

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

In re: 2014 depreciation study by Florida  
Public Utilities Company.

DOCKET NO. 140016-GU  
ORDER NO. PSC-14-0698-PAA-GU  
ISSUED: December 18, 2014

The following Commissioners participated in the disposition of this matter:

ART GRAHAM, Chairman  
LISA POLAK EDGAR  
RONALD A. BRISÉ  
EDUARDO E. BALBIS  
JULIE I. BROWN

NOTICE OF PROPOSED AGENCY ACTION  
ORDER APPROVING DEPRECIATION RATES AND RECOVERY SCHEDULES FOR  
FLORIDA PUBLIC UTILITIES COMPANY

BY THE COMMISSION:

NOTICE is hereby given by the Florida Public Service Commission that the action discussed herein is preliminary in nature and will become final unless a person whose interests are substantially affected files a petition for a formal proceeding, pursuant to Rule 25-22.029, Florida Administrative Code (F.A.C).

Case Background

Rule 25-7.045, F.A.C., requires natural gas companies to file a comprehensive depreciation study once every five years. In accordance with this rule, the Florida Division of Chesapeake Utilities Corporation, Florida Public Utilities Company, and Indiantown Gas Company filed their last depreciation studies on May 17, 2007 (Docket No. 070322-GU), March 21, 2008 (Docket No. 080170-GU), and December 10, 2008 (Docket No. 080548-GU), respectively.

On October 28, 2009, Chesapeake Utilities Corporation (Chesapeake) and Florida Public Utilities Company (FPUC) announced their corporate merger, whereby the gas and electric utilities of FPUC became a wholly owned subsidiary of Chesapeake. On November 5, 2009, pursuant to Rule 25-9.044(1), F.A.C., Chesapeake notified the Commission of its acquisition of FPUC. On August 6, 2010, FPUC acquired Indiantown Gas Company. On October 22, 2013, FPUC notified the Commission of its acquisition of the natural gas system serving the City of Fort Meade, which was completed on December 2, 2013. The resulting gas divisions are FPUC

Division, Chesapeake Division, Indiantown Division, and Fort Meade Division (collectively FPUC or the Company).

Chesapeake Division's depreciation study was due on or before May 17, 2012. On April 12, 2012, Chesapeake Division filed a request for a waiver of the filing requirement until August 17, 2012, which we granted.<sup>1</sup> On June 25, 2012, Indiantown Division and Chesapeake Division filed a joint petition for waiver and extension of waiver of the depreciation study filing requirement until June 2013. Indiantown Division's and FPUC Division's depreciation studies were due no later than May 30, 2013 and December 10, 2013, respectively. The Company asserted that it anticipated requesting approval of a single set of blended depreciation rates in the filing, thus eliminating the need for any subsequent depreciation study required as a result of a potential consolidation of the Company's rates and tariffs. In a noticed informal meeting, staff and the Company agreed that the depreciation studies would be filed no later than January 15, 2014, less than one month past the due date for FPUC Division to file its depreciation study. We granted the petition, requiring FPUC Division, Chesapeake Division, and Indiantown Division to file their depreciation studies no later than January 15, 2014.<sup>2</sup>

Depreciation studies filed pursuant to Rule 25-7.045, F.A.C., provide us with the current plant information used to establish depreciation rates and lives of assets (investments) by FERC account, thereby matching the timing of the recovery of the assets to the expected life of the assets. Once we approve changes to the Company's depreciation rates as a result of our review of the depreciation study, the Company's prospective earning surveillance reports will reflect the impact of our decision. In addition, the depreciation rates established in this docket will be used to determine the depreciation expense and accumulated depreciation in the Company's next rate case.

The Company filed its depreciation studies on January 13, 2014, and an update on July 2, 2014. Commission staff issued two data requests and a staff report. We have jurisdiction pursuant to Sections 350.115 and 366.05, Florida Statutes (F.S.).

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<sup>1</sup> Order No. PSC-12-0354-PAA-GU, issued July 9, 2012, in Docket No. 120081-GU, In re: Petition for waiver of requirement of Rule 25-7.045(8)(a), F.A.C., to file depreciation study within five years from date of filing previous study, and for authorization to file next depreciation study August 17, 2012, by Florida Division of Chesapeake Utilities Corporation.

