Attachments

# Attachment A

## **Full transcript - Chesapeake Utilities Corp (CPK) Q4 2025:**

**Operator:** Welcome to Chesapeake Utilities Corporation's fourth quarter and full year 2025 earnings conference call. At this time, all participants have been placed on a listen-only mode, and the floor will be open for your questions following the presentation. If you would like to ask a question at that time, please press star one on your telephone keypad. If at any point your question has been answered, you may remove yourself from the queue by pressing star two. Others can hear your questions clearly, we ask that you pick up your handset for best sound quality. Lastly, if you should require operator assistance, please press star zero. I would now like to turn the call over to Lucia Dempsey, Head of Investor Relations.

### **Lucia Dempsey, Head of Investor Relations, Chesapeake Utilities**

**Corporation:** Thank you. Good morning, everyone. Today's presentation can be accessed on our website under the Investors page and Events and Presentation subsection. After our prepared remarks, we will open the call up for questions. On slide 2, we show our typical disclaimers, while I remind you that matters discussed on this conference call may include forward-looking statements that involve risks and uncertainties. Forward-looking statements and projections could differ materially from our actual results. The Safe Harbor for Forward-Looking Statements section of our 2025 annual report on Form 10-K provides further information on the factors that could cause such statements to differ from our actual results. Additionally, the company evaluates its performance based on certain non-GAAP measures, including adjusted gross margin, adjusted net income, and adjusted earnings per share. The information presented today includes the appropriate disclosures in accordance with the SEC's Regulation G.

A reconciliation of these non-GAAP measures to the related GAAP measures has been provided in the appendix of this presentation, our earnings release, and our 2025 annual report on Form 10-K. Here at Chesapeake Utilities, safety is our first priority. We start all meetings with a safety moment, and we'll do so

here with a moment on women's heart health, as highlighted on slide 3. As February is American Heart Month, it's a good time to take care of ourselves and our loved ones by making small changes that can have a big impact on our heart health. Cardiovascular disease is the number 1 killer for women in particular, so it's important to understand the unique risk factors women face across various stages of life, including pregnancy and menopause.

We are proud to be a long-standing supporter of the American Heart Association, which has in-depth resources for managing heart health risks and implementing changes that support long-term cardiovascular health. It's now my pleasure to introduce our presenters today. Jeff Householder, Chair of the Board, President, and Chief Executive Officer, will summarize the highlights and accomplishments of 2025 and introduce our theme for 2026. Jim Moriarty, Executive Vice President, General Counsel, Corporate Secretary, and Chief Policy and Risk Officer, will provide updates on our regulatory strategy, business transformation efforts, and stakeholder engagement. Beth Cooper, Executive Vice President, Chief Financial Officer, Treasurer, and Assistant Corporate Secretary, will discuss our full-year financial results, financing updates, and investment highlights. I'll now turn the call over to Jeff.

**Jeff Householder, Chair of the Board, President, and Chief Executive**

**Officer, Chesapeake Utilities Corporation:** Thank you, Lucia. Good morning. It's great to speak with you today. As shown on slide five, 2025 was a year of outstanding performance and growth. I'm proud of everything our team has done in the last year to deliver with purpose. We have, once again, reached significant new heights across our entire enterprise. 2025 was our 19th consecutive year of earnings growth. We generated adjusted earnings of \$6.01 per share, reflecting industry-leading growth of 12% relative to full year 2024. Above average residential growth of 3% across our service areas continues to serve as the primary driver for our capital program.

We invested \$470 million through 2025, a 32% increase over our 2024 capital spend, and \$20 million above our 2025 guidance range, a record of non-acquisition capital. 2025 was also a record year for incremental adjusted gross margin growth, up \$71 million. Included in that was transmission project margin of \$19 million and incremental infrastructure margin of \$14 million.

Our proactive regulatory approach also contributed to our full-year results, with completed rate cases in our Maryland, Delaware, and Florida electric jurisdictions, driving an additional \$13 million of gross margin in 2025.

Lastly, we're pleased to end the year back at our target equity capitalization of 50%, exactly in line with the goal we laid out at the start of 2025 and ahead of the schedule we established at the time of the FCG acquisition. Slide 6 provides additional detail on our record levels of earnings growth. For the fourth quarter and full year 2025, we generated double-digit growth in adjusted gross margin, adjusted net income, and adjusted earnings per share. These results demonstrate our commitment to providing high-quality, safe, and reliable service for all customers and driving value for all stakeholders. I'll now shift to Slide 7, which highlights our above-average customer growth. We operate in some of the fastest-growing regions of the country.

In 2025, we added nearly 11,000 residential, commercial, and industrial customers across our natural gas and electric distribution service areas. In Delmarva, residential customer growth was 4.1%. Florida Public Utilities was up 3.6%, Florida City Gas recorded a 2.2% increase. Residential community expansion drives corresponding commercial infrastructure growth. Our customer additions led to an incremental \$7.4 million of adjusted gross margin in 2025. We also see additional growth opportunities in Ohio, which has quickly become a top spot for data center build-outs. In addition to starting construction this year on the Duncan Plains pipeline to support AEP's data center fuel cell, we've been providing temporary virtual pipeline service through Marlin for a data center construction project north of Columbus, Ohio.

We continue to explore a number of gas transportation projects and look forward to further expansion in the Ohio market. Before I discuss our strategy and goals for the next year, I'd like to reflect on the significant progress we've made in just the first two years following our acquisition of Florida City Gas in late 2023, as detailed on slide 8. FCG has proved to be a strong strategic and cultural fit and immediately provided a wide range of investment, expansion, and improvement opportunities. We quickly got to work and have already invested approximately \$250 million of CapEx, which is 50% of our 5-year FCG-related investment goal. These projects are expanding and reinforcing

FCG's ability to provide reliable and affordable energy to meet customer demand.

We've also fully integrated the FCG team into the Chesapeake family and aligned a number of functions and processes with our legacy operations under our One Company approach. FCG is now active on our 1CX SAP customer billing platform, and we've consolidated all regulated customer service operations into one coordinated team. These integration and investment accomplishments are important for several reasons. 1, we've done what we said we would do. We've also strengthened our track record of above-average growth, and we're demonstrating our ability to finance, integrate, and capitalize on transformational opportunities that support consistent long-term growth. I'd now like to talk about our outlook, strategy, and goals for 2026 and beyond. Core to that discussion and to our record-breaking performance and growth over the last year are the 3 pillars of our growth strategy, shown on slide 9.

We remain committed to prudently deploying capital, proactively managing our regulatory agenda, and continually transforming our business operations, as we believe consistent and successful execution will continue to drive top-quartile growth and total shareholder return. I'll now move to slide 10 to introduce our theme for this year, Transforming for Growth: Powered by People, which particularly resonates with where we are today. We're building on a well-established blueprint for top-quartile performance. We're transforming the business to prepare for a new level of scale and growth, and we're powered by strong relationships across all stakeholders, teammates, customers, regulators, investors, and our communities. In this year of transformation, there are a few specific deliverables that we're focused on for 2026.

Focused on investing \$450 million-\$500 million of CapEx, including successful completion of a number of projects and initiating construction on a new set of opportunities that are presently under development. We're focused on reaching a successful outcome on our general rate case for Florida City Gas, which Jim will discuss shortly in more detail. As part of a whole host of business transformation initiatives across our organization, we're undertaking the largest technology system implementation in our history with our

multiyear enterprise resource plan, or ERP. I know I've said it before when we were embarking on the 1CX project, but this ERP implementation, which we're calling One Core, is going to be bigger and even more transformational than anything we've done thus far, and Jim will discuss more on that shortly.

Finally, we're focused on maintaining a strong balance sheet and investment-grade credit ratings as we fund our significant capital investment program and continue to drive strong earnings and dividend growth in support of top-quartile shareholder return. I'll now turn to slide 11, which provides a detailed look into our 2026 capital plan. Following a record-breaking \$470 million of capital invested in 2025, we're initiating full-year 2026 capital expenditure guidance of \$450 million-\$500 million. This plan assumes levels of transmission, distribution, and infrastructure investment similar to last year, alongside an increase in technology CapEx for the ERP. I will note that approximately 20%-30% of this capital will drive margin growth in 2027 or later, given regulatory recovery timelines and expected project completion dates.

Slide 12 provides an update on our major capital projects. Nearly all are generating margin through interim or full service, driving \$22.8 million of adjusted gross margin in full year 2025. We forecast these projects to contribute approximately \$47 million of gross margin in 2026 and an additional \$9 million in 2027. Turning to slide 13, I'd like to highlight two projects for Eastern Shore Natural Gas that could further support the significant demand growth in our northern service areas. The first is the Delmarva Regional Enhancement Project, which I am pleased to be announcing today. This investment includes over 20 miles of 16 and 24-inch pipeline and looping to add firm capacity and improve reliability, driven by increased shipper demand identified during our latest open season.

We currently estimate capital investment of approximately \$75 million and an in-service date around the end of 2028. Second project was announced a few weeks ago, when we were awarded a \$6.5 million grant by the Accomack County Board of Supervisors to begin to assess feasibility, design, and engineering of new infrastructure that would bring natural gas to Virginia's Eastern Shore. We're working with local stakeholders and potential customers to ascertain the size, route, and cost for this potential system, which could

extend natural gas from Princess Anne, Maryland, to Temperanceville, Virginia, serving homes and major employees, including the NASA Wallops Flight Facility, Wallops Island operations, and other regional, commercial, and industrial customers. While still in very early stages, we are excited about the opportunity to extend our system into Virginia to deliver safe, reliable natural gas to the Accomack County community.

I'll now shift to slide 14 to discuss our five-year capital investment guidance of \$1.5 billion-\$1.8 billion through 2028. Given our 2024 and 2025 capital spend, combined with our identified and ongoing capital investments, we've invested and identified a total of \$1.6 billion toward our five-year range. As we've discussed, we intend to provide a more significant update to this range a year from now in order to incorporate outcomes of our strategic planning session this summer and make additional headway on multiple potential investment projects under evaluation and development. With that, I'll turn to Jim to discuss our second and third pillars, regulatory strategy and business transformation initiatives.

**Jim Moriarty, Executive Vice President, General Counsel, Corporate Secretary, and Chief Policy and Risk Officer, Chesapeake Utilities**

**Corporation:** Thank you, Jeff. It is great to be with you all again today. I'll start with slide 15, which includes updates on our regulatory agenda. As Jeff mentioned at the start of the call, successful rate cases in our Delaware, Maryland, and Florida electric jurisdictions drove over \$12 million of incremental gross margin in 2025, and are expected to generate over \$18 million in 2026, the first full year of revised rates. Our Florida City Gas depreciation study also concluded last week. The Florida Public Service Commission denied our request for a 2-year amortization of the \$19 million excess depreciation reserve and adopted its staff recommendation of only \$6.8 million of excess depreciation recovered over the life of the assets. This results in annual depreciation savings of approximately \$500,000.

Given the timing of the order, we opted to not reopen the books for 2025, and instead will apply 2 years' worth of reduced depreciation expense, or close to \$1 million, in 2026. As you'll recall, achieving our 2025 earnings guidance included appropriate cost recovery and return on equity at FCG, which did not

happen. We had hoped to avoid filing a general rate case and utilize depreciation expense savings from the excess reserve to delay a customer rate adjustment for as long as possible. Given the outcome of the depreciation study, however, we immediately submitted a notice of intent, indicating our plan to file a general rate case for FCG in mid-April of 2026. This rate request will ensure appropriate cost recovery and an improved allowed ROE.

We expect interim rates to be effective by early July 2026, and look forward to FCG returning to its earnings contribution levels in 2027 and beyond. I'd now like to turn to the two core elements of our theme for 2026, which Jeff introduced earlier. Starting with transformation for growth. Slide 16 provides an update on our business transformation efforts, which is a particular focus this year as we implement significant transformations within technology, systems, and processes to drive continued operational excellence as a much larger organization. We've identified five key transformation themes: customer experience, operational excellence, digital agility, employee experience, and financial modernization, each of which will be addressed through one or more projects in 2026. In January of this year, we held an official kickoff event for our ERP project, which we're calling One Core.

We brought together 130 teammates and external partners to align around our objectives and goals as we implement SAP solutions for our finance, supply chain, asset management, and human resource functions. We expect to invest approximately \$75 million in 2026 and are targeting a system go-live date in Q2 of 2027. We are also implementing employee training and wellness programs, new software tools, and organizational structure updates across the company to strengthen our people, simplify processes, and leverage new technologies. These initiatives will deliver better service for our customers and facilitate continued long-term growth of the organization. The second element of our 2026 theme is Powered by People, which recognizes the important role all our stakeholder groups play to drive our long-term success.

Slide 17 provides highlights on the work underway to actively engage with our key stakeholder groups, teammates, customers, regulators, legislators, partners, investors, and our communities overall. We're focused on attracting and retaining change-focused teammates and have rolled out multiple programs on training, development, organizational change management, and

wellness. We are committed to placing our more than 440,000 customers at the center of everything we do as we continue to prioritize safe, reliable, and affordable service. We're grateful to maintain strong, constructive relationships with regulators, legislators, business partners, and investors. Whether seeking project approval or capital financing, we rely on these trusted partners to enable sustainable, positive growth for all stakeholders. Finally, we are thankful for the communities in which we work and live. We support local organizations. We communicate with our neighbors.

We improve our environments, all of which is core to our mission and reflected in the work we do each and every day. With that, I'll turn the call over to Beth for a more detailed discussion of our financial results.

**Beth Cooper, Executive Vice President, Chief Financial Officer, Treasurer, and Assistant Corporate Secretary, Chesapeake Utilities Corporation:**

Thanks, Jim, good morning, everyone. Slide 18 shows our record-breaking financial results for full year 2025. We generated approximately \$639 million of adjusted gross margin, \$141 million of adjusted net income, and \$6.01 of adjusted earnings per share in 2025, all representing double-digit increases over full year 2024. Adjusted net income was up 16%, which translated into a 12% increase in adjusted EPS after we purposefully advanced our equity to total capitalization ratio back to 50% to support our CapEx program at a faster pace than our forecasted financial models post FCG. This reflects Chesapeake's highest level of annual earnings and our 19th year of consecutive earnings growth, as I will discuss in more detail shortly.

Our results were driven by consistent growth across our entire business, as detailed on slide 19. For full year 2025, our key margin drivers added \$2.41 per share, only partially offset by increased expenses and financing costs of \$1.79 per share. Record levels of capital investments drove \$0.58 of incremental adjusted EPS from transmission expansion projects and \$0.43 from infrastructure projects to improve reliability and resiliency across our regulated businesses. Growth in our service areas and increasing demand for natural gas drove \$0.51 of incremental adjusted EPS, including \$0.28 of higher customer consumption and \$0.23 of distribution system customer growth.

Permanent rates from the 3 rate cases we completed in 2025 added \$0.39 of Adjusted EPS. Our unregulated businesses generated \$0.29 of net incremental earnings per share, largely driven by substantial growth in our Marlin Virtual Pipeline Transportation business and supported by strong performance in our propane and Aspire Energy operations. As I just mentioned, these positive margin gains were partially offset by a few factors, most notably \$0.51 from the absence of the RSAM benefit we recorded in 2024 and were unable to repeat, given the outcome of the Florida City Gas depreciation study. We also incurred \$0.31 per share of increased depreciation and amortization expense related to our significant levels of capital investment and \$0.41 per share of additional operating expenses directly attributable to our sustained growth.

However, we continued to drive operational efficiencies, leading to operational expenses at only approximately 45% of adjusted gross margin for full year 2025. Lastly, financing activity, including our debt and equity issuances over the last 12 months to fund our CapEx and return to our target capital structure, reduced adjusted EPS by \$0.35 per share, particularly as we accelerated our equity capitalization back to 50%. Shifting to slide 20, adjusted gross margin for our regulated segment was \$494 million in 2025, a 12% increase over full year 2024. This growth continues to be driven by strength in our core business operations, with high levels of capital investment to support rapidly growing service areas and improve regulatory recovery following our 3 rate cases.

Our focus on cost management enabled similar growth in our regulated operating income, up 13% to approximately \$222 million for full year 2025, despite again, the absence of the \$15.5 million RSAM benefit recorded in 2024. Moving to slide 21, we continue to see outstanding performance from our unregulated segment, with full year 2025 adjusted gross margin of \$145 million, up 13% relative to the prior year. Our Marlin Gas Services business continues to meet the rapid growth in demand for virtual pipeline transportation, driving \$11 million of additional gross margin, with our propane and Aspire Energy businesses contributing an additional \$5.7 million of gross margin in 2025. I'll now move to slide 22 to highlight our financing and capital accomplishments this past year.

I'm proud to report that we ended 2025 at an equity capitalization of 50%, meeting the goal we set at the start of the year, three years ahead of the target we actually established for ourselves following the acquisition of Florida City Gas. We issued \$123 million of equity, or 961,000 shares, ending the year with nearly 24 million shares outstanding. Our equity capitalization was also boosted by \$76 million of retained earnings. We also made meaningful moves to further strengthen our balance sheet and access to capital. At the start of the year, we secured our inaugural credit rating with Fitch, earning investment-grade issuer and instrument ratings. In June, we amended and extended one of our long-term shelf agreements, followed by a \$200 million debt issuance in August and September.

Just last week, we extended and amended our second private placement shelf facility, providing us additional debt capacity. We ended the year maintaining strong liquidity, with 78% of our total capacity of \$755 million available between our revolving credit facility and our private placement shelf facilities. We look to 2026, we are excited to refinance the first tranche of debt we issued in conjunction with the Florida City Gas acquisition and plan to finance our robust capital program with a mix of earnings retained in the business, equity, and debt, generally maintaining our 50/50 capital structure overall. Slide 23 demonstrates how our dividend policy remains a key component of our capital allocation strategy. We also remain committed to consistent dividend growth.

Our annualized dividend per share of \$2.74 reflects a 7% annual increase from 2024 and is reflected in the long-term dividend CAGR of 9%. Our policy also facilitates significant earnings reinvestment, as our board-approved dividend payout target range of 45%-50% allowed us to retain 54% of earnings in 2025 to support our capital investment plan, a higher percentage than most of our peers. We will continue to support long-term dividend growth while reinvesting significant earnings back into the company, enabling our investors to benefit from both long-term top-quartile earnings and strong dividend growth. As shown on slide 24, our 2025 Adjusted EPS result was remarkable for a number of reasons. First, we generated 12% growth relative to 2024, which is significantly above the industry average.

It is particularly meaningful that we achieved this growth rate despite receiving no recovery and amortization of the excess depreciation reserve, and also while successfully driving our equity capitalization back to 50%. Second, 2025 marks our 19th year of consecutive earnings growth. Since 2007, we've grown year-over-year earnings, demonstrating our unwavering track record of higher earnings performance and commitment to increasing shareholder value. Third, our 2025 EPS represents a 9.1% CAGR over this 19-year time period, which highlights our ability to drive consistent, above-average returns now and into the future. Speaking of the future, we are reaffirming our 2028 Adjusted EPS range of \$7.75-\$8.00 per share, as we remain on track to meet our long-term Adjusted EPS growth target of 8%.

Before we open the call for Q&A, I'd like to highlight some of the reasons that Chesapeake Utilities remains a uniquely valuable investment for years to come, as shown on slide 25. As I just discussed, we take financial discipline and execution very seriously and are highly focused on building on our track record of performance and growth, with many financial records being set in 2025. We will continue to execute on our three pillars of growth, enabled by continued growing demand for natural gas throughout our service areas and the need for continued reliability, capacity, and expansion. Our disciplined approach to financing, including ensuring balance sheet strength and upholding investment-grade credit metrics, keep us well-positioned to address market volatility and achieve successful regulatory outcomes as we fund our growth plan. All of these elements set the stage for growth in 2026 and beyond.

As we transform the company for growth, we are continually reminded that we are powered by people, and that strengthening relationships and creating value for all stakeholders will continue to differentiate us now and into the future. We sincerely appreciate your continued interest, support, and investment in our company, and thank you for joining us today. With that, we'll take your questions. Operator?

**Operator:** The floor is now open for your questions. At this time, if you have a question or comment, please press star one on your telephone keypad. If at any point your question is answered, you may remove yourself from the queue by pressing star two. Again, we ask that you pick up your handset when

posing your questions to provide optimal sound quality. Thank you. Our first question is coming from Nicholas Campanella with Barclays. Your line is open.

**Michael Brown, Analyst, Barclays:** Good morning, this is Michael Brown on for Nicholas Campanella. My first question is, you reaffirmed your full year 28 EPS target. Can you walk us through the growth rate for full year 25 to full year 27 to reach a full year 28?

**Beth Cooper, Executive Vice President, Chief Financial Officer, Treasurer, and Assistant Corporate Secretary, Chesapeake Utilities Corporation:** Michael, I'm sorry. Good morning, this is Beth. Can you restate your question? Would you mind? Thank you.

**Michael Brown, Analyst, Barclays:** You reaffirmed your full year 2028 EPS target. Can you walk us through the growth rate from full year 2025, through full year 2027 to get to full year 2028?

**Beth Cooper, Executive Vice President, Chief Financial Officer, Treasurer, and Assistant Corporate Secretary, Chesapeake Utilities Corporation:** We have at the present time, as I talked about on the call, we have reaffirmed our 2028 EPS guidance. Michael, you may recall this, but I, you know, I will just remind you, as a company, you know, we've historically provided long-term EPS guidance, you know, given some of the capital expenditures that we incur and how, you know, the timing of getting some of those capital expenditures underway and completed. What we've done is actually put out there our long-term EPS CAGR of 8%, and again, reaffirmed our, you know, 2028 EPS guidance.

In conjunction with that, we have put out our annual capital guidance this year and some of the projects that are underway that will hopefully, both with that information and also the information that we include in our major projects table, enable you to provide, you know, a forecast as we move through that period to 2028.

**Operator:** We'll take our next question from Chris Ellinghaus with C-

**Beth Cooper, Executive Vice President, Chief Financial Officer, Treasurer, and Assistant Corporate Secretary, Chesapeake Utilities Corporation:**

Good morning, Chris.

**Chris Ellinghaus, Analyst, C-:** Can you talk about the first quarter thus far? It seems like we've had some pretty cold snaps. I'm just kind of curious what you're thinking about tailwind from weather in the first quarter.

**Beth Cooper, Executive Vice President, Chief Financial Officer, Treasurer, and Assistant Corporate Secretary, Chesapeake Utilities Corporation:** Sure.

Great question. you know, certainly weather has been top of mind for us, like many across the country, with the weather that we've experienced. as you may recall, in our northern service territories on the Maryland side, we have weather normalization, right? That's going to somewhat stabilize the impact of the weather for our Maryland operations. In Delaware, there will, you know, there will certainly be an impact, and we've begun to quantify the first part of that, for January, the numbers certainly are preliminary, and we're not in a position to really talk about that just yet. Similarly, on the propane side, there will be some benefit that comes from the weather in Florida.

You also may recall with cooler, you know, the colder weather there also in weather, we have a greater portion of our bill that is more of a fixed than a variable component. Again, more weather normalized when you get to Florida. Yes, coming out of the gate, there will be some impact in January and as we're seeing into February. What we're also, Chris, being very mindful of is, you know, the impact on our customers and wanting to work with them, certainly from a payment standpoint, working with them to hopefully put those that may need it in touch with, you know, some of the social service agencies.

Finally, from an operations standpoint, you know, I can't say enough about, from our standpoint, how our team operated during this, you know, this challenging time, how our facilities were maintained, a no disruption of service across our systems. Again, we look forward to providing more information, you know, when we jump on our first quarter call.

**Chris Ellinghaus, Analyst, C-:** Okay. I'm not quite sure if you have insights into this, but I'm guessing over your wide-ranging Florida service areas that the temperatures were fairly unusually cool. Is that fair?

**Beth Cooper, Executive Vice President, Chief Financial Officer, Treasurer, and Assistant Corporate Secretary, Chesapeake Utilities Corporation:** In certain parts of our areas in Florida, absolutely. I can tell you, I've just been down in Florida, and when I landed, it wasn't the normal temperatures I'm traditionally accustomed to. Yes, there would be. Again, with our rate design over the last several years, you know, we have limited that, a little bit more than, you know, as we've moved over the last couple of years. Certainly, there will be some, and there will also be some, to your point, that may come from, certainly the propane side as well down there.

**Chris Ellinghaus, Analyst, C-:** The growth in the FCG customers for the year, you do have this wide-ranging FCG service area. Does that suggest, you know, versus maybe the more Miami proper area, that there are some portions of the service area that are growing in the 3%-4% range?

**Beth Cooper, Executive Vice President, Chief Financial Officer, Treasurer, and Assistant Corporate Secretary, Chesapeake Utilities Corporation:** There are portions of Florida that certainly have higher growth than others. I think if, you know, and I would say it's probably closer to, you know, the 3-ish% in some of those areas. What I would also say, though, is just, you know, despite what individuals may think about, you know, growth, let's say, in more of a metropolitan area like Miami, what you are seeing. We saw this, you know, on one of the trips down there when we took, you know, took a ride in the service area and with our team, looked at some of what's going on. There is a lot of redevelopment that's going on there, so opportunities to particularly have increased margin that comes from commercial infrastructure that's being constructed.

When, you know, particular buildings are being torn down and multi-unit dwellings are being constructed, again, there may be more opportunities as well. Yes, higher in certain markets, but there are opportunities from a commercial side and a residential side, even in some of those lower growing

markets. The other thing, Chris, that I would point out, and I think your point to some degree, I would just highlight, you know, we try to make it very clear in our earnings release, in Florida, in particular, the amount of commercial infrastructure that is supporting the residential growth that is going on down there is pretty phenomenal. It's also happening on the Peninsula, but to a much lesser degree, more driven there by residential.

You know, we're continuing to see the levels of growth that we had thought we would experience over the last several years since Florida City Gas. That's been exciting that it's been on track.

**Chris Ellinghaus, Analyst, C-:** Okay-

**Jeff Householder, Chair of the Board, President, and Chief Executive Officer, Chesapeake Utilities Corporation:** Chris, I'll just add. This is Jeff. I'll just add a little detail to that, specific to your question. If you look at the city gas service territories, where we're seeing significant residential growth, followed by, as Beth indicated, a substantial amount of commercial service growth, is in the Port St. Lucie area around Vero Beach, and then up in the Brevard County area, especially to the west of the county, out in the Viera, communities. Those are significantly higher growth areas than what we're experiencing currently, in the Miami portion of that service territory.

**Chris Ellinghaus, Analyst, C-:** Thanks, Jeff. That's kind of what I was thinking.

**Jeff Householder, Chair of the Board, President, and Chief Executive Officer, Chesapeake Utilities Corporation:** Yeah.

**Chris Ellinghaus, Analyst, C-:** Can you talk about the ERP and what you see as the benefits, where you might see cost savings or, you know, sort of synergistic value creation? Can you quantify any of that?

**Beth Cooper, Executive Vice President, Chief Financial Officer, Treasurer, and Assistant Corporate Secretary, Chesapeake Utilities Corporation:** Sure.

**Jeff Householder, Chair of the Board, President, and Chief Executive Officer, Chesapeake Utilities Corporation:** I think-

**Beth Cooper, Executive Vice President, Chief Financial Officer, Treasurer, and Assistant Corporate Secretary, Chesapeake Utilities Corporation:** Oh, go ahead, Jeff.

**Jeff Householder, Chair of the Board, President, and Chief Executive Officer, Chesapeake Utilities Corporation:** Go ahead.

**Beth Cooper, Executive Vice President, Chief Financial Officer, Treasurer, and Assistant Corporate Secretary, Chesapeake Utilities Corporation:** Go ahead, please.

**Jeff Householder, Chair of the Board, President, and Chief Executive Officer, Chesapeake Utilities Corporation:** No, no, go ahead, please.

**Beth Cooper, Executive Vice President, Chief Financial Officer, Treasurer, and Assistant Corporate Secretary, Chesapeake Utilities Corporation:** I was just, you know, I was just going to start off, you know, one of the ways, you know, that we've been talking about it internally, Chris, and we've been working on establishing some metrics, would be as we think about and talk about from time to time, you know, our O&M expenses as a percentage of gross margin. As this project starts to be underway, on the back end, certainly, of this project and many other technology improvements that we're making, you'll see us referring to that in particular as we talk about that benchmark O&M as a percentage of gross margin. You may recall, Chris, we've been talking about that pretty much, since Jeff became our CEO, coming out of the gate and talking about that each year.

If you look at our history, we've been on a declining path as we've continued to grow. I would say that out of the gate. Jeff, maybe, you know, I'll turn it to you, and you can touch on just some of the things that we're thinking about from the technology standpoint.

**Jeff Householder, Chair of the Board, President, and Chief Executive Officer, Chesapeake Utilities Corporation:** Sure. you know, I think this is a drive to accumulate data in a more proactive way that allows us to actually utilize that data in making better decisions about the company. I mean, that's fundamentally what this is. To specifically talk about a handful of areas that we

believe will see, excuse me, efficiencies and ultimately some cost savings. I think there are opportunities on the customer service side, certainly, with respect to electronic billing, you know, moving customers into a portal relationship with the company, reducing the number of calls to our call centers, automatic meter reading. All of those things, I think, are on the horizon for us that will provide significant efficiencies.

There are a variety of supply chain issues here that we believe that, you know, kind of march down this One Company approach that we've been looking at to standardize things across all of our operating areas over the last few years. We've just sort of scratched the surface, I think, on the way we buy materials and supplies and services in the company, and so I think there are significant opportunities there. A number of field services operations activities, especially in the way we schedule work, and control kind of the flow of orders back and forth from a computer system out into the field and back without having to physically touch those. There are a variety of accounting and finance improvements that I think we'll see just how we process accounts payable.

I mean, and on and on and on. I mean, it's the sort of classic ERP opportunity here. Linking that into our recently installed, what we call OneCX, the SAP customer service, billing, and field services management systems that we have in place across the company now, I think will continue to drive some of the cost savings that Beth was trying to support and to quantify. We haven't gotten to a number. I mean, I walk around with one in my head, but I'm certainly not ready to begin to publicly describe that.

I think it is significant, and I think we will see that we will realize those cost savings, and they will flow through ultimately to keep customers' bills down, to allow us to redeploy some of those dollars in support of some of the capital operations that we're pursuing, and to, you know, make the company more efficient and less costly.

**Chris Ellinghaus, Analyst, C-:** Okay. Maybe one last question for Jim. Jim, how surprised were you by the Florida decision? You know, was that somewhat of a tacit invitation to file a rate case?

**Jim Moriarty, Executive Vice President, General Counsel, Corporate Secretary, and Chief Policy and Risk Officer, Chesapeake Utilities Corporation:**

Well, thank you, Chris. I mean, that's a very good question. you know, our purpose all along was to kind of simplify what was the RSAM to a more traditional approach to depreciation. I think in some ways we got caught up in the continuing pendency of the Supreme Court review and action, and while that was still pending, I think the OPC took a certain stand against what we were trying to do. That just fed into taking a lot longer than we or really anyone anticipated to land, you know, with a decision. you know, our approach was to, you know, avoid as long as possible a general rate increase filing. With this decision now, you know, we made the decision to go forward, and that's what we're doing.

I guess we were surprised in some way that a relatively simple, straightforward application of traditional approaches got caught up in this vortex for the past year. We're accepting it, and we're moving on, and we'll be filing here very shortly.

**Chris Ellinghaus, Analyst, C-:** There seemed to be some sympathy at the Supreme Court when they did the oral argument. What happens from now if it, you know, some constructive order comes out of the Supreme Court?

**Jim Moriarty, Executive Vice President, General Counsel, Corporate Secretary, and Chief Policy and Risk Officer, Chesapeake Utilities Corporation:**

I think ultimately, that's helpful for us. You know, it really will address an issue that we're no longer going to deal with, and that is the validity of the RSAM. I think in supporting that approach, I think it helps all of us in Florida that are, you know, filing rate cases. Did I lose you, Chris?