<sup>2</sup> Order No. PSC-12-0532-PAA-GU, issued October 8, 2012, in Docket No. 120178-GU, In re: Joint petition for waiver of depreciation study filing requirement of Rule 25-7.045(8)(a), F.A.C., by Florida Public Utilities, Indiantown Division and for extension of waiver of Rule 25-7.045(8)(a), by the Florida Division of Chesapeake Utilities Corporation.

### Depreciation rates

We conducted a comprehensive review of the Company's January 13, 2014 filing, its July 2, 2014 update, the Company's responses to two staff-issued data requests, the Company's response to the staff report,<sup>3</sup> and the Company's response to the Office of Public Counsel's September 5, 2014 letter expressing its concerns. Our approved depreciation rates are contained in Attachment A. Attachment B shows a total annual expense of \$7,197,946, which is \$60,409 less than the Company proposed expense of \$7,258,355. Attachment B also contains a comparison of the Company proposed and our approved depreciation rates and associated expenses.

FPUC's proposals for consolidated depreciation rates, the treatment of Florida Common Assets, and the application of depreciation rates approved in this proceeding to the Company's recently acquired Fort Meade Division are discussed individually.

### Consolidation of Depreciation Rates

Subsequent to the 2007 and 2008 depreciation studies, Florida Public Utilities Company, the Florida Division of Chesapeake Utilities Corporation, and Indiantown Gas Company, through a combination of a merger and acquisitions, became one company with three sets of depreciation rates. The Company plans to consolidate its natural gas operations gradually, over several years, because the Company believes that this is the most efficient and effective way to consolidate for regulatory purposes. In 2014, the Company is requesting consolidated depreciation rates and a consolidated conservation program. During the 2015-2016 time frame the Company expects to request consolidation of the general rules and non-rate portions of the tariffs with best practices or common rules and regulations. The Company anticipates that a base rate proceeding may be necessary before the next depreciation study in 2019, and that consolidation of depreciation rates will create an efficient step towards that endeavor. The Company does not have a specific target date for full consolidation at this time.

In its January 13, 2014 filing, FPUC concluded that the appropriate depreciation rates for the divisions were identical for each account based on the divisions' similar service environments, projected growth trends, and shared corporate parent assets. Subsequently in FPUC's July 2014 update, its approach to developing consolidated depreciation rates depended on the individual component. For example, the investment, accumulated depreciation, and net salvage of a particular account were summed across the divisions while an account's consolidated age was calculated using weighted net investment. After an extensive review of the filings, including responses to data requests and the staff report, we find the Company's consolidation methodology reasonable.

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<sup>3</sup> The staff report consists of staff's initial proposals, information necessary to understand staff's initial proposals, questions to the company, and summary tables which provide staff's initial position on inputs, rates, and resulting depreciation expense for all accounts.

### Consolidated Annual Status Reports

Each division's annual status reports for depreciation and accumulated depreciation is reviewed on a yearly basis. Because FPUC developed its age and other calculations based on consolidated data, which may not match each division's accounts exactly, the Company agreed to provide consolidated annual status reports beginning with the 2014 calendar year.

### Florida Common Assets

Florida Common Assets (common assets) are general account assets (e.g., buildings and furniture), located primarily in West Palm Beach, that are used by the gas divisions, the electric division, and the unregulated propane affiliates. These assets and their accumulated depreciation reside in the FPUC Division accounts. Previously, the depreciation rates for common assets were established in the FPUC Division study and used to depreciate the common assets. The Company proposes that the depreciation rates approved in this proceeding continue to be applied to its common assets. The Company further proposes that it be allowed to continue to allocate such assets and associated rates consistent with its current allocation methodology. We find that, for the purpose of setting depreciation rates in the instant proceeding, the current allocation factors are appropriate.

### Acquisition of the City of Fort Meade's Gas Division and Its Depreciation Rates

In December 2013, the Company acquired the City of Fort Meade's gas division (Fort Meade Division). The Company requests that the Fort Meade Division be permitted to adopt the depreciation rates approved in this proceeding and that the purchase price/fair value of the assets, \$670,000, be used as the basis for costs. According to the Company, the new Fort Meade Division's service environment is similar to the other gas divisions. The Company anticipates that the Fort Meade Division's planning, growth, technology, physical conditions, and trends will now be consistent with the other three divisions.