**Operator:** We'll take our next question from Mike Brown with Barclays. Hi, Mike.

**Jeff Householder, Chair of the Board, President, and Chief Executive Officer, Chesapeake Utilities Corporation:** I just have, are you planning on giving guidance this year for full year 2026?

**Beth Cooper, Executive Vice President, Chief Financial Officer, Treasurer, and Assistant Corporate Secretary, Chesapeake Utilities Corporation:**

Again, what we are doing is basically reaffirming our 2028 guidance at this time. We don't historically, other than the year post Florida City Gas, we gave guidance on an annual basis in 2024 coming out of the acquisition, because we knew that year, with the transaction, just occurring at the end of the year, you know, we knew we could be accretive, but it was much less than what our historical run rate had been, so we provided annual guidance. We have our long-term track record going back to 2018 when we initiated guidances, we follow a long-term view of the CAGR that we can achieve over a period of time.

The short answer, after I gave you the long-winded answer, Mike, is that we will not be, at this time, giving annual guidance, for 2026.

**Unknown Analyst, Analyst:** Thank you. 1 more question.

**Beth Cooper, Executive Vice President, Chief Financial Officer, Treasurer, and Assistant Corporate Secretary, Chesapeake Utilities Corporation:**

Thank you. Oh, sure!

**Unknown Analyst, Analyst:** Can you provide an update on the Florida pipeline project that starts in the Indiantown Gas Hub, and kind of where that stands at this point, and when it will make it into the plan?

**Beth Cooper, Executive Vice President, Chief Financial Officer, Treasurer, and Assistant Corporate Secretary, Chesapeake Utilities Corporation:** We are Jeff, do you want to start this one off?

**Jeff Householder, Chair of the Board, President, and Chief Executive Officer, Chesapeake Utilities Corporation:** No, no, go, Beth. Go. Sorry.

**Beth Cooper, Executive Vice President, Chief Financial Officer, Treasurer, and Assistant Corporate Secretary, Chesapeake Utilities Corporation:** No, I'm going to defer to you, Jeff, and let you kick this one off.

**Jeff Householder, Chair of the Board, President, and Chief Executive Officer, Chesapeake Utilities Corporation:** Okay. All right. Fairly simple

explanation. We are continuing the engineering design on that project and in fact, I'm looking across the hall at the group of engineering folks that are working on that project as we speak. I think we're in pretty good shape to get an engineering design cost estimate here over the next 30-60 days on at least the first significant segments of that to get down toward our distribution system in Miami. I believe that we will be on time with our estimated project start date, which I will probably hold back a little bit on describing when that is, certainly sometime this year.

It looks like we will, you know, be able to, you know, find the pipe and get the right of ways that we need to identify completed. I'm pretty comfortable that we're on the right track with that project at this point.

**Unknown Analyst, Analyst:** Okay. Thank you, Jeff, and thank you, Beth.

**Jeff Householder, Chair of the Board, President, and Chief Executive Officer, Chesapeake Utilities Corporation:** Sure.

**Beth Cooper, Executive Vice President, Chief Financial Officer, Treasurer, and Assistant Corporate Secretary, Chesapeake Utilities Corporation:** Thank you.

**Operator:** We'll take our next question from Paul Fremont with Ladenburg. Your line is open.

**Paul Fremont, Analyst, Ladenburg:** Thank you very much. Hopefully you have less snow down there than we have up here, Beth.

**Beth Cooper, Executive Vice President, Chief Financial Officer, Treasurer, and Assistant Corporate Secretary, Chesapeake Utilities Corporation:** Good morning.

**Paul Fremont, Analyst, Ladenburg:** I guess for... Good morning. For my first question, I'd like to maybe draw your attention to page 43 PDF of your 10-K. I think you're basically saying that the adjusted gross margin from Full Circle Dairy and Noble was \$10.9 million in 2025, and you're projecting 2026 to be \$28.5 million and 2027 to be \$29.7 million. I guess, can you walk us through the delta between 2025 and 2026?

**Beth Cooper, Executive Vice President, Chief Financial Officer, Treasurer, and Assistant Corporate Secretary, Chesapeake Utilities Corporation:** Paul, the line that you're looking at is actually a compilation of Marlin, Full Circle Dairy, and our Noble RNG project that is in Ohio. It is not just Full Circle Dairy. Some of the growth, a big part of the growth that, you know, year-over-year we've been experiencing, particularly if you look in the major project table, is actually coming more from Marlin. Because as you can imagine, with the facilities being in place for both Full Circle Dairy and our Ohio operations, you know, there's not a steady. They've both been in operation now for a year.

The opportunities for Full Circle Dairy for us, and, you know, certainly we're going to have a follow-up with you and our other analysts, would be around, you know, the production tax credit side. I know you've been talking to me about that. I think we've talked previously on the phone before around the investment tax credit, that that will be something for us that gets amortized over the life of the project. It is not a one and done. The big part of the growth that you're seeing in any margin there, is really going to be related to what Marlin is doing and less about those two facilities that are operating as planned.

**Paul Fremont, Analyst, Ladenburg:** If I look at that uplift, I mean, wouldn't that essentially offset the absence of RSAM for 2026 based on?

**Beth Cooper, Executive Vice President, Chief Financial Officer, Treasurer, and Assistant Corporate Secretary, Chesapeake Utilities Corporation:** That would be great. That would be great if we stopped there at the margin line. As you know, there's operating expenses that are associated with that growth. You know, with Marlin and it continuing to serve increasing amounts of, you know, and increasing projects, there's certainly costs associated with the labor side and other incremental expenses that are variable. You can't just, unfortunately, look at that line. I like to look at that line, too, but then I have to remind myself that there's variable costs. You know, a significant chunk of that would be offset in payroll-related costs. We have to buy additional equipment to support that demand that's associated with depreciation and certainly property, you know, taxes associated with that. That all gets factored into it.

We can certainly walk through some of that as we get together, but that would need to be factored into your calculations.

**Paul Fremont, Analyst, Ladenburg:** Can you just quantify specifically the amount of PTC benefit that you're expecting to book in 2026?

**Beth Cooper, Executive Vice President, Chief Financial Officer, Treasurer, and Assistant Corporate Secretary, Chesapeake Utilities Corporation:** We have some preliminary estimates on that. We are continuing to refine those, and I would certainly love for us to set up some time and walk through that. We're not quite there. We're still noodling with that a little bit, but we can certainly walk through where we are and our assumptions behind that.

**Paul Fremont, Analyst, Ladenburg:** Great. Can you also maybe, I guess this would be more Jim, can you walk us through how interim rates are set in Florida and what we should expect in terms of when interim rates come into play in July?

**Jeff Householder, Chair of the Board, President, and Chief Executive Officer, Chesapeake Utilities Corporation:** Do you want me to start that, Jim, or do you, Jeff? I don't know. Well, I can take a pass at that. Yeah, Jim's having some trouble.

**Operator:** Yeah, please go ahead. Thank you. Yeah.

**Jeff Householder, Chair of the Board, President, and Chief Executive Officer, Chesapeake Utilities Corporation:** Okay. The interim rate filing in Florida, typically, comes about 60 days after the actual filing date. We're looking for those, as you well know, sometime in probably July, early July. The traditional methodology for determining interim rates is to look at kind of existing rate base, could be some adjustments in there, look at the bottom end of the ROE range and to do a relatively straightforward calculation of any deficiency that exists there and to apply it to calculating the interim rates. We're assuming that we would see interim rates in effect for the last half of this year, or until certainly the permanent rates actually go into effect. We'll see what the timing looks like on that.

I don't think at this point we're quite ready to describe what we believe that interim rate calculation will result in. There are some things that we are and will, I'm sure, debate with the Florida Public Service Commission as we file for interim rate. One of those, as you may recall, is that the current return on equity for Florida City Gas is about 100 basis points lower than what we would traditionally see at other gas utilities in Florida. That was set because of the RSAM, and so the rate-making deal that was established by NextEra Energy before we acquired the company reduced ROEs from the more traditional levels, down about 100 basis points. We'll argue that that's no longer applicable, and there are a couple of other things that we'll roll around in there.

What I will tell you, though, Paul, is that I think the path you were down a second ago is one that I continue to go down. Between the weather impacts, between the other associated opportunities that we have within the company and the interim rates, I believe that we will not see significant impacts resulting from missing out on the depreciation study result that we had anticipated for this year. In fact, as you may know, what would be traditionally done by the Florida Public Service Commission is if that depreciation study result had occurred the way we had filed it in 2026, that would have been a reduction, most likely, to the interim rates.

I think there is a, you know, it's disappointing that we didn't get that depreciation result, but in the great scheme of things, I think we'll be able to overcome that with the several things that are going right for us this year.

**Paul Fremont, Analyst, Ladenburg:** Great. Last question for me. It looks as if there are three sort of additional RNG projects that maybe came online in 2025. Can you describe if? Are those dairy or otherwise in terms of their nature?

**Jeff Householder, Chair of the Board, President, and Chief Executive Officer, Chesapeake Utilities Corporation:** Okay. Go ahead, Beth. Sorry. No, go ahead, Joe. Those are essentially RNG transport projects from landfills, and

**Paul Fremont, Analyst, Ladenburg:** that's just the pipeline?

**Jeff Householder, Chair of the Board, President, and Chief Executive Officer, Chesapeake Utilities Corporation:** Yes, that's the pipeline or the Marlin service that begins before the pipeline shows up, that's what you're seeing there. We don't have the production facility investment.

**Paul Fremont, Analyst, Ladenburg:** Great. Thank you very much.

**Jeff Householder, Chair of the Board, President, and Chief Executive Officer, Chesapeake Utilities Corporation:** Thank you. Thank you, Paul.

**Operator:** We'll take our next question from Alex Kania with BTIG. Your line is open.

**Alex Kania, Analyst, BTIG:** Great. Thanks. Good morning.

**Jeff Householder, Chair of the Board, President, and Chief Executive Officer, Chesapeake Utilities Corporation:** Morning.

**Alex Kania, Analyst, BTIG:** Morning. Just thoughts on, just the overall customer growth. I mean, you know, again, just Delmarva continues to be, you know, really strong. I'm just kind of wondering if you see that as kind of sustainable or kind of any reason why that, you know, that number can't continue in the near future?

**Jeff Householder, Chair of the Board, President, and Chief Executive Officer, Chesapeake Utilities Corporation:** Sure. Being based here on the Delmarva Peninsula, I can tell you, in talking with our team, you know, we continue to actually see strong growth in Delaware. It is not slowing down. In fact, you've heard, in fact, Alex, on a couple of calls ago, Jeff, actually, we talked about a small town by the name of Ellendale, which for someone who's from Delaware, again, it would not have been an area that I would have thought would be close to the resort areas, but it's about a half hour to 45 minutes in. That is one of the new areas that we have begun to provide natural gas distribution service to. It continues.

There is a lot of planned, also, infrastructure growth, particularly in the southern county of Delaware, that is being anticipated, given, you know, it's a growing population. There's a lot of retirement activity that's happening in

terms of new developments. The infrastructure that's coming along, like medical facilities, other types of things to support that growth, are also continuing to stay at pretty high levels. We continue to be excited, and what I would add to that, which is, again, even, you know, more exciting when you layer this on top, right, is as that growth continues.

**Beth Cooper, Executive Vice President, Chief Financial Officer, Treasurer, and Assistant Corporate Secretary, Chesapeake Utilities Corporation:** It also supports, the need for additional pipeline capacity to bring more gas into the southern part of the Delmarva Peninsula. you know, we've got projects. Jeff just talked about it, the newest one today. I think you're going to see, Alex, continued upstream pipeline demands that necessitate increased expansion there. all continues. Nothing has changed from in terms of our view at this time.

**Alex Kania, Analyst, BTIG:** Great, thanks. Then, just maybe a follow-up on your comments a little bit earlier, just on a little opportunity on the financing of the FCG acquisition debt.

**Beth Cooper, Executive Vice President, Chief Financial Officer, Treasurer, and Assistant Corporate Secretary, Chesapeake Utilities Corporation:** Yes.

**Alex Kania, Analyst, BTIG:** Just talk a little bit about kind of what that, kind of what that opportunity might be in terms of a kind of a help on, you know, interest expense and, you know, if you see some additional ongoing opportunities down that, down that path, in the next couple of years?

**Beth Cooper, Executive Vice President, Chief Financial Officer, Treasurer, and Assistant Corporate Secretary, Chesapeake Utilities Corporation:** Absolutely. Great question. an area that, you know, I absolutely love, so you're spot on this morning. yes, I mean, when we did the Florida City Gas, you know, financing, we unfortunately, you know, had to place debt that had a 6 handle to it, a 6-plus, you know, handle to it. We have steady retirements that are going to happen over the next several years, so there's going to be a robust refinancing plan that has to take place.

You're going to see us, Alex, take a similar approach to what we did last year, which means we'll be looking at blending a portfolio of different tenors to accomplish a rate that's much more in line, you know, with what we would be expecting and based upon our history in terms of our long-term debt portfolio. I, you know, I don't think it's unreasonable to think that, you know, the opportunity exists for us to shave anywhere from 50 to 100 basis points off of the coupon rate, as long as things stay where they are, and so, you know, that's what you should expect to see from us this year.

**Alex Kania, Analyst, BTIG:** Great. Thank you.

**Beth Cooper, Executive Vice President, Chief Financial Officer, Treasurer, and Assistant Corporate Secretary, Chesapeake Utilities Corporation:** Thank you.

**Operator:** That does conclude the Q&A portion of today's call. I would now like to hand it back to Jeff Householder for any closing remarks.

**Jeff Householder, Chair of the Board, President, and Chief Executive Officer, Chesapeake Utilities Corporation:** Thank you. Thank all of you for joining us this morning. You know, we'll continue to provide significant information on our capital deployment, our project status, and our margin production throughout the year. You know, we look forward to continuing our long track record of strong growth and top-quartile financial success. We'll look forward to seeing many of you at the AGA Financial Forum out in Scottsdale here in the next couple of months. Thanks again. We'll talk to you soon. Goodbye.

**Operator:** Thank you. This concludes Chesapeake Utilities Corporation's fourth quarter and full year quarter 2025 earnings conference call. Please disconnect your line at this time, and have a wonderful day.

Thursday, February 26, 2026

# Q4 & Full-Year 2025

## Earnings Call Presentation



# Safe Harbor for Forward-Looking Statements

## Safe Harbor Statement

Some of the statements in this presentation are "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995 and other applicable law. Such forward-looking statements may be identified by the use of words, such as "project," "believe," "expect," "anticipate," "intend," "plan," "estimate," "continue," "potential," "forecast" or other similar words, or future or conditional verbs such as "may," "will," "should," "would" or "could." These statements represent our intentions, plans, expectations, assumptions and beliefs about our future financial performance, business strategy, projected plans and objectives. These statements are subject to many risks and uncertainties and actual results may materially differ from those expressed in these forward-looking statements. Please refer to Chesapeake Utilities' Annual Report on Form 10-K for the year ended December 31, 2025 and subsequent quarterly reports on Form 10-Q filed with the SEC and other SEC filings concerning factors that could cause those results to be different than contemplated in this presentation.

## Non-GAAP Financial Information

This presentation includes non-GAAP financial measures including Adjusted Gross Margin, Adjusted Net Income and Adjusted Earnings Per Share ("EPS\*"). A "non-GAAP financial measure" is generally defined as a numerical measure of a company's historical or future performance that includes or excludes amounts, or that is subject to adjustments, so as to be different from the most directly comparable measure calculated or presented in accordance with GAAP. Our management believes certain non-GAAP financial measures, when considered together with GAAP financial measures, provide information that is useful to investors in understanding period-over-period operating results separate and apart from items that may, or could, have a disproportionately positive or negative impact on results in any particular period.