The assets acquired from the City of Fort Meade had never been subject to rate regulation and, thus, to the Uniform System of Accounts (USOA). According to FPUC, as of September 2013, Fort Meade's gross plant totaled \$486,773, with \$395,140 of accumulated depreciation, resulting in net plant of \$91,633. According to the Company, it appears that the City of Fort Meade did not track or apply gross salvage and cost of removal in its accounting for these assets.

The records of the new Fort Meade Division are insufficient to determine assets by vintage year, FERC account, and components of remaining life. The Company proposes \$670,000 as a basis for the cost of assets; however, a letter from the Office of Public Counsel raises concerns about using the purchase price as a basis for cost. On a going forward basis, the Company asserts that, using available information pertaining to the number of services and meters, miles of mains, etc., in conjunction with information from its other natural gas systems, it can estimate asset values as a basis for setting depreciation rates. The Company has offered to file this estimate for our review upon completion of the estimate. We find this would be beneficial information and shall be provided as soon as it is available.

We find that, for the purpose of this proceeding, Fort Meade's gross plant shall be used as the basis for estimating depreciation. Additionally, consistent with FPUC's request for consolidated rates and the small amount of Fort Meade Division's assets compared to the total (0.2% of consolidated gross plant), we find that it is reasonable to apply the depreciation rates approved in this proceeding to the Fort Meade Division assets.

### Reserve Transfers

The remaining life rate is self-correcting; that is, the rate increases or decreases based on whether there is a reserve imbalance, and if there is, the size of the reserve imbalance. We have approved reserve transfers to reduce or eliminate reserve imbalances. Rule 25-7.045(7)(b), F.A.C., does not require that reserve transfers be made, only that the possibility of reserve transfers be investigated.

We reviewed the use of reserve transfers in this proceeding, and find that with the complexity of the proceeding, it is reasonable to postpone any use of reserve transfers until at least the next depreciation study. That depreciation study, with five years of consolidated data, will provide a better indication of whether reserve transfers are necessary, and if they are, what they should be.

### Net Salvage

Net salvage (NS), one of the inputs used to derive the depreciation rate, equals gross salvage less the cost of removal (COR). Regarding the accuracy of the data records associated with the NS, FPUC reported some non-typical or abnormal values for certain accounts of FPUC Division and Chesapeake Division in this depreciation study. The Company could not provide information regarding the abnormal values without further detailed investigation. The Company stated that to further investigate the anomalies would be a huge undertaking and might require additional personnel; it could be a very lengthy process that could take up to six months and would likely result in increased costs to the Company, which would likely impact customers. The Company plans to undertake efforts to review its practices in this regard in an effort to determine whether changes need to be implemented in order to reduce or avoid the occurrence of such abnormal results.

We understand the unique character of the instant depreciation study,<sup>4</sup> the complexity of the merger and acquisition processes that FPUC had gone through which had affected its depreciation accounting,<sup>5</sup> the low impact of the identified inaccurate NS records on the overall outcome of the study,<sup>6</sup> and the nature of a depreciation study.<sup>7</sup> Emphasizing the importance of

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<sup>4</sup> Depreciation rates will be derived based on the consolidated data from the raw data of three individual divisions.

<sup>5</sup> There have been a lot of changes since the merger and acquisitions, and those employees most familiar with the records may not be with the Company any longer.

<sup>6</sup> The amount (in term of the depreciation expense and reserve) would be immaterial but important to maintain data accuracy. However, for the discussed NS records in the instant study, the cost to clarify the inaccuracy appears to out-weigh the benefit that would result from the clarification process.

<sup>7</sup> It involves forecasting and estimation.

maintaining the accuracy of historical data in preparing a depreciation study, we urge the Company to undertake a thorough review of its policies and practices regarding the record-keeping in its depreciation accounting. The Company shall implement a procedure of maintaining clear documentation on each gross salvage and COR booked so that we can verify these records through the Annual Status Report reviewing process.