The Company calculates Adjusted Gross Margin by deducting the purchased cost of natural gas, propane and electricity and the cost of labor spent on direct revenue-producing activities from operating revenues. The costs included in Adjusted Gross Margin exclude depreciation and amortization and certain costs presented in operations and maintenance expenses in accordance with regulatory requirements. The Company calculates Adjusted Net Income and Adjusted EPS by deducting costs and expenses associated with significant acquisitions that may affect the comparison of period-over-period results. These non-GAAP financial measures are not in accordance with, or an alternative to, GAAP and should be considered in addition to, and not as a substitute for, the comparable GAAP measures. The Company believes that these non-GAAP measures are useful and meaningful to investors as a basis for making investment decisions and provide investors with information that demonstrates the profitability achieved by the Company under allowed rates for regulated energy operations and under the Company's competitive pricing structures for unregulated energy operations. The Company's management uses these non-GAAP financial measures in assessing a business unit and Company performance. Other companies may calculate these non-GAAP financial measures in a different manner.

See Appendix for a reconciliation of Gross Margin, Net Income and EPS, all as defined under GAAP, to our non-GAAP measures of Adjusted Gross Margin, Adjusted Net Income, and Adjusted EPS for each of the periods presented.

\*Unless otherwise noted, EPS and Adjusted EPS information is presented on a diluted basis.

# Q4 2025 Safety Moment: Women's Heart Health



## Cardiovascular disease is the #1 killer of women

- Nearly 45% of women aged 20+ are living with some form of cardiovascular disease
- <50% of women in the U.S. entering pregnancy have optimal cardiovascular health
- Women face unique risks for high blood pressure, a leading cause of heart disease and stroke

**Never too late to improve heart health for you and your loved ones!**



CPK Teammates Supporting "Go Red for Women" Events



# Today's Presenters



**JEFF  
HOUSEHOLDER**

Chair of the Board,  
President &  
Chief Executive Officer



**BETH  
COOPER**

Executive Vice President,  
Chief Financial Officer, Treasurer  
& Asst. Corporate Secretary



**JIM  
MORIARTY**

Executive Vice President,  
General Counsel,  
Corporate Secretary &  
Chief Policy and Risk Officer



**LUCIA  
DEMPSEY**

Head of  
Investor Relations



# Delivering With Purpose, Reaching New Heights

**12%**

**ADJ. EPS<sup>1</sup>  
GROWTH vs. FY '24**

**\$470M**

**2025 FY CAPITAL  
EXPENDITURES**

**3.1%**

**GAS CUSTOMER  
GROWTH vs. FY '24**

**\$19M**

**TRANSMISSION  
ADJ. GROSS MARGIN<sup>1</sup>**

**\$14M**

**INFRASTRUCTURE  
ADJ. GROSS MARGIN<sup>1</sup>**

**\$13M**

**RATE CASE  
ADJ. GROSS MARGIN<sup>1</sup>**

**16%**

**ADJ. NET INCOME<sup>1</sup>  
GROWTH vs. FY'24**

**50%**

**EQUITY TO TOTAL  
CAPITALIZATION**

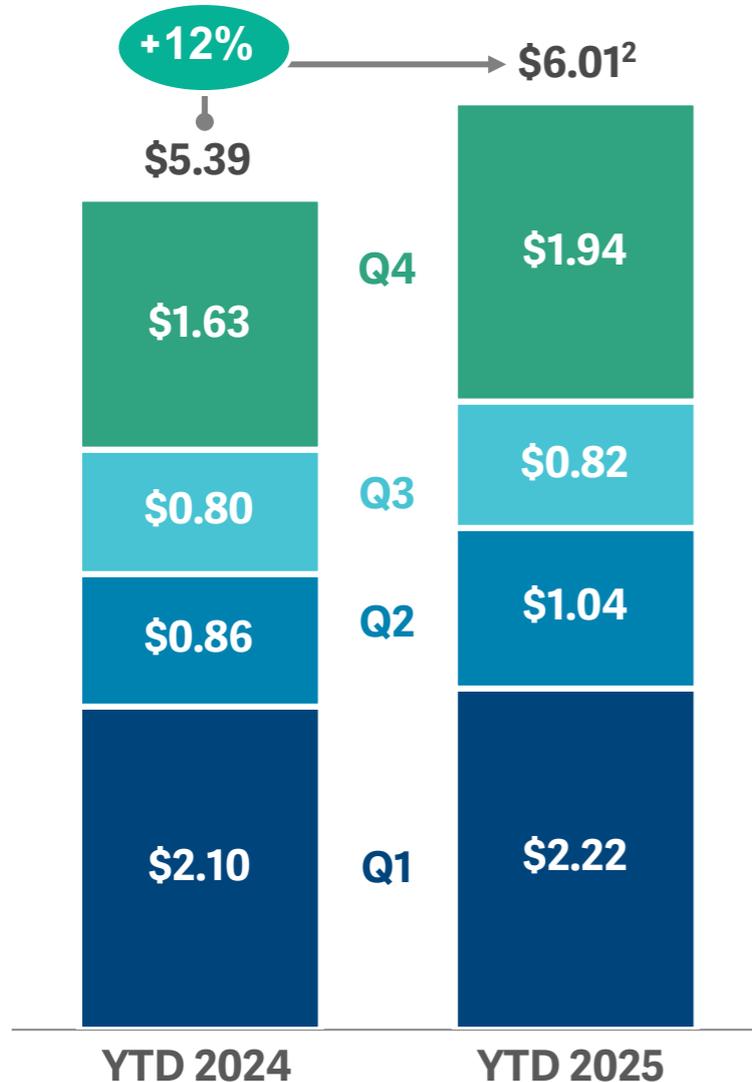
**78%**

**TOTAL LIQUIDITY  
AVAILABLE**

<sup>1</sup> See appendix for a reconciliation of non-GAAP metrics.

# Record Earnings for Full-Year 2025

## FY Adjusted Diluted EPS<sup>1</sup>



## Full-Year 2025 Financial Highlights vs. FY 2024

- Adjusted Gross Margin<sup>1</sup>: **\$638.5M**, up 13%
- Adjusted Net Income<sup>1</sup>: **\$141.1M**, up 16%
- Adjusted EPS<sup>1</sup>: **\$6.01**, up 12%

## Q4 2025 Financial Highlights vs. Q4 2024

- Adjusted Gross Margin<sup>1</sup>: **\$176.1M**, up 14%
- Adjusted Net Income<sup>1</sup>: **\$46.2M**, up 24%
- Adjusted EPS<sup>1</sup>: **\$1.94**, up 19%

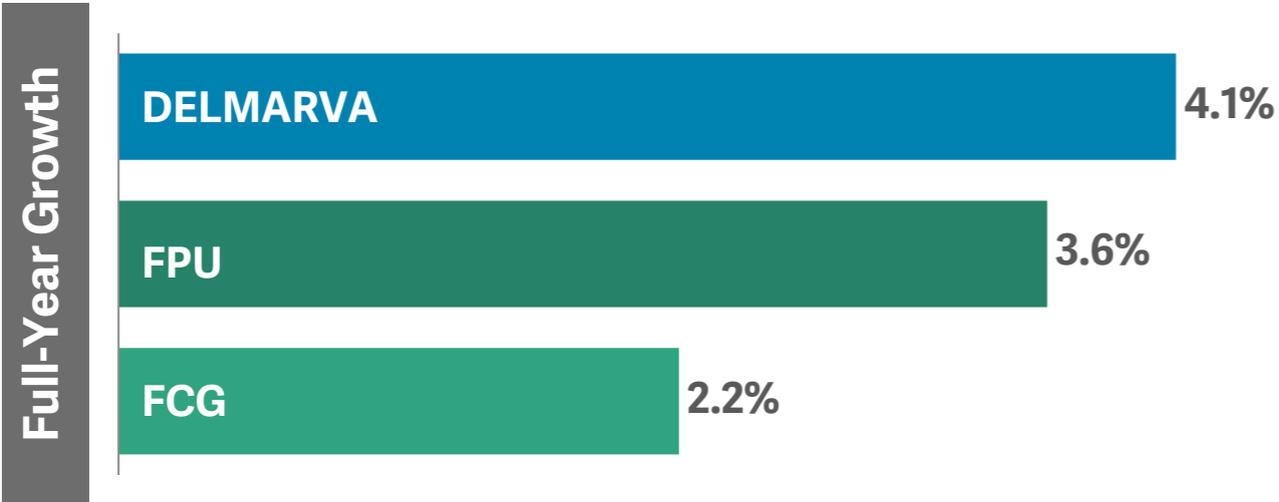
<sup>1</sup> See appendix for a reconciliation of non-GAAP metrics.

<sup>2</sup> May not equal the sum of quarterly Adj. EPS due to differences between quarter-end and year-to-date weighted average share count.



# Above-Average Customer Growth

## Average Residential Customer Growth: 2025 vs 2024



## Significant Adj. Gross Margin Growth

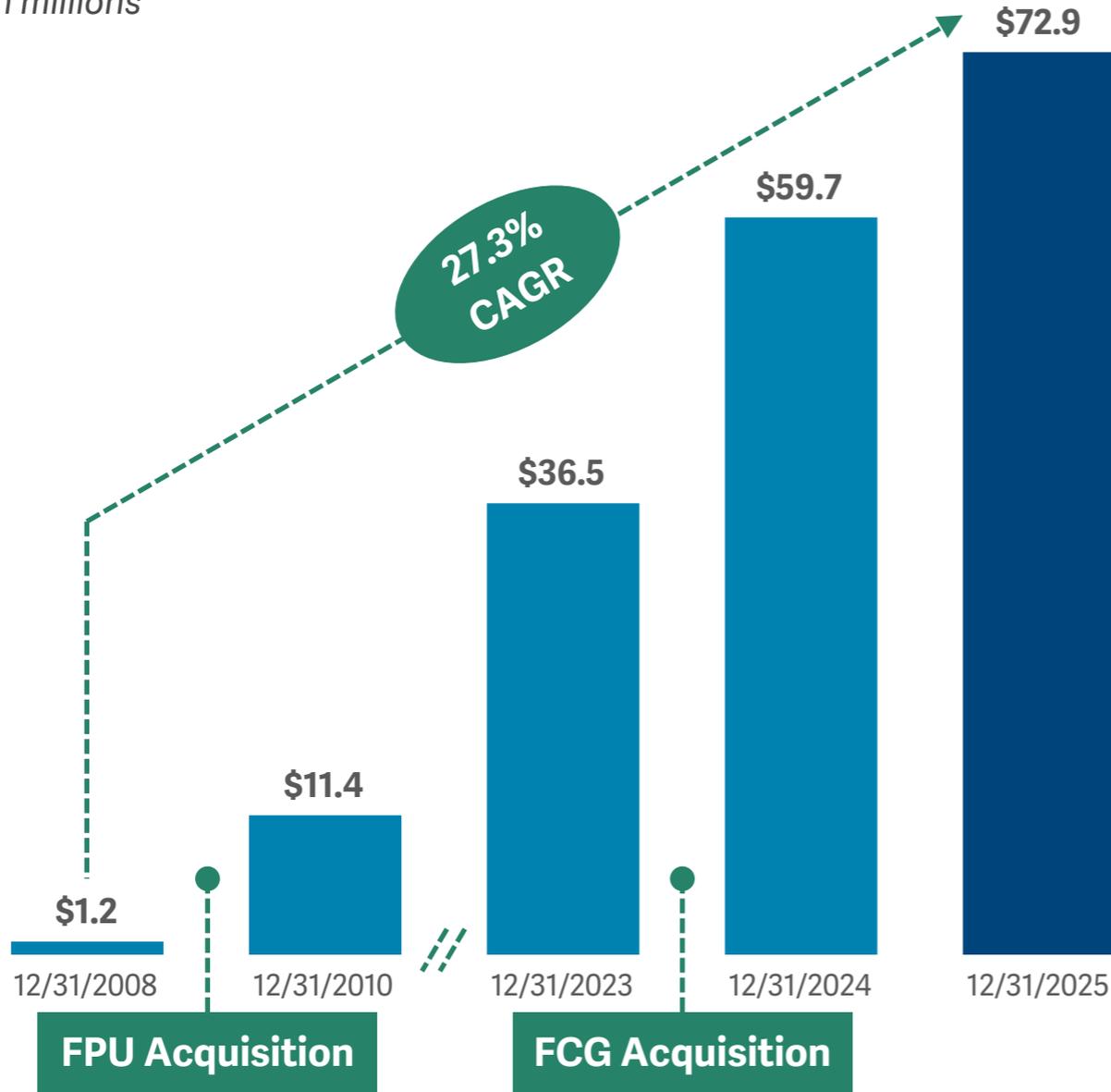
\$4.6M	Incremental Adj. Gross Margin from Residential Customer Growth
\$2.8M	Incremental Adj. Gross Margin from C&I Customer Growth
<b>\$7.4M</b>	<b>Adj. Gross Margin from Growth</b>
<b>\$2.4M</b>	<b>Incremental Gross Margin from Higher Customer Consumption</b>



# Building on A History of Growth

## Significant Net Income Growth in Florida

\$ in millions



## Key Post-FCG Accomplishments

*Substantial progress on goals identified upon acquiring FCG in Q4 2023*

- Capital Investments of ~**\$250M related to FCG** (50% of initial 5-Year \$500M goal)
- **\$12.1M of gross margin** generated in 2024 and 2025 from capital investments under the **SAFE Program**
- ~**\$40M Miami Inner Loop** infrastructure enhancement project
- **FCG Transition Services Agreement (TSA)** concluded on-schedule
- FCG Operations integrated with the **1CX SAP Customer Billing System** Upgrade
- Operations and customer service integrated under the "One Company" approach

# Executing on our Long-Term Growth Plan



Earnings growth to support increased shareholder value



Prudently  
deploy  
investment  
capital



Proactively  
manage  
regulatory  
agenda



Continually  
execute on  
business  
transformation

Foundation of operational excellence across the organization



# Transforming for Growth, Powered by People

## Key Deliverables for 2026

### CAPITAL DEPLOYMENT

- Invest \$450 - \$500 million of capital
- Bring current projects online
- Finalizing new projects under development

### REGULATORY AGENDA

- Successful outcome on FCG GRC
- Secure regulatory approval for other current & future growth projects

### BUSINESS TRANSFORMATION

- Exceed all milestones for ERP project
- Implement additional technology, process and structural enhancements

### FINANCING STRATEGY

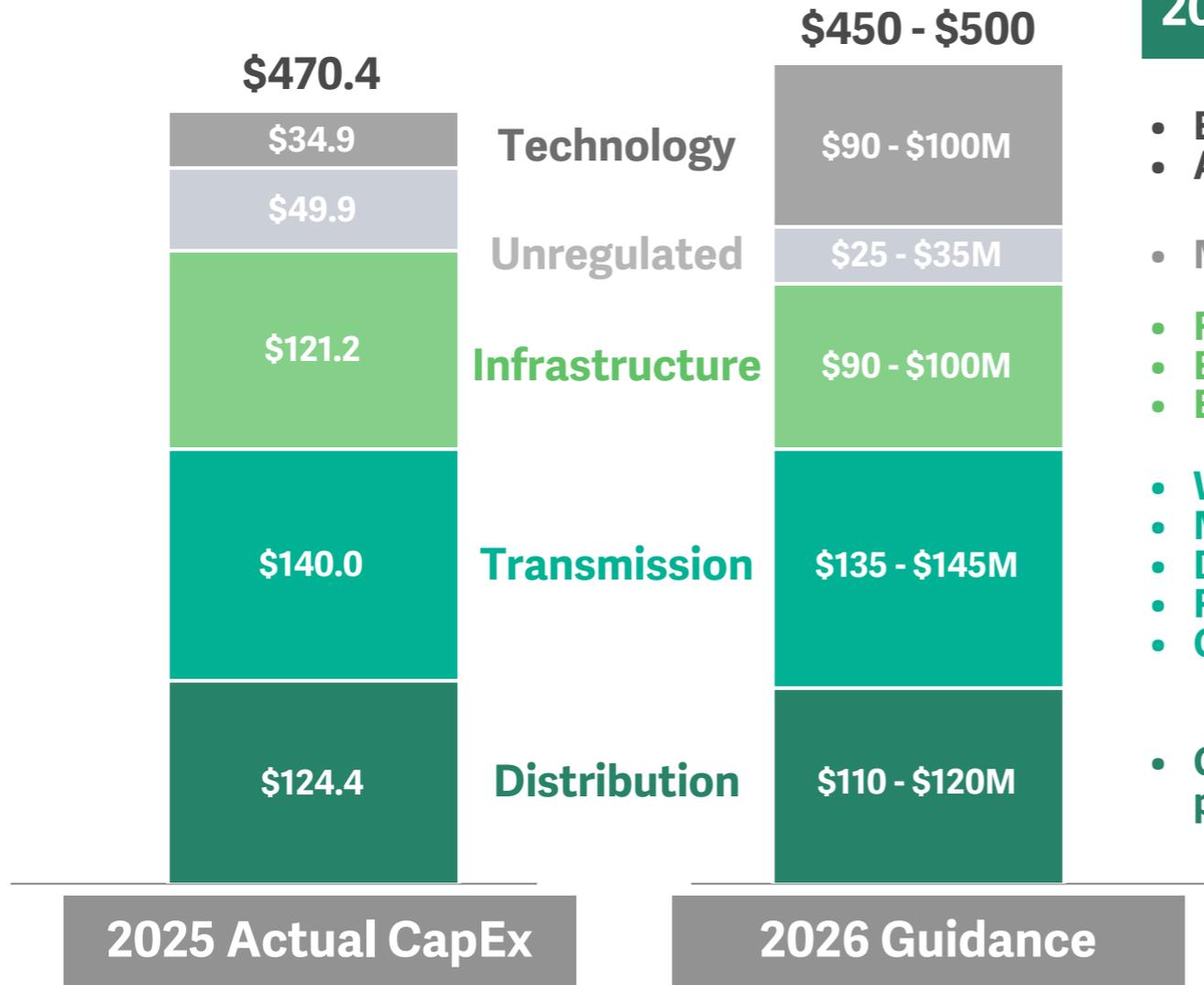
- Fund capital plan efficiently and effectively
- Maintain investment grade credit rating
- Drive continued earnings & dividend growth