### Individual Accounts

#### Account 376.1 Mains – Plastic

The current consolidated NS is negative 16.7%. The Company proposes a NS of negative 15%. In its depreciation study, the Company-calculated consolidated actual average NS is 40.63% for the study period, but acknowledged that the data contained non-typical salvage activity and judged the historical data unusable for setting future depreciation rates. The Company indicated that the salvage activity of the FPUC Division, whose NS was negative 17.76%, was considered more reliable and appeared to be more typical of what would be expected going forward, and this division represented 66% of retirement activity for this account. The Company acknowledged that it was unable to conduct a timely comprehensive analysis necessary to determine the precise cause for this anomaly to provide a specific explanation regarding the abnormality, but it intended to conduct a review to determine, going forward, if there are changes in its practices or policies that would help avoid such anomalies and atypical data in future. In the absence of reliable historical data for the consolidated account, we find a NS of negative 16%, is reasonable.

#### Account 376.2 Mains – Steel

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

Account 380.1 Services – Plastic

The current consolidated NS is negative 17.8%. The Company proposes a NS of negative 25%. In its depreciation study, the Company-calculated consolidated actual average NS is negative 79.77% for the study period, but acknowledged that the data was deemed non-typical for abnormal results and judged the historical data unusable for setting future depreciation rates. The Company indicated that the salvage activity of the FPUC Division, whose NS was negative 38.75%, was considered more reliable and appeared to be more typical of what would be expected.<sup>8</sup> Based on the above and in the absence of reliable historical data for the consolidated account, we find a NS of negative 22%, the current consolidated NS value calculated, is reasonable because it is closer to what we prescribed for the FPUC Division during its last depreciation study, is close to what the FPUC Division actually experienced during the current study period, and is within the industry average.

Account 381.1 Meters - AMR Equipment

Chesapeake Division is the only division which has assets recorded in this account. During Chesapeake Division's last rate case, we granted depreciation rate of 5% and prescribed average service life of 20 years and 0% NS for this account.<sup>9</sup> We find the Company's proposed average service life of 20 years, R3 curve shape and plant age of 3.5 years reasonable. Using these parameters as the inputs, the calculated remaining life for this account shall be 16.7 years.

Account 390 – Structures and Improvements

The Company proposed 0% NS. This account saw a significant positive NS from the sale of a building in 2012, resulting in consolidated NS of 66%. In general, one-time events are not necessarily predictive of the future. However, this positive NS is so significant, we find increasing the NS from 0 to 10% is a reasonable recognition of an unusual event.

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

These accounts have no investment. The Company proposed retaining these accounts for possible future use and requested we set a remaining life depreciation rate for each account based on industry average or tax life. FPUC Division made the same request in its last depreciation study, Docket No. 080548-GU (2008 study), for the same reason. We reviewed industry data for Florida as well as our previous order in the 2008 study. We find that because there must be investment and accumulated depreciation in order to have a remaining life rate, we find a whole life rate is appropriate.

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<sup>8</sup> For this account, FPUC Division represented 99.4% of the retirement activity. The Company acknowledged that it was unable to conduct a timely comprehensive analysis necessary to determine the precise cause for this anomaly to provide a specific explanation regarding the abnormality, and stated that "the Company intend[s] to undertake efforts to review its practices in this regard in an effort to determine whether changes need to be implemented in order to reduce or avoid the occurrence of such abnormal results."

<sup>9</sup> Order No. PSC-10-0029-PAA-GU, issued January 14, 2010, in Docket No. 090125-GU, In re: Petition for increase rates by Florida Division of Chesapeake Utilities Corporation.

For Account 392.3, we find an average service life of 11 years and a 10% NS, which results in a whole life rate of 8.2% is appropriate. For Account 395, we find an average service life of 20 years and a 0% NS, which results in a whole life rate of 5% appropriate.

#### Account 399 – Miscellaneous Tangible

The Company proposed to retain the five-year amortization period currently authorized for this account. According to FPUC's Revised Exhibit AA as well as current data, the reserve for this account exceeds the investment. The Company proposed to stop the amortization and reverse the overage. We find the overage shall be reversed, the amortization for existing investment shall be discontinued, and the amortization shall apply to new investment.