# 2025 CapEx Exceeds Full-Year Guidance Range

## Initiating 2026 CapEx Guidance of \$450M - \$500M

\$ in millions

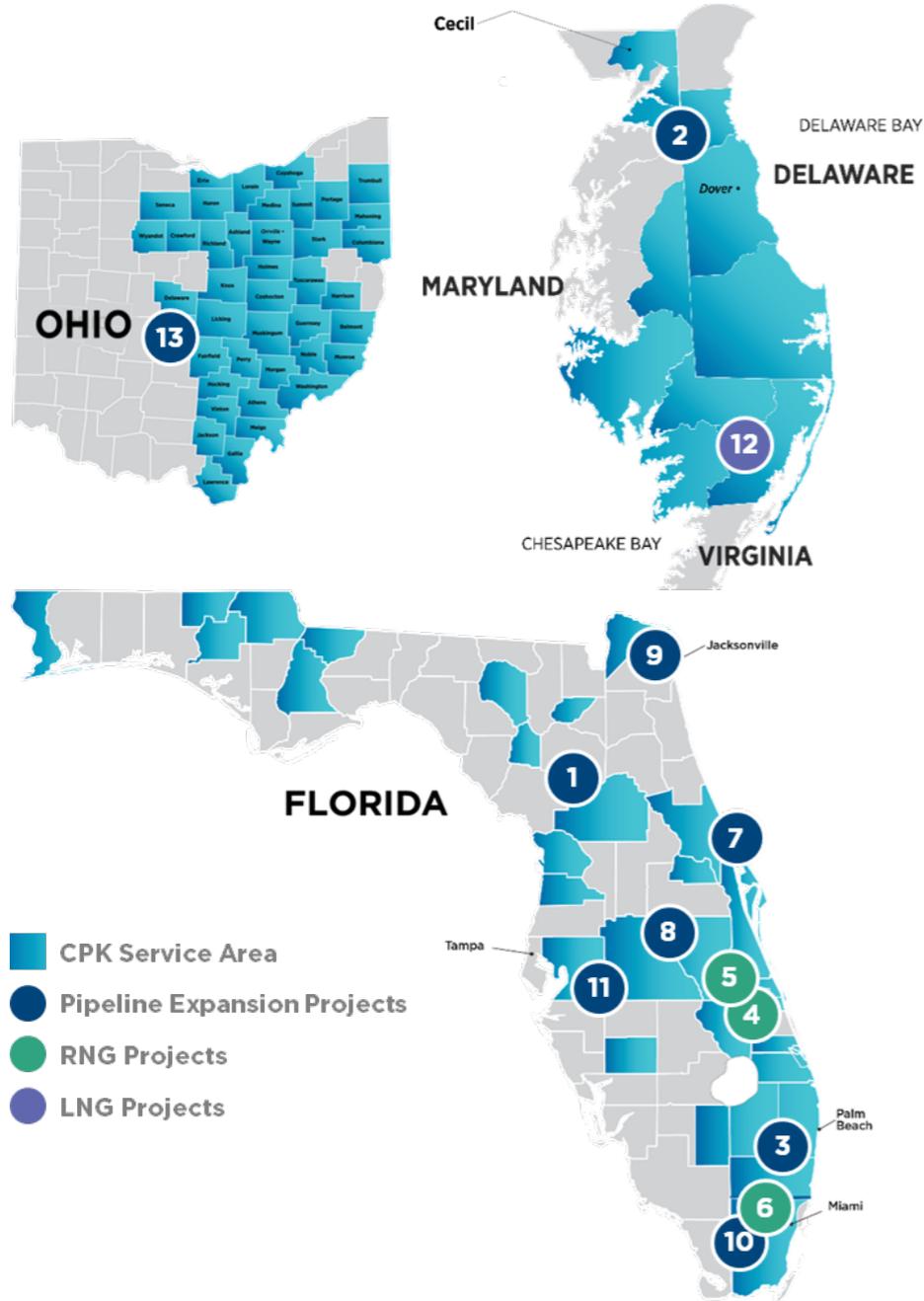


### 2026 Guidance Includes:

- Enterprise Resource Plan (ERP)
- Additional technology, cybersecurity investments
- Marlin Virtual Pipeline, Propane, Aspire Energy
- FPU's GUARD & FCG's SAFE Programs
- ESG Capital Cost Surcharge Program
- Electric Storm Protection Plan
- Worcester Resiliency Upgrade
- Miami Inner Loop
- Duncan Plains Data Center Pipeline
- RNG Transportation Projects
- Other Transmission Expansion Projects
- Ongoing distribution system expansion and reliability projects across our Delmarva & Florida service areas



# Transmission Projects Advance to Meet Demand



#	Project Name	Status <sup>1</sup>	In-Service	Total CapEx	Adj. Gross Margin (\$M)		
					2025A	2026E	2027E
1	Newberry Expansion	In-Service	Q2 2024	~\$15M	\$2.6	\$2.6	\$2.6
2	Warwick Extension	In-Service	Q4 2024	~\$9M	\$1.9	\$1.9	\$1.9
3	Boynton Beach	In-Service	Q1 2025	~\$21M	\$3.0	\$3.4	\$3.4
4	Indian River RNG	In-Service	Q1-Q2 2025	~\$18M	\$2.5	\$5.4	\$6.4
5	Brevard RNG	In-Service		~\$6M			
6	Medley RNG	In-Service		~\$22M			
7	New Smyrna Beach	In-Service	Q2 2025	~\$15M	\$1.6	\$2.6	\$2.6
8	St. Cloud Expansion	In-Service	Q2 2025	~\$20M	\$2.9	\$3.8	\$3.8
9	Wildlight Phase 1 & 2	In-Service	2023-2025	~\$25M	\$2.6	\$4.3	\$4.3
10	Miami Inner Loop	In-Service	2H 2025	~\$40M	\$2.8	\$7.6	\$7.6
11	Lake Mattie, Plant City	In-Service	Q3 2025	~\$18M	\$2.6	\$4.3	\$4.3
12	Worcester Resiliency Upgrade (WRU)	In-Progress	Q2 2026	~\$100M	\$0.3	\$10.6	\$17.1
13	AEX Duncan Plains	In-Progress	2027	~\$10M	—	—	\$1.5
<b>Totals:</b>				<b>\$319M</b>	<b>\$22.8</b>	<b>\$46.5</b>	<b>\$55.6</b>

<sup>1</sup> May reflect interim in-service status using Marlin Virtual Pipeline Services while construction is being completed.

# New ESNG Projects to Serve Growing Demand

## Delmarva Regional Enhancement (DRE)

**ESNG transmission expansion project to add firm capacity and improve system reliability in response to shipper demand identified through an open season**

- ~9 miles of 16-inch steel pipeline
- ~12 miles of 24-inch steel pipeline looping
- Estimated Capital Investment: ~\$75 million
- **Q4 2026:** File for FERC Approval
- **Q4 2027:** Begin Construction
- **Q4 2028:** In-Service



## Accomack County Exploration Project

- CPK awarded a bid to determine feasibility, design and engineering to develop a **potential new natural gas system** supported by a **\$6.5 million county grant**
- A future system could bring natural gas to **Virginia's Eastern Shore** to enhance energy reliability



# Strong Progress Toward 5-Year CapEx Guidance

~\$1.6 billion of identified capital projects support our 5-year CapEx guidance of \$1.5 - \$1.8 billion

Identified CapEx	5-Year Spend
Natural Gas LDC Organic Growth	\$625M
Worcester Resiliency Upgrade	\$100M
Additional Transmission Projects	\$227M
GUARD / SAFE Programs	\$230M
Eastern Shore Capital Surcharge	\$75M
Florida Electric Storm Protection Plan	\$50M
Unregulated Businesses	\$114M
Technology Transformation	\$130M
<b>Total Invested, Identified &amp; Ongoing Capital</b>	<b>\$1.6B</b>

**\$1.5B - \$1.8B**  
**2024 - 2028**



# Proactive Regulatory Strategy Continues

*margin in millions*

FILINGS	2025	2026	STATUS
<b>MD, DE, &amp; FL Electric Rate Cases</b>	<b>\$13.5</b>	<b>\$18.2</b>	<ul style="list-style-type: none"> <li>All three cases successfully completed in 2025</li> </ul>
<b>Florida City Gas (FCG) Depreciation Study</b>	--	--	<ul style="list-style-type: none"> <li><b>February 17, 2026:</b> Final Order approving \$6.8M of excess depreciation amortized over the life of the assets</li> <li>Results in reduced annual depreciation expense of ~\$500K per year, effective January 1, 2025</li> <li>2025 depreciation expense savings will be recorded in 2026 given the timing and magnitude of the final order</li> </ul>
<b>FCG Rate Case</b>	<b>TBD</b>	<b>TBD</b>	<ul style="list-style-type: none"> <li><b>February 18, 2026:</b> Filed an "Intent to File a Rate Increase Request" with the Florida PSC</li> <li>Intend to file General Rate Case in mid-April, with interim rates potentially effective by early July</li> </ul>



# Transforming for Growth...

*Building a Platform for Significant Scale*

## Transformation Themes



**CUSTOMER  
EXPERIENCE**



**OPERATIONAL  
EXCELLENCE**



**DIGITAL  
AGILITY**



**EMPLOYEE  
EXPERIENCE**



**FINANCIAL  
MODERNIZATION**

## 2026 Initiatives

### Multi-Year ERP Project

- Official **1CORE** project kick-off held in January 2026
- Named for "One Company" approach to **Centralize, Optimize, Reimagine & Energize**
- SAP S4Hana for Finance, Asset Management Supply Chain, & Human Resources
- System Go-Live targeted for Q2 2027
- Expected capital investment of **\$75 million in 2026**

**C**  **ORE**



**Modernizing interactions through automation and digital platforms**



**Enterprise Committees for risk management & governance**



**Project Insight unifying and improving data access and analytics**



**Human-centered talent development and change management**



# ... Powered by People

Everything we do is driven by dedicated teammates serving our customers & communities

## TEAMMATES

- **Development**  
succession planning and training opportunities to equip future leaders
- **25,000+**  
gratitude recognitions shared among managers and teammates in 2025



**Nov. 2025:** Teammates gather for a Corporate Cares event that fosters belonging and recognizes successes

## CUSTOMERS

- **~440,000+**  
natural gas, electric and propane customers
- **Affordability**  
prioritizing high-quality service while maintaining reasonable pricing



**Dec. 2025:** Energy Lane Safety Town hosts a training & education event for students in Dover, Delaware

## PARTNERS

- **Building relationships**  
with regulators, legislators, business partners and investors
- **Fostering support**  
for approvals, permitting, collaboration & financing



**Feb. 2025:** FPU celebrates the opening of the DeBary Safety Town with the Florida Fire Chiefs Association.

## COMMUNITIES

- **~\$902,500**  
of charitable donations & sponsorships in 2025
- **75% of teammates**  
donated time and resources to 400+ local organizations



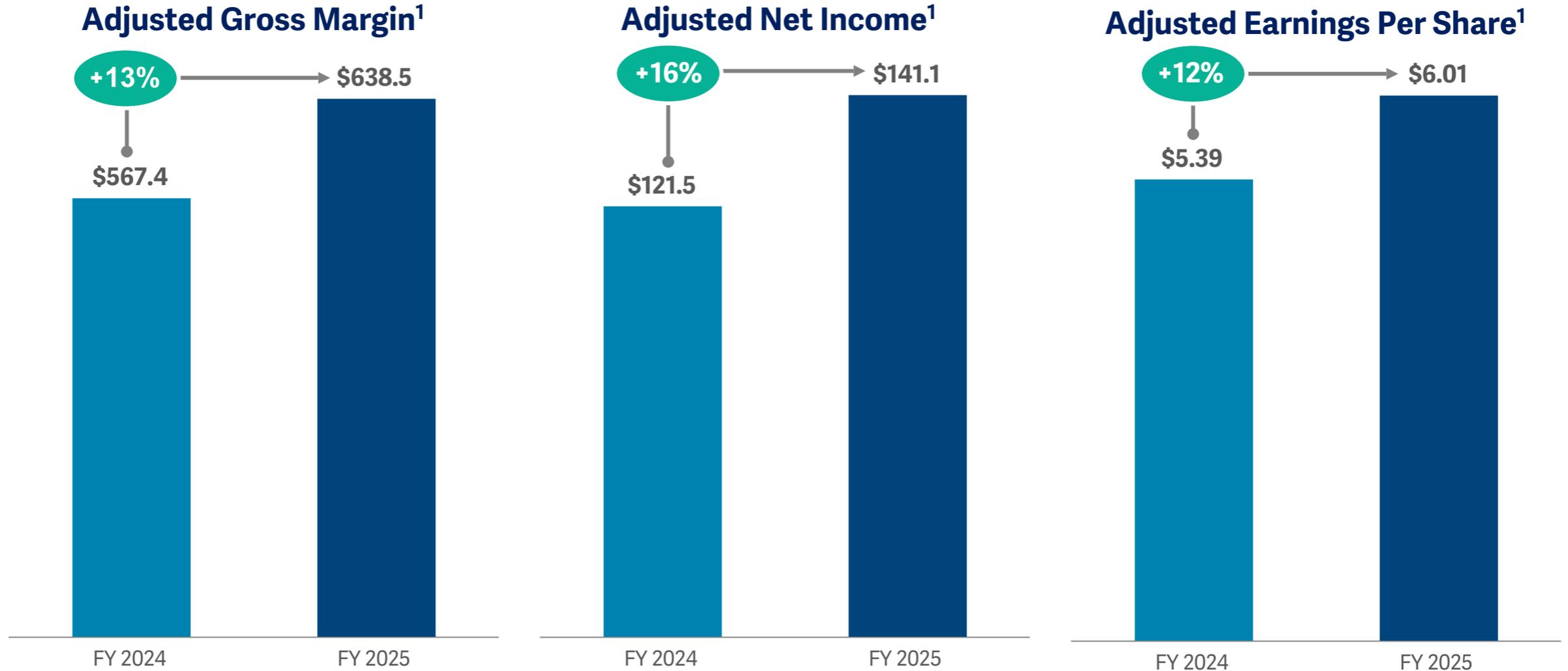
**Oct. 2025:** Teammates participate in the Habitat for Humanity "Framing Frenzy" Construction Volunteer Event