#### Implementation Date

Rule 25-7.045(6)(b), F.A.C., requires that the data submitted in a depreciation study, including plant and reserve balances or company estimates, "should be brought to the effective date of the proposed rates." The supporting data and calculations provided by the Company support an implementation date of January 1, 2014. Based upon our analysis, we approve January 1, 2014 as the implementation date.

#### Deferral of Consulting Fees

FPUC has requested approval to defer certain consulting fees incurred for the preparation of depreciation studies as a regulatory asset. According to the Company, its request is revenue neutral, consistent with Accounting Standards Codification 980 (ASC 980), and has no impact on the current rates to customers. The Company contends that the establishment of a regulatory asset for expenses incurred by FPUC to develop three studies exceeded the typical annual consulting costs necessary to support the regulated business. Specifically, FPUC stated that the magnitude of developing three depreciation studies simultaneously necessitated retaining more extensive outside consulting services than was required in the development of FPUC's prior depreciation studies. The additional costs were not contemplated in the Company's last rate case, and these costs are not being recovered through another cost recovery mechanism.

The recognition and establishment of regulatory assets are addressed in ASC 980, which in part states:

Rate actions of a regulator can provide reasonable assurance of the existence of an asset. An entity shall capitalize all or part of an incurred cost that would otherwise be charged to expense if both of the following criteria are met:

- a. It is probable that future revenue in an amount at least equal to the capitalized cost will result from inclusion of that cost in allowable cost for ratemaking purposes.
- b. Based on available evidence, the future revenue will be provided to permit recovery of the previously incurred cost rather than to provide



for expected levels of similar future costs. If the revenue will be provided through an automatic rate-adjustment clause, this criterion requires that the regulator's intent clearly be to permit recovery of the previously incurred cost.

The Company asserted that, pursuant to ASC 980, we may approve FPUC's deferral of costs incurred from the consulting fees. FPUC maintains that the deferral of these costs matches the timing of these expenses with the periods in which the recovery of the revenue is recorded. Accordingly, the Company requests the establishment of a regulatory asset associated with the consulting fees and stated that it will lessen the impact on the Company and its ratepayers. FPUC requests that the regulatory asset be amortized over a five-year period from January 1, 2014 to December 31, 2018. In support of its request, FPUC asserts that establishment of the regulatory asset and amortization of the expenses over five years is consistent with Order No. PSC-06-1042-PAA-EI which states:<sup>10</sup>

This concept of deferral accounting allows companies to defer costs due to events beyond their control and seek recovery through rates at a later time. The alternative would be for the company to seek a rate case each time it experiences an exogenous event.

FPUC initially sought to record a regulatory asset for a total of \$45,650 when the three separate depreciation studies were submitted. Subsequent the Company provided an updated filing in July 2014, wherein consolidated rates were proposed for each account. According to the Company, the additional work was necessary to develop the consolidated depreciation study for the three companies. Based upon the additional work performed, FPUC stated that an additional cost of \$16,151 would be incurred in 2014, that was not included in the original \$45,650, for a total of \$61,851.

The Company states that it estimates a total cost for outside services of \$61,851. FPUC also provided copies of invoices for services rendered by three outside vendors, Crystal Key Resources; Gunster, Yoakley and Stewart, P.A.; and Accounting Principals, that the Company utilized and subsequently paid approximately \$61,851 for the development of the depreciation studies. A reviewed of the invoices from each of these vendors was conducted to determine if the amount proposed by the Company for the establishment of a regulatory asset was appropriate. Based on the review, we found two invoices from Crystal Key Resources containing amounts for which insufficient explanation was provided as to the work performed. Thus, the expenses shall be removed for these unsupported items. Specifically, the total amount for Crystal Key Resource's Invoice No. 533 shall be adjusted by \$2,600 (13 hours at \$200) and Invoice No. 535 shall be adjusted by \$800 (4 hours at \$200).

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<sup>10</sup>See Order No. PSC-06-1042-PAA, issued December 19, 2006, in Docket No. 060674-EI. In re: Petition for authority to use deferral accounting for creation of a regulatory liability to record charges or credits that would have otherwise been recorded in equity pursuant to balance sheet treatment required by Statement of Financial Accounting Standards (SFAS) No. 158, by Progress Energy Florida, Inc.

We find that the total cost supported by the invoices provided by FPUC is \$58,452, which is approximately \$3,400 less than the amount proposed by the Company. Based on the above, the total expense shall be reduced by \$3,400.

Table 1 below shows a total requested regulatory commission expense of \$61,851. It shows the \$3,400 adjustment we approve, and the resultant \$58,452 that FPUC shall be allowed to record as a regulatory asset.

<b>Table 1: Regulatory Commission Expenses for Regulatory Asset</b>			
<b>Vendor</b>	<b>Invoice Amount</b>	<b>Adjustment</b>	<b>Approved Costs for Regulatory Asset (\$)</b>
Crystal Key	\$50,700	\$3,400	\$47,300
Gunster	\$4,112	\$0	\$4,112
Accounting Principals	\$7,039	\$0	\$7,039
<b>Total</b>	<b>\$61,851</b>	<b>\$3,400</b>	<b>\$58,452</b>

The Office of Public Counsel (OPC) reviewed the Company's filing and responses to staff's data requests. OPC expressed concern with FPUC's request to establish a regulatory asset to amortize costs the Company incurred from utilizing outside consulting services to develop the depreciation studies. Specifically, OPC pointed out that, although FPUC stated that it is not unusual to incur costs for outside services for the development of depreciation studies, the Company did not incur any outside services expenses for FPUC's or Chesapeake's last depreciation study. Further, OPC stated that, if the Company has cut back on staff that resulted in cost savings associated with the acquisition adjustment, FPUC should not be allowed to establish a regulatory asset. OPC believes that the additional costs the Company incurred by utilizing outside services to complete the studies should be offset against the cost savings realized by FPUC from the acquisition adjustment that was approved following its merger with Chesapeake in 2009. Moreover, OPC pointed out that the invoices submitted for Accounting Principals lacked a description of the work performed or an explanation showing that the work performed was pertinent to the depreciation studies.

In its response, FPUC stated that the need for additional outside consulting services varies from study to study and argued that the services related to the development of the study in this proceeding has nothing to do with the elimination of employee positions associated with the merger. FPUC stated that the need for outside services was based on the timing and complexity of the tasks of providing depreciation studies for multiple divisions and from those studies developing appropriate blended rates. Further, FPUC argued that outside services were not utilized in the two dockets referenced by OPC because FPUC's staff had a working knowledge of depreciation studies and received assistance through an informal "staff assisted" process. The Company maintained that, although it engaged the services of two former employees to perform work specific to the development of the depreciation studies, the costs of the study should not be considered offset against the acquisition adjustment savings. Regarding the concern raised by

OPC related to detail of the invoices, FPUC stated that the temporary agency does not provide details specific to tasks. The Company specifically requested a certain former employee because it knew he possessed the level of expertise needed for the depreciation studies and that was the only work performed by that temporary employee.

Based on the additional work associated with developing three separate depreciation studies, coupled with the extra efforts the Company undertook to consolidate the three studies, we find that the establishment of a regulatory asset is appropriate and that the consulting fees associated with these depreciation studies shall be amortized to mitigate the impact on ratepayers. Therefore, the \$58,452 of consulting fees shall be recorded as a regulatory asset in Account 182.3, Other Regulatory Assets, and be amortized to Account 407.3, Regulatory Debits, over a five-year period beginning January 2014. This treatment is revenue neutral and will not have any impact on current rates.

Additionally, we find that the merger of the three separate utilities, the requirement to consolidate three separate depreciation studies into a single set of depreciation rates, and the inability to include these costs in base rates through a rate case proceeding all contributed to FPUC's need to retain outside consultants to complete this project. The facts considered in the instant proceeding regarding the establishment and approval of a regulatory asset for consulting fees associated with the development of a consolidated depreciation study for FPUC are unique and do not establish precedence for use in future stand-alone depreciation dockets.