# Record Performance & Growth in 2025

Industry-leading growth in Adjusted Gross Margin, Adjusted Net Income & Adjusted Earnings Per Share<sup>1</sup>

\$ millions except per share amounts



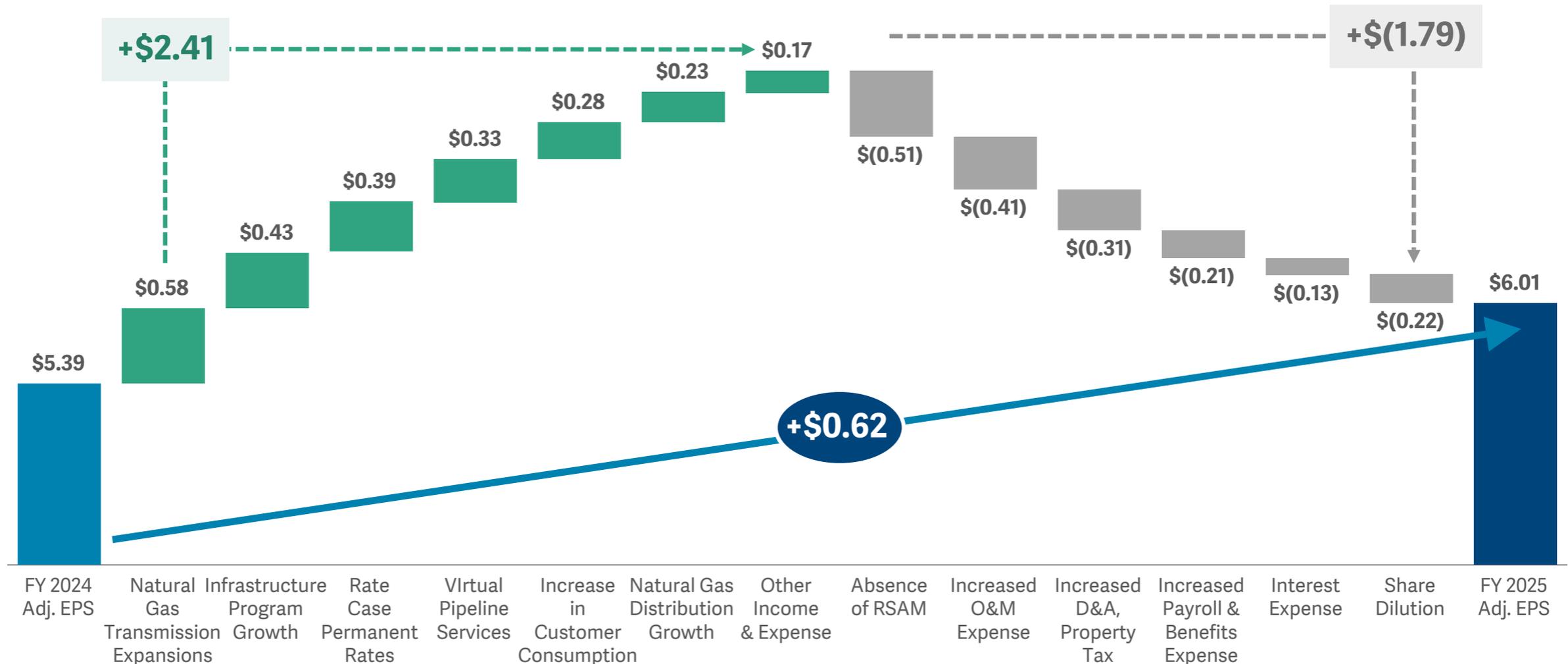
<sup>1</sup>See appendix for a reconciliation of non-GAAP metrics.



# Full-Year 2025 Key Performance Drivers

2025 Adjusted EPS growth was driven by incremental margin from natural gas transmission, distribution and infrastructure growth, approved rate cases and virtual pipeline transportation

## Adjusted Earnings Per Share<sup>1</sup>



<sup>1</sup> See appendix for a reconciliation of non-GAAP metrics.



# Strong Regulated Operations Margin Growth

Investments in transmission, distribution & infrastructure drive double-digit Regulated Operations growth



## Adjusted Gross Margin<sup>1</sup>



## Operating Income



Note: Dollars in millions.

<sup>1</sup>See appendix for a reconciliation of non-GAAP metrics.



# Unregulated Adj. Gross Margin Growth of 13%

Double-Digit Growth in Unregulated Adj. Gross Margin driven by Marlin, Propane & Aspire Energy

## Adjusted Gross Margin<sup>1</sup>



**\$16.4 million** of increased margin from:

- Continued growth in our Marlin Virtual Pipeline Services
- Increased propane customer consumption
- Increased Aspire Energy consumption

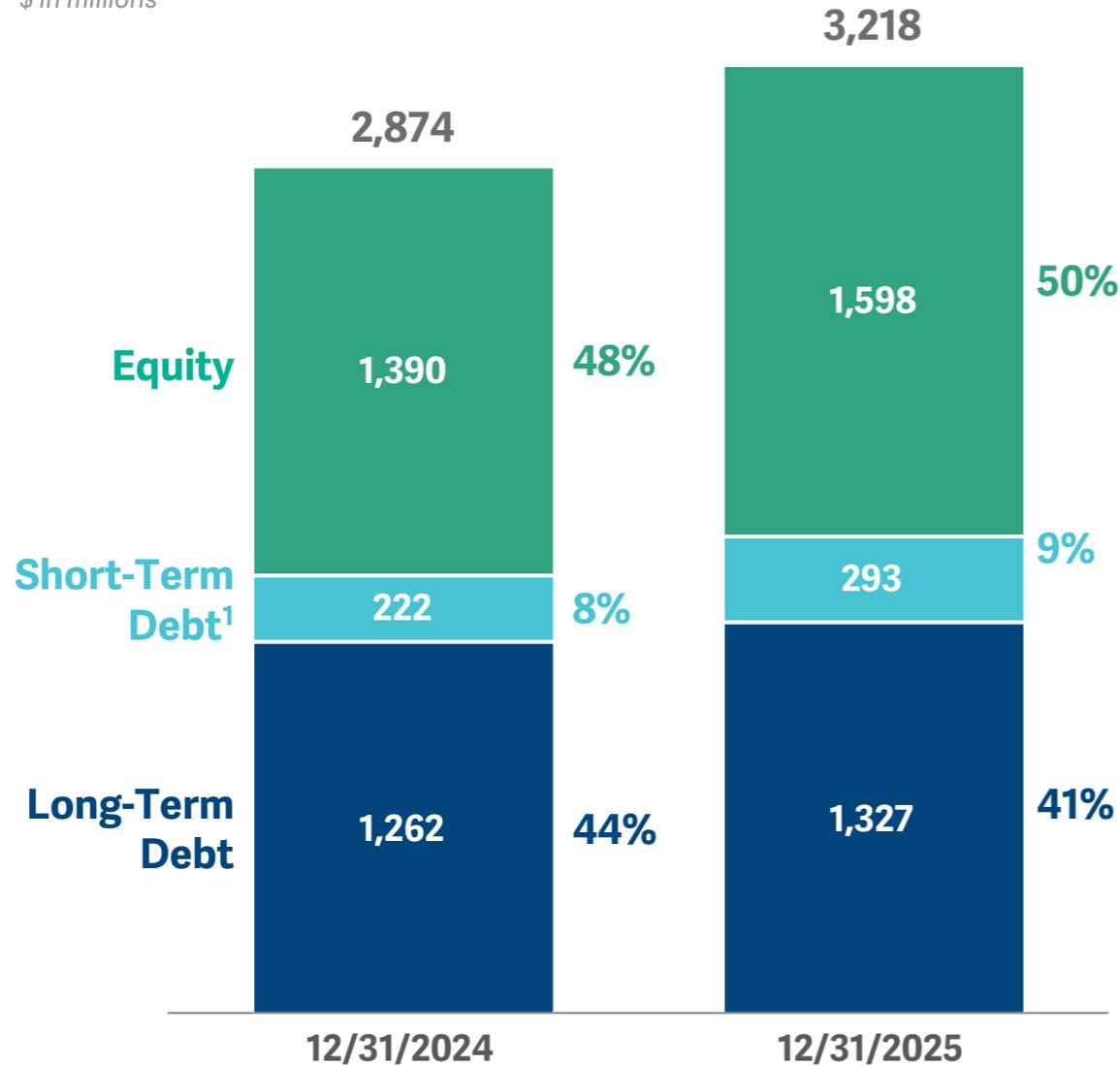
*Note: Dollars in millions. <sup>1</sup>See appendix for a reconciliation of non-GAAP metrics. <sup>2</sup>Operating results for the second and third quarters historically have been lower due to reduced customer demand during warmer periods of the year. The impact to operating income may not align with the seasonal variations in adjusted gross margin as many of the operating expenses are recognized ratably over the course of the year.*



# Executing on Our Financing Strategy

## Total Capitalization

\$ in millions



## Equity Issuances & Shares Outstanding

- **\$132.3M** equity issued in **FY 2025**
- **996,848** shares throughout the year
- **23,936,406** shares outstanding as of **2/23/2026**

## Debt & Liquidity Highlights

- **Feb. 2025:** Secured inaugural Fitch credit rating
  - BBB+ Long-Term Issuer Default Rating
  - A- Instrument Rating
- **June 2025:** Amended and extended long-term shelf agreement
- **Q3 2025:** \$200M of new long-term debt
- **78%** of total liquidity available as of **12/31/2025**
  - Out of total capacity of \$755 million<sup>2</sup>

<sup>1</sup> Short-term debt for both periods includes short-term borrowing as well as the current portion of long-term debt.

<sup>2</sup> Total liquidity includes the upsized \$450M Revolver and \$305M of Private Placement Shelf Agreements.



# Dividend Policy Drives Increased Shareholder Value

Growth Plan drives  
**Earnings Growth**  
~8.5% 10-Year CAGR  
45-50% Target Payout Ratio

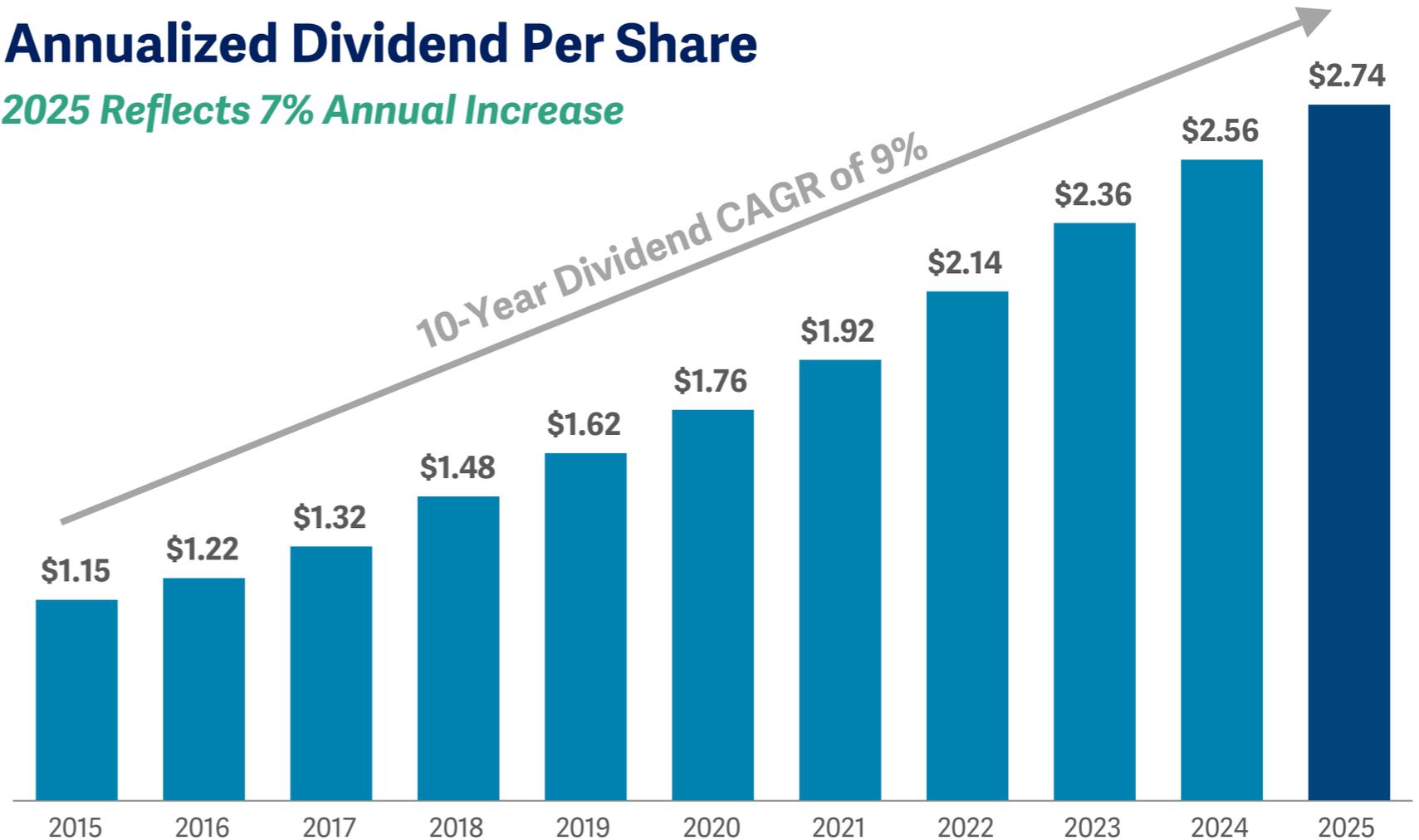
**Dividend Growth**  
aligned with EPS Growth

**Retained Earnings**  
*enables CPK to reinvest  
to support growth plan*

**Industry-Leading  
Annual Shareholder Return**  
~12%+ 10-Year CAGR<sup>1</sup>

## Annualized Dividend Per Share

*2025 Reflects 7% Annual Increase*



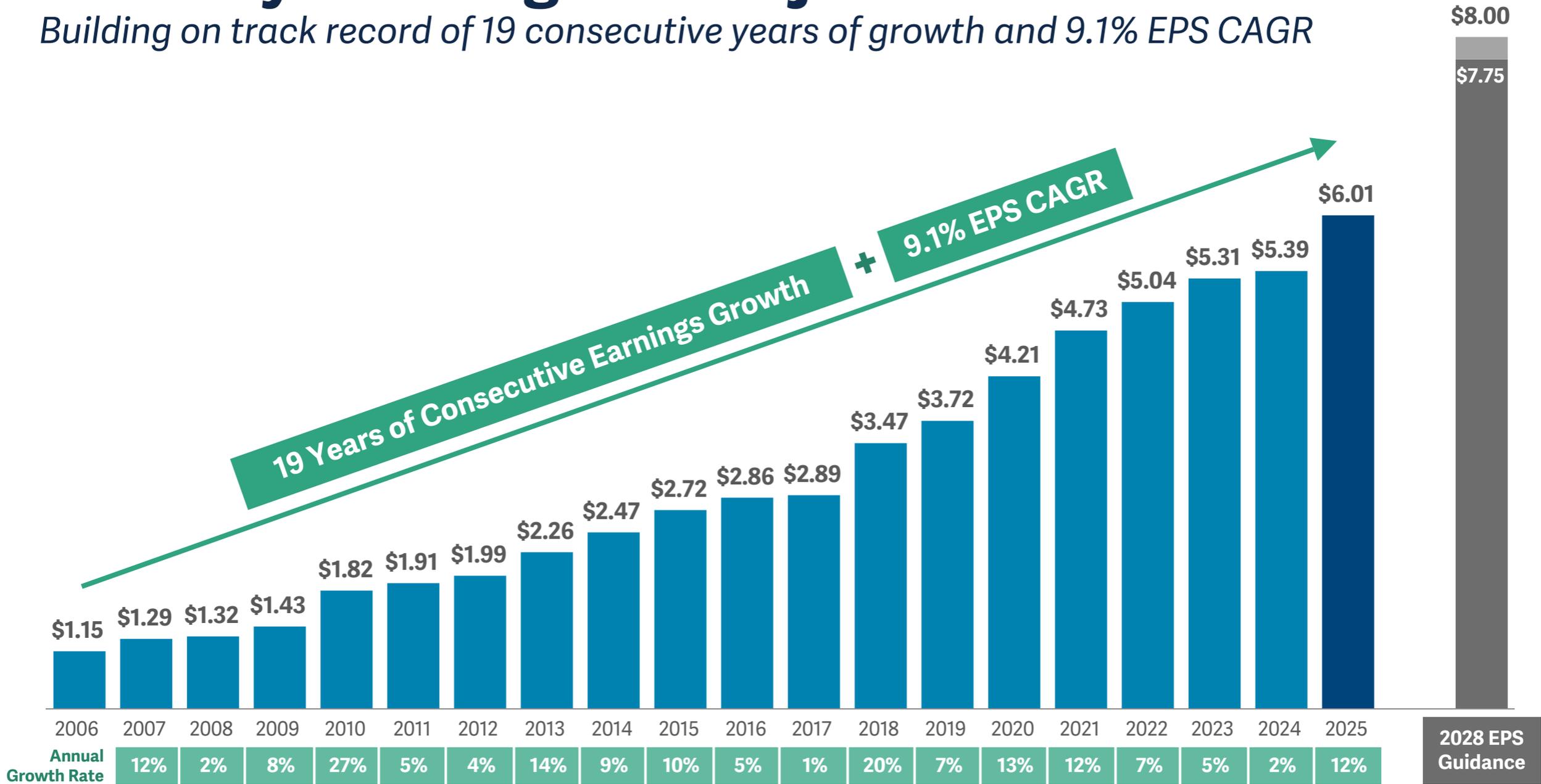
**Dividend Increases in 30 of the last 32 Years – Since 1994**  
**65 Consecutive Years of Dividend Payments – Since 1961**  
**22 Consecutive Years of Dividend Increases – Since 2004**

<sup>1</sup>Calculated through 12/31/2024.



# Industry-Leading 12% Adjusted EPS Growth

Building on track record of 19 consecutive years of growth and 9.1% EPS CAGR



<sup>1</sup> See appendix for a reconciliation of non-GAAP metrics.



# Transforming for Growth in 2026



Delivering on Our Promises



Focusing on the Three Pillars of Growth



Maintaining Our Financial Discipline



Powered By All Stakeholders

**Top-Quartile  
Growth  
& Total  
Shareholder  
Return**



# APPENDIX

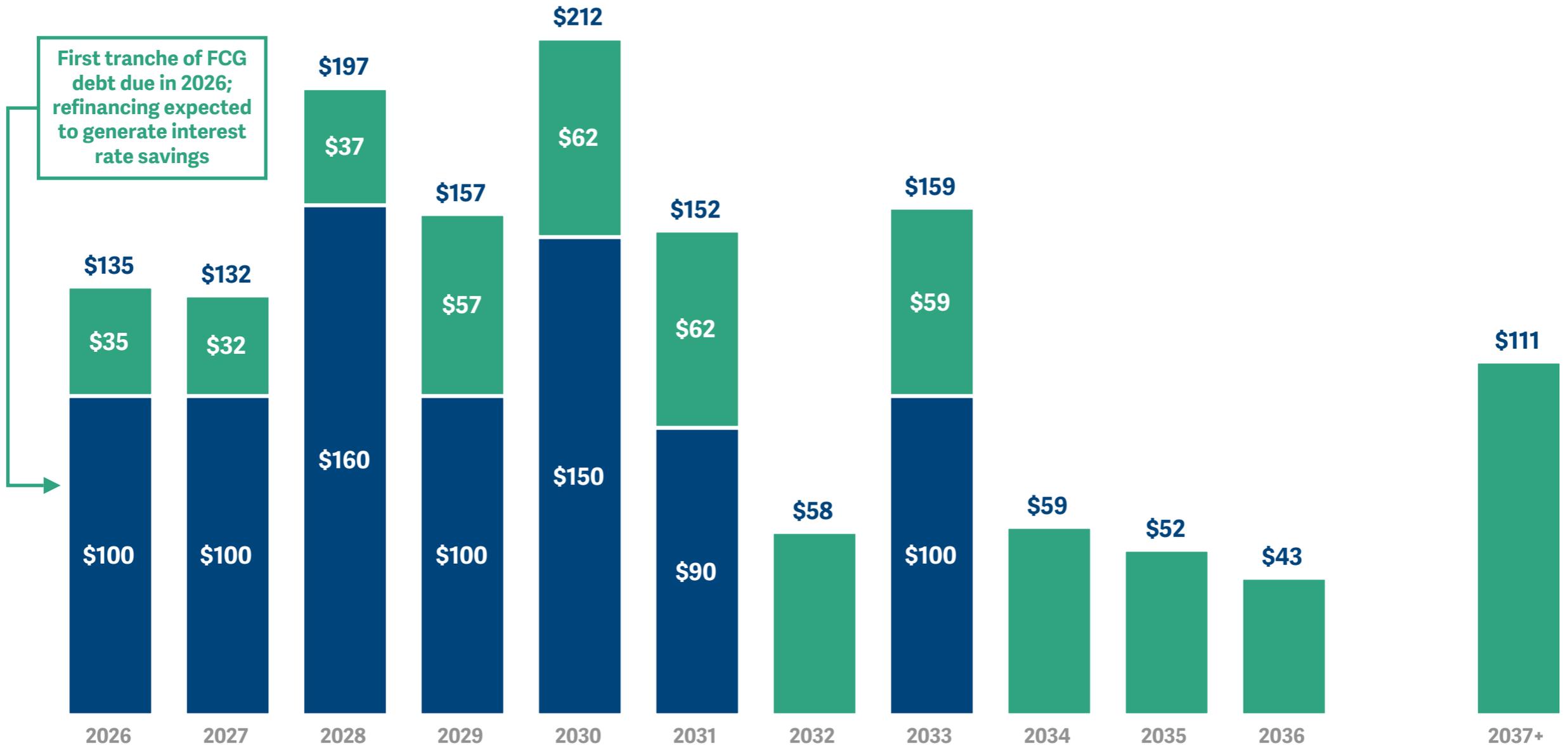
# Additional Information



# Long-Term Debt Maturity Profile

Amortizing Principal Payments  
Bullet Maturities

\$ in millions



# Full-Year 2025 Weather Colder Than Normal

## Delmarva

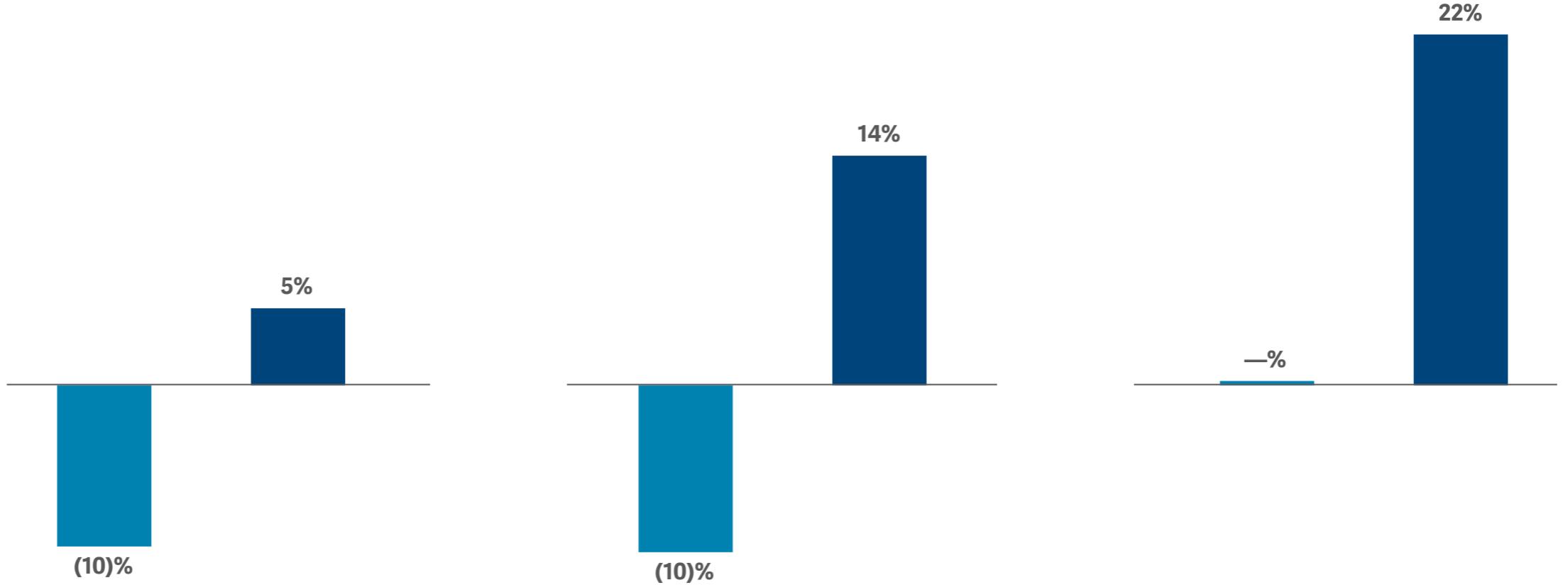
## Ohio

## Florida

COLDER

NORMAL

MILDER



FY 2024

FY 2025

FY 2024

FY 2025

FY 2024

FY 2025

ACTUAL HDD

3,634

4,107

5,014

6,120

796

951

NORMAL HDD

4,039

3,919

5,594

5,357

794

781

VARIANCE

(405)

188

(580)

763

2

170

Note: Normal reflects 10-Year Average Heating Degree Days (HDD). Percentages reflect actual HDD above / (below) Normal divided by Normal.



# GAAP to Non-GAAP Reconciliation: Consolidated

\$ in millions

Consolidated Reconciliation	Fourth Quarter Results				Year-to-Date Results			
	Q4 2025	Q4 2024	\$	%	FY 2025	FY 2024	\$	%
<b>GAAP Operating Revenues</b>	\$ 258.9	\$ 215.0	\$ 43.9	20%	\$ 930.0	\$ 787.2	\$ 142.8	18%
Cost of Sales								
Nat Gas, Propane, & Electric	(82.8)	(60.8)	(22.0)	36%	(291.5)	(219.8)	(71.7)	33%
Operating Expense <sup>1</sup>	(24.1)	(21.7)	(2.4)	11%	(93.7)	(81.7)	(12.0)	15%
D&A	(24.0)	(13.9)	(10.1)	73%	(91.7)	(65.7)	(26.0)	40%
<b>GAAP Gross Margin</b>	\$ 128.0	\$ 118.6	\$ 9.4	8%	\$ 453.1	\$ 420.0	\$ 33.1	8%
Add Back: Operating Expense <sup>1</sup>	24.1	21.7	2.4	11%	93.7	81.7	12.0	15%
Add Back: D&A	24.0	13.9	10.1	73%	91.7	65.7	26.0	40%
<b>Adjusted Gross Margin</b>	\$ 176.1	\$ 154.2	\$ 21.9	14%	\$ 638.5	\$ 567.4	\$ 71.1	13%

Note: D&A refers to Depreciation and Amortization Expense.

<sup>1</sup> Operations & maintenance expenses within the Consolidated Statements of Income are presented in accordance with regulatory requirements and to provide comparability within the industry. Operations & maintenance expenses which are deemed to be directly attributable to revenue producing activities have been separately presented above in order to calculate Gross Margin as defined under US GAAP. See Chesapeake Utilities' Annual Report on Form 10-K for the year ended December 31, 2025 for additional details.



# GAAP to Non-GAAP Reconciliation: Segment Results

\$ in millions

Regulated Segment	Fourth Quarter Results				Year-to-Date Results			
	Q4 2025	Q4 2024	\$	%	FY 2025	FY 2024	\$	%
<b>GAAP Operating Revenues</b>	\$ 190.0	\$ 153.7	\$ 36.3	24%	\$ 687.8	\$ 583.4	\$ 104.4	18%
Cost of Sales								
Nat Gas, Propane, & Electric	(56.5)	(38.6)	(17.9)	46%	(193.8)	(144.2)	(49.6)	34%
Operating Expense <sup>1</sup>	(14.2)	(12.9)	(1.3)	10%	(54.7)	(48.6)	(6.1)	13%
D&A	(18.3)	(9.3)	(9.0)	97%	(70.9)	(48.8)	(22.1)	45%
<b>GAAP Gross Margin</b>	\$ 101.0	\$ 92.9	\$ 8.1	9%	\$ 368.4	\$ 341.8	\$ 26.6	8%
Add Back: Operating Expense <sup>1</sup>	14.2	12.9	1.3	10%	54.7	48.6	6.1	13%
Add Back: D&A	18.3	9.3	9.0	97%	70.9	48.8	22.1	45%
<b>Adjusted Gross Margin</b>	\$ 133.5	\$ 115.1	\$ 18.4	16%	\$ 494.0	\$ 439.2	\$ 54.8	12%
<b>Unregulated Segment</b>	<b>Q4 2025</b>	<b>Q4 2024</b>	<b>\$</b>	<b>%</b>	<b>FY 2025</b>	<b>FY 2024</b>	<b>\$</b>	<b>%</b>
<b>GAAP Operating Revenues</b>	\$ 76.6	\$ 68.3	\$ 8.3	12%	\$ 271.9	\$ 228.4	\$ 43.5	19%
Cost of Sales								
Nat Gas, Propane, & Electric	(33.9)	(29.2)	(4.7)	16%	(127.3)	(100.2)	(27.1)	27%
Operating Expense <sup>1</sup>	(10.1)	(8.8)	(1.3)	15%	(39.1)	(33.1)	(6.0)	18%
D&A	(5.7)	(4.6)	(1.1)	24%	(20.8)	(16.9)	(3.9)	23%
<b>GAAP Gross Margin</b>	\$ 26.9	\$ 25.7	\$ 1.2	5%	\$ 84.7	\$ 78.2	\$ 6.5	8%
Add Back: Operating Expense <sup>1</sup>	10.1	8.8	1.3	15%	39.1	33.1	6.0	18%
Add Back: D&A	5.7	4.6	1.1	24%	20.8	16.9	3.9	23%
<b>Adjusted Gross Margin</b>	\$ 42.7	\$ 39.1	\$ 3.6	9%	\$ 144.6	\$ 128.2	\$ 16.4	13%

Note: D&A refers to Depreciation and Amortization Expense.

<sup>1</sup> Operations & maintenance expenses within the Consolidated Statements of Income are presented in accordance with regulatory requirements and to provide comparability within the industry. Operations & maintenance expenses which are deemed to be directly attributable to revenue producing activities have been separately presented above in order to calculate Gross Margin as defined under US GAAP. See Chesapeake Utilities' Annual Report on Form 10-K for the year ended December 31, 2025 for additional details.



# GAAP to Non-GAAP Reconciliation: Adj. Net Income & EPS

\$ in millions except per-share amounts

shares in thousands

Non-GAAP Reconciliation: Net Income /EPS	Fourth Quarter Results				Year-to-Date Results			
	Q4 2025	Q4 2024	\$	%	FY 2025	FY 2024	\$	%
<b>GAAP Net Income</b>	\$ 46.1	\$ 36.7	\$ 9.4	26%	\$ 140.3	\$ 118.6	\$ 21.7	18%
FCG Transaction+Transition Expenses <sup>1</sup>	\$ 0.1	\$ 0.6	\$ (0.5)	(83)%	\$ 0.8	\$ 2.9	\$ (2.1)	(72)%
<b>Adjusted Net Income</b>	<b>\$ 46.2</b>	<b>\$ 37.3</b>	<b>\$ 8.9</b>	<b>24%</b>	<b>\$ 141.1</b>	<b>\$ 121.5</b>	<b>\$ 19.6</b>	<b>16%</b>
<b>Diluted Weighted Avg. Common Shares Outstanding</b>	<b>23,867</b>	<b>22,914</b>			<b>23,488</b>	<b>22,531</b>		
<b>GAAP Diluted EPS</b>	\$1.93	\$1.60	\$ 0.33	21%	\$5.97	\$5.26	\$ 0.71	13%
FCG Transaction+Transition Expenses <sup>1</sup>	0.01	0.03	(0.02)	(67)%	0.04	0.13	(0.09)	(69)%
<b>Adjusted Diluted EPS</b>	<b>\$1.94</b>	<b>\$1.63</b>	<b>\$ 0.31</b>	<b>19%</b>	<b>\$6.01</b>	<b>\$5.39</b>	<b>\$ 0.62</b>	<b>12%</b>

<sup>1</sup> Transaction and transition-related expenses represent costs incurred attributable to the acquisition and integration of FCG including, but not limited to, transition services, consulting, system integration, rebranding and legal fees.