#### Amortization of Investment Tax Credits

We have approved revised depreciation rates for the Company, to be effective January 1, 2014, which reflect changes to most accounts' remaining lives to be effective January 1, 2014. Revising a utility's book depreciation lives generally results in a change in its rate of ITC amortization in order to comply with the normalization requirements of the Internal Revenue Code (IRC or Code) set forth in sections 168(f)(2) and (i)(9), IRC sections 167(l) and 46(f),<sup>11</sup> Federal Tax Regulations under the Code sections,<sup>12</sup> and section 203(e) of the Tax Reform Act of 1986 (the Act).<sup>13</sup>

The Internal Revenue Service (IRS), and independent outside auditors look at a company's books and records, and the orders and rules of the jurisdictional regulatory authorities to determine if the books and records are maintained in the appropriate manner. Upon review, we find the books are in compliance with the regulatory guidelines in regard to normalization. Therefore, the current amortization of ITCs shall be revised to reflect the remaining useful lives that underlie the depreciation rates.

Section 46(f)(6) of the Code states that "the amortization of ITC should be determined by the period of time actually used in computing depreciation expense for ratemaking purposes and

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<sup>11</sup> 26 USC §§168(f)(2) and (i)(9); 26 USC §167(l); 26 USC §46(f).

<sup>12</sup> Treas. Reg. §1.168; Treas. Reg. §1.167; Treas. Reg. §1.46.

<sup>13</sup> Tax Reform Act of 1986, 1986-3 (Vol.1) C.B. 63, P.L. 99-514 (100 Stat. 2146) October 22, 1986.

on the regulated books of the utility.”<sup>14</sup> Since we have made changes to the Company’s remaining lives, the amortization of ITCs will be changed to avoid violation of the provisions of IRC section 46 and its underlying Treasury Regulations. The consequence of an ITC normalization violation is a repayment of unamortized ITC balances to the IRS.

Based on the foregoing, it is

ORDERED by the Florida Public Service Commission that that the 2014 depreciation study by Florida Public Utilities Company is approved as set out in the body of this Order. It is further

ORDERED that a regulatory asset shall be established and the consulting fees associated with these depreciation studies shall be amortized. It is further

ORDERED that Florida Public Utilities Company shall provide consolidated annual status reports beginning with the 2014 calendar year as set forth in the body of this Order. It is further

ORDERED that the implementation date of the new depreciation rates approved in this Order shall be January 1, 2014. It is further

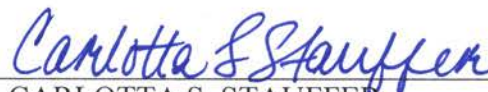
ORDERED that the provisions of this Order, issued as proposed agency action, shall become final and effective upon the issuance of a Consummating Order unless an appropriate petition, in the form provided by Rule 28-106.201, Florida Administrative Code, is received by the Commission Clerk, 2540 Shumard Oak Boulevard, Tallahassee, Florida 32399-0850, by the close of business on the date set forth in the “Notice of Further Proceedings” attached hereto. It is further

ORDERED that if no substantially affected person files a protest to this Proposed Agency Action Order within 21 days of its issuance, a Consummating Order shall be issued and the docket shall be closed.

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<sup>14</sup> 26 USC §46(f)(6).

By ORDER of the Florida Public Service Commission this 18th day of December, 2014.



CARLOTTA S. STAUFFER

Commission Clerk

Florida Public Service Commission

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Tallahassee, Florida 32399

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Copies furnished: A copy of this document is provided to the parties of record at the time of issuance and, if applicable, interested persons.

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NOTICE OF FURTHER PROCEEDINGS OR JUDICIAL REVIEW

The Florida Public Service Commission is required by Section 120.569(1), Florida Statutes, to notify parties of any administrative hearing that is available under Section 120.57, Florida Statutes, as well as the procedures and time limits that apply. This notice should not be construed to mean all requests for an administrative hearing will be granted or result in the relief sought.

Mediation may be available on a case-by-case basis. If mediation is conducted, it does not affect a substantially interested person's right to a hearing.

The action proposed herein is preliminary in nature. Any person whose substantial interests are affected by the action proposed by this order may file a petition for a formal proceeding, in the form provided by Rule 28-106.201, Florida Administrative Code. This petition must be received by the Office of Commission Clerk, 2540 Shumard Oak Boulevard, Tallahassee, Florida 32399-0850, by the close of business on January 8, 2015.