# Attachment B



February 18, 2026

**BY HAND DELIVERY**

The Honorable Gabriella Passidomo Smith  
Chairman  
Florida Public Service Commission  
2540 Shumard Oak Boulevard  
Tallahassee, Florida 32399-0850

Re: Florida City Gas – Test Year Notification  
Pursuant to Rule 25-7.140, Florida Administrative Code

Dear Chairman Passidomo Smith:

Florida City Gas (“FCG” or the “Company”) hereby submits this Test Year Notification pursuant to Rule 25-7.140, Florida Administrative Code. This letter is provided as notification to the Florida Public Service Commission (“Commission”) that FCG intends to seek a general base rate increase pursuant to the provisions of Section 366.06(3), Florida Statutes. The Company currently contemplates a filing date on or after April 20, 2026, based on a projected test year ending December 31, 2027.

FCG is a natural gas utility subject to regulation by the Commission pursuant to Chapter 366, Florida Statutes. FCG's local distribution operations have been active since 1949. Since November 30, 2023, FCG has been a subsidiary of Chesapeake Utilities Corporation, which owns and operates other natural gas utilities in Florida, Maryland and Delaware. FCG provides safe and reliable service to approximately 123,000 residential, commercial, and industrial customers in counties across the state, including Miami-Dade, Broward, Brevard, Palm Beach, Hendry, Martin, St. Lucie and Indian River counties.

FCG's last general rate case was filed on May 31, 2022, in Docket No. 20220069-GU. In its decision addressing FCG's request, Order No. PSC-2023-0177-FOF-GU<sup>1</sup>, the Commission authorized the Company to implement new base rates and charges, effective May 1, 2023, and approved, among other things, a return on equity (“ROE”) range of 8.50% to 10.5%, as well as new depreciation parameters for the Company and a Reserve Surplus Amortization Mechanism (RSAM).

For the period from January 1, 2024 through December 31, 2025, FCG invested approximately \$116 million and projects to invest an additional \$62 million over the next two years (2026 through 2027) excluding SAFE investments, in infrastructure and other capital investments to support

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<sup>1</sup> Subsequent Order clarifying decision and denying Motion for Reconsideration, Order No. PSC-2023-0299-FOF-GU, issued October 2, 2023. Aspects of the prior orders remain on appeal before the Florida Supreme Court in Case No. SC2023-0988.



customer growth, enhance customer service, comply with increasing regulatory compliance requirements, and enhance the reliability of its system.

Since its acquisition by Chesapeake Utilities Corporation, FCG has taken proactive steps to manage costs through a variety of efficiency measures and efforts, including leveraging synergies among Chesapeake's natural gas operations in Florida. While these steps have improved operational efficiencies, allowing us to enhance the quality of our customer service, the Company has, nevertheless, seen a significant increase in operating expenses. This increase in expenses has made it challenging for the Company to continue to provide safe and reliable service to its customers at the high standard they have come to expect and meet its compliance requirements.

The key drivers necessitating the Company's request for a rate increase are the increased O&M costs, including the impact of inflation on labor and materials. The Company has also made significant investments in capital projects to ensure reliability in significant growth areas of its system, as well as investments necessary to enhance our customers' service experience and to safeguard our customers' data. The further impact of escalating insurance costs and property taxes has exacerbated the need to seek rate relief now.

Since the implementation of new rates approved in its last rate case, excluding the utilization of RSAM mechanism, FCG has earned below its authorized range of return. As reflected on the Company's quarterly earnings surveillance reports filed with the Commission, the RSAM is now depleted and FCG is earning and expects to continue to earn well below the bottom of its authorized ROE range. FCG is considering a mechanism similar to RSAM for inclusion with this upcoming base rate case filing given that RSAM did provide a mechanism to help manage the impact of increasing costs and inflation. While no company wants to seek a rate increase, FCG has determined that it is imperative that it seek rate relief now to ensure it is able to continue to provide safe and reliable natural gas service with the high level of customer service and communications that its customers have come to expect. For these reasons, FCG has determined it must seek an increase in base rates.

FCG is finalizing its 2027 revenue requirements but currently estimates a net incremental base rate revenue increase of approximately \$35 million will be required. FCG submits that these additional revenues are appropriate and necessary for the Company to continue to meet the natural gas needs of existing and new customers; continue to provide safe, reliable, and high-quality customer service; and have a reasonable opportunity to earn a fair rate of return on the Company's investments. FCG also intends to request approval to move its current SAFE assets into rate base, which will have an impact on the Company's revenue request. It's important to note, however, that this portion of the Company's request will be revenue neutral in that there will be a corresponding reduction to the current SAFE surcharge. FCG, therefore, submits this Test Year Notification letter, along with the following required information.



### *A. Test Year Selection*

In accordance with Rule 25-7.140, Florida Administrative Code, the Company has selected the twelve-month period ending December 31, 2027, as the projected test year for purposes of the Company's request for a permanent base rate increase. The Company's request will seek an effective date for new rates of January 1, 2027. The Company believes that the requested test year is appropriate in that it will: (1) best reflect the economic conditions impacting the Company during the first 12-month period that the new rates will be in effect; and (2) provide the most accurate picture of revenues as compared to the Company's cost to serve during the initial period new rates would be placed into effect.

### *B. Major Factors Necessitating Base Rate Increase*

The following factors are the key drivers necessitating the Company's request for a base rate increase:

1. In order to respond to customer growth and demand, improve system safety, and enhance system resiliency, FCG has an obligation to make prudent and necessary infrastructure investments that provide a safe and reliable natural gas distribution system in the communities served. FCG projects its adjusted rate base in 2027 to be nearly \$786 million, which is an increase of approximately \$299 million (or approximately 61%) since the last base rate proceeding.
2. The Company has also made significant technology investments since the last rate proceeding. These investments were necessary to enhance the service reliability of the Company's internal network, its billing systems, its communications systems, and to address cyber security measures, including protecting customer information.
3. In addition to technology investments, the Company has also had to make significant investments in areas such as safety and compliance. The safety of our employees and customers remains our primary focus. To that end, the Company is introducing Advanced Mobile Leak Detection (AML D) vehicles across our service territories to enhance our ability to identify and respond to potential system issues. FCG has also adopted cutting edge software platforms that leverage artificial intelligence and machine learning to help prevent asset damage, improve safety performance, and reduce operational risk.
4. Finally, FCG has experienced increased costs resulting from high inflation, which is notable in areas such as cost of materials and labor. In addition, FCG also experienced increased costs in insurance premiums and property taxes.

It is an honor to provide safe and reliable natural gas service to our customers, and the Company strives to do so with the highest level of customer service.. In order to maintain this high level of service, and ensure that new customers have access to natural gas service, FCG needs to be able



to continue to invest in its system and respond to rising costs.

*C. Efforts and Actions Taken to Avoid a Base Rate Increase*

FCG has undertaken every effort to avoid seeking a base rate increase, as outlined below:

1. The Company has implemented several cost containment measures that have been successful at limiting cost increases, and even reducing costs, in many areas. In addition, as a result of the recent acquisition by CUC, FCG has already been able to optimize various synergies with FPUC, such as:
  - a. One Regional Manager now has responsibility for Operations Centers in both the FCG and FPUC territories, which provides operational consistency between these groups.
  - b. Operations and maintenance manuals have been consolidated to help standardize maintenance procedures and materials.
  - c. Standardization of construction procedures and materials is helping control costs of materials and warehousing.
  - d. Merging FCG into CUC's Itron FCS platform to collect meter reads.
  - e. Availability of FPUC's Safety Town training facility to FCG employees ensures consistent training for all Florida CUC employees at a reduced cost to FCG over prior training venues.
2. The Company endeavored to leverage the reserve surplus resulting from its most recent depreciation study to delay its request for a rate increase.

*D. Interim Rates and Procedure*

The Company will also be requesting interim rate relief in accordance with Section 366.071, Florida Statutes, using the period January 1, 2025 through December 31, 2025, as the test period. The Company will be seeking interim relief to allow the Company the opportunity to earn within its authorized range while its request for permanent rate relief is processed. The period January 1, 2025 through December 31, 2025 will serve as both the Company's interim test year, as well as its historic test year period for purposes of the Petition.

Furthermore, the Company does not intend to request that its rate case petition be processed as a proposed agency action case under Section 366.06(4), F.S.



### Conclusion

The Company anticipates filing its Petition for an increase to base rates as soon as practicable after the expiration of the notification period, but in any instance not before April 20, 2026. If the Company is unable to file on April 20, 2026 the Company will so notify the Commission in writing prior to that date, including an explanation as to the reasons for the delayed filing and an indication of the revised target date.

The Company has only undertaken this request upon thoughtful deliberation and considerable study. While the Company has made significant efforts to control its expenses, it will be unable to maintain high quality service to its customers at its current base rates. A base rate increase is necessary in order to ensure that the Company maintains a reliable and safe natural gas system, improves services provided to customers and continues to support the expansion of natural gas demanded by new customers, all of which ultimately inures to the benefit of the Company's customers.

Sincerely,

A handwritten signature in black ink, appearing to read "Matthew Everngam", written over a horizontal line.

Matthew Everngam  
Assistant Vice President, Regulatory Affairs  
Florida City Gas/Chesapeake Utilities Corporation

cc: // (via email) Honorable Gary F. Clark, Commissioner  
Honorable Mike La Rosa, Commissioner  
Honorable Ana Ortega, Commissioner  
Honorable Bobby Payne, Commissioner  
Braulio Baez, Executive Director  
Adria Harper, General Counsel  
Elisabeth Draper, Director/Economics  
Mark Cicchetti, Director/Accounting and Finance  
Tom Ballinger, Director/Engineering  
Cayce Hinton, Director/Industry Development and Market Analysis  
Commission Clerk (Teitzman)  
Office of Public Counsel (Trierweiler)  
Beth Keating (Gunster Law Firm)

# Attachment C

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-**

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**DATE:** February 5, 2026

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

**FROM:** Division of Economics (Wu, Galloway, McNulty, Richards) *GP*  
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

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### 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.).<sup>1</sup> The following day, on February 27, 2025,

<sup>1</sup> 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.<sup>2</sup> 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.<sup>3</sup> 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.<sup>4</sup>

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.

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<sup>2</sup> 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*.

<sup>3</sup> 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*.

<sup>4</sup> 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.<sup>5</sup> 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.<sup>6</sup> 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.<sup>7</sup> 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

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<sup>5</sup> 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.*

<sup>6</sup> *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.)

<sup>7</sup> Rule 25-7.045(5)(e), F.A.C. (the Depreciation Rule).

Date: February 5, 2026

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.<sup>8</sup> 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.<sup>9</sup>

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<sup>8</sup> 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.

<sup>9</sup> See Rule 25-7.045(1)(c), 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.<sup>10</sup> (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.<sup>11</sup> 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.

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<sup>10</sup> 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.

<sup>11</sup> (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<sup>12</sup>**

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.<sup>13</sup>

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

<sup>12</sup> 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.

<sup>13</sup> 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.<sup>14</sup> 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.<sup>15,16</sup> (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

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<sup>14</sup> 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.

<sup>15</sup> *Depreciation Systems*, Frank K. Wolf and W. Chester Fitch, Iowa State University Press, 1994.

<sup>16</sup> 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.<sup>17</sup>

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

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<sup>17</sup> 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.<sup>18</sup>

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.<sup>19</sup> 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

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<sup>18</sup> 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.

<sup>19</sup> 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<sup>20</sup>**

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)

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<sup>20</sup> 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.<sup>21</sup> 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.<sup>22</sup> 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)

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<sup>21</sup> 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: 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.*

<sup>22</sup> 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.<sup>23</sup>

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)

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<sup>23</sup> 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)**

Acct 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).<sup>24</sup> 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

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<sup>24</sup> 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.<sup>25</sup> 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.<sup>26</sup> (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

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<sup>25</sup> 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*.

<sup>26</sup>*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.<sup>27</sup> (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.<sup>28</sup> 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:

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<sup>27</sup>*Id.*

<sup>28</sup> 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,<sup>29</sup> Sections 168(f)(2) and (i)(9),<sup>30</sup> former IRC Sections 167(1), and 46(f),<sup>31</sup> and Section 203(e) of the Tax Reform Act of 1986 (the Act).<sup>32</sup>

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.<sup>33</sup> 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 3<sup>rd</sup> 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.

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<sup>29</sup> Treas. Reg. §1.167; Treas. Reg. §1.46.

<sup>30</sup> Title 26 US Code §§168(f)(2) and (i)(9).

<sup>31</sup> 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).

<sup>32</sup> Tax Reform Act of 1986, Pub. L. No. 99-514 (100 State, 2085, 2146)(1986).

<sup>33</sup> 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														
Acct No.	Acct Description	Book** Investment	Book Reserve	CURRENT*				STAFF RECOMMENDED						
				Curve	ASL	ARL	NS	Curve	ASL	ARL	NS	Reserve Ratios	RL Depreciation /Amortization Rate***	MORT Depreciation /Amortization Rate****
				(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	<u>\$9,071,097</u>	<u>\$1,671,808</u>											
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	<u>\$60,013,891</u>	<u>\$1,926,810</u>											
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	<u>\$597,640,813</u>	<u>\$184,584,182</u>											
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	<u>\$29,975,107</u>	<u>\$9,717,364</u>											
	Total Gas Plant	\$696,700,908	\$197,900,164											

\* Current parameters are approved by Order No. PSC-2023-01177-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		Section II		Section III	
			Staff Recommended		Alternative Option		Company Proposed	
			Corrective Measure for Theoretical Reserve Imbalance Remaining Life Technique		Corrective Measure for Theoretical Reserve Imbalance 2-Year Amortization		Corrective Measure for Theoretical Reserve Imbalance 2-Year Amortization	
Acct 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	

# Attachment D

FLORIDA PUBLIC SERVICE COMMISSION

Item 1

VOTE SHEET

FILED 2/17/2026  
DOCUMENT NO. 01121-2026  
FPSC - COMMISSION CLERK

February 17, 2026

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

**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.

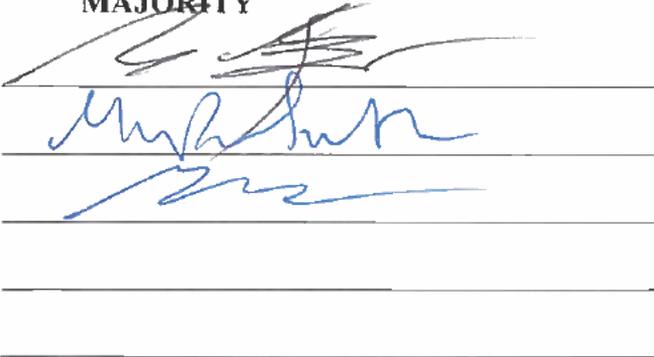
**APPROVED**

COMMISSIONERS ASSIGNED: Passidomo Smith, Clark, La Rosa

COMMISSIONERS' SIGNATURES

MAJORITY

DISSENTING

  
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**REMARKS/DISSENTING COMMENTS:**

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

(Continued from previous page)

**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 of staff's memorandum dated February 5, 2026.

**APPROVED**

**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 of staff's memorandum dated February 5, 2026.

**APPROVED**

**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 of staff's memorandum dated February 5, 2026. 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 of staff's memorandum dated February 5, 2026.

**APPROVED**

Vote Sheet

February 17, 2026

Item 1

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

(Continued from previous page)

**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.

**APPROVED**

**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.

**APPROVED**

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

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

**APPROVED**