In the absence of such a petition, this order shall become final and effective upon the issuance of a Consummating Order.

Any objection or protest filed in this/these docket(s) before the issuance date of this order is considered abandoned unless it satisfies the foregoing conditions and is renewed within the specified protest period.

Comparison of Rates and Components								
Company Proposed					Commission Approved			
Distribution Plant		Average	Future	Remaining	Average	Reserve	Future	Remaining
Account		Remaining	Net	Life Rate	Remaining		Net	Life Rate
#	Account Title	Life	Salvage	(%)	Life	(%)	Salvage	(%)
		(Yrs.)	(%)	(%)	(Yrs.)	(%)	(%)	(%)
374.1	Land Rights	7.4	0	17.2	7.4	(27.05)	0	17.2
375	Structures & Improvements	18.9	0	2.5	18.9	53.46	0	2.5
376.1	Mains - Plastic	35.0	(15)	2.6	35.0	23.55	(16)	2.6
376.2	Mains - Steel	28.0	(30)	2.9	28.0	48.28	(28)	2.8
378	Measuring and Regulating Equip. - General	21.0	(5)	3.3	21.0	35.35	(5)	3.3
379	Measuring and Regulating Equip. - City Gate	22.0	(5)	3.4	22.0	29.44	(5)	3.4
380.1	Services - Plastic	34.0	(25)	2.7	34.0	31.65	(22)	2.7
380.2	Services - Other	24.0	(125)	6.5	24.0	69.43	(125)	6.5
381	Meters	16.2	0	3.7	16.2	39.47	0	3.7
381.1	Meters - AMR Equipment	17.1	0	4.4	16.7	25.40	0	4.5
382	Meter Installations	25.0	(10)	3.1	25.0	31.29	(10)	3.1
382.1	Meter Installations - MTU/DCU	33.0	(10)	2.6	33.0	24.39	(10)	2.6
383	House Regulators	16.7	0	3.3	16.7	45.59	0	3.3
384	House Regulator Installations	21.0	0	2.7	21.0	42.34	0	2.7
385	Industrial Meas. & Reg. Station Equip	16.9	0	3.4	16.9	43.13	0	3.4
387	Other Equipment	15.7	0	4.0	15.7	36.46	0	4.0
General Plant								
390	Structures & Improvements	31.0	0	2.4	31.0	26.69	10	2.0
391	Office Furniture	15.6	0	3.7	15.6	41.95	0	3.7
391.2	Office Equipment	10.1	0	6.1	10.1	38.67	0	6.1
391.3	Computer Hardware / Software	4.3	0	5.2	4.3	77.50	0	5.2
392.1	Transportation - Cars	5.1	10	11.0	5.1	33.94	10	11.0
392.2	Transportation - Light Trucks & Vans	4.8	20	8.0	4.8	41.84	20	8.0
392.3	Transportation - Heavy Trucks <sup>15</sup>	0.0	10	8.2	0.0	0.00	10	8.2

<sup>15</sup> Company requested new rate establishment.

Comparison of Rates and Components								
Company Proposed					Commission Approved			
Distribution Plant		Average	Future	Remaining	Average	Reserve	Future	Remaining
Account		Remaining	Net	Life Rate	Remaining		Net	Life Rate
#	Account Title	Life	Salvage		Life		Salvage	
		(Yrs.)	(%)	(%)	(Yrs.)	(%)	(%)	(%)
392.4	Transportation - Other	9.9	0	3.3	9.9	67.58	0	3.3
393	Stores Equipment	5.8	0	5.8	5.8	66.40	0	5.8
394	Tools, Shop & Garage Equipment	3.8	0	7.4	3.8	71.94	0	7.4
395	Laboratory Equipment <sup>16</sup>	0.0	0	5.0	0.0	0.00	0	5.0
396	Power Operated Equipment	6.0	10	1.1	6.0	83.21	10	1.1
397	Communication Equipment	8.1	0	7.0	8.1	43.27	0	7.0
398	Miscellaneous Equipment	10.5	0	4.6	10.5	52.13	0	4.6
399	Miscellaneous Tangible	5 Year Amortization			5 Year Amortization			

<sup>16</sup> Company requested new rate establishment.

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