

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

ORIGINAL

In re: Request for rate increase  
by Florida Division of  
Chesapeake Utilities  
Corporation.

DOCKET NO. 000108-GU

FILED: SEPTEMBER 18, 2000

STAFF'S PREHEARING STATEMENT

Pursuant to Order No. PSC-00-1279-PCO-GU, issued July 14, 2000, the Staff of the Florida Public Service Commission (Staff) files its Prehearing Statement.

a. All Known Witnesses

Hillary Y. Sweeney

David J. Draper

b. All Known Exhibits

Hillary Y. Sweeney	HYS-1	Staff Audit Report
David J. Draper	DJD-1	Comparable Natural Gas LDCs and Investment Characteristics
	DJD-1A	Comparable Electric Companies and Investment Characteristics
	DJD-2	Basic DCF Equation
	DJD-3	Two-Stage Annually Compounded DCF Model
	DJD-4	Results of DCF Analysis for Comparable Natural Gas LDCs
	DJD-4A	Results of DCF Analysis for Comparable Electric Companies
	DJD-5	Capital Asset Pricing Model
	DJD-6	Spread between "A" and "BBB" Rated Public Utility Bonds
	DJD-7	Range for Cost of Equity

c. Staff's Statement of Basic Position

Staff's positions are preliminary and based on materials filed by the parties and on discovery. The preliminary positions are offered to assist the parties in preparing for the hearing. Staff's final positions will be based upon all the evidence in the record and may differ from the preliminary positions stated herein.

- APP \_\_\_\_\_
- CAF \_\_\_\_\_
- CMP \_\_\_\_\_
- COM \_\_\_\_\_
- CTR \_\_\_\_\_
- ECR \_\_\_\_\_
- LEG \_\_\_\_\_
- OPC \_\_\_\_\_
- PAI \_\_\_\_\_
- RGO \_\_\_\_\_
- SEC \_\_\_\_\_
- SER \_\_\_\_\_
- OTH \_\_\_\_\_

DOCUMENT NUMBER-DATE

11703 SEP 18 8

FPSC-RECORDS/REPORTING

d. Staff's Positions on the Issues

QUALITY OF SERVICE

ISSUE 1: Is Chesapeake's quality of service adequate?

POSITION: No position pending remaining service hearings.

TEST YEAR AND FORECASTING

ISSUE 2: Is Chesapeake's test year request for permanent rate relief based on a historical test period ending December 31, 1999, and a projected test period ending December 31, 2001, appropriate?

POSITION: Yes. With the adjustments recommended by Staff in the following issues, the 1999 and 2001 test years are appropriate.

ISSUE 3: Are the customer growth and them forecasts by rate class appropriate?

POSITION: No position pending responses to Staff discovery and evidence adduced at hearing.

RATE BASE

ISSUE 4: Should an adjustment be made to Plant, Accumulated Depreciation, and Depreciation Expense for canceled and delayed projects?

POSITION: No position pending responses to Staff discovery and evidence adduced at hearing.

ISSUE 5: Should an adjustment be made to plant retirements for the projected test year?

POSITION: No position pending responses to Staff discovery and evidence adduced at hearing.

ISSUE 6: Should rate base be reduced to remove inactive service lines that have been inactive for more than five years?

POSITION: No position pending responses to Staff discovery and evidence adduced at hearing.

ISSUE 7: Were Accounts 376, Mains, and 381, Meters, erroneously charged twice for sales tax, and, if

so, should these accounts be reduced for the erroneous charge?

POSITION: No position pending responses to Staff discovery and evidence adduced at hearing.

ISSUE 8: Should a portion of the second story of the office building be allowed in rate base?

POSITION: Yes. Awaiting responses to Staff discovery to determine amount of adjustment.

ISSUE 9: Should an adjustment be made to reduce Plant, Accumulated Depreciation, Depreciation Expense, and other expenses to reflect non-utility operations?

POSITION: Yes. Awaiting responses to Staff discovery to determine amount of adjustment.

ISSUE 10: Should an adjustment be made to the costs allocated by Chesapeake Utilities Corporation to its Florida Division?

POSITION: No position pending responses to Staff discovery and evidence adduced at hearing.

ISSUE 11: What is the appropriate amount of Construction Work in Progress (CWIP) for the projected test year?

POSITION: No position pending responses to Staff discovery and evidence adduced at hearing.

ISSUE 12: What is the appropriate projected test year Total Plant?

POSITION: No position at this time; this issue requires a calculation based upon the resolution of preceding issues.

ISSUE 13: What is the appropriate projected test year Depreciation Reserve?

POSITION: No position at this time; this issue requires a calculation based upon the resolution of preceding issues.

ISSUE 14: Should an adjustment be made to allocate working capital based on updated factors?

POSITION: No position pending responses to Staff discovery and evidence adduced at hearing.

ISSUE 15: Should an adjustment be made to working capital to allocate Materials and Supplies to nonregulated operations?

POSITION: Yes. Awaiting responses to Staff discovery to determine amount of adjustment.

ISSUE 16: Has Chesapeake properly removed all nonregulated activity in Accounts Receivable-Services from working capital?

POSITION: No position pending responses to Staff discovery and evidence adduced at hearing.

ISSUE 17: Has Chesapeake removed the appropriate amount of Miscellaneous Current Liabilities from working capital?

POSITION: No position pending responses to Staff discovery and evidence adduced at hearing.

ISSUE 18: What is the appropriate accounting and ratemaking treatment for the Flexible Rate Adjustment?

POSITION: No position pending responses to Staff discovery and evidence adduced at hearing.

ISSUE 19: Is Chesapeake recording conservation revenues and expenses appropriately?

POSITION: No. Chesapeake is currently recording conservation as Miscellaneous Deferred Debits, but it should be recorded as revenues and expenses.

ISSUE 20: Is the health insurance reserve and expense appropriate?

POSITION: No position pending responses to Staff discovery and evidence adduced at hearing.

ISSUE 21: Is Chesapeake using the appropriate allocation methodology to allocate health insurance costs?

POSITION: No position pending responses to Staff discovery and evidence adduced at hearing.

ISSUE 22: Is the self insurance reserve and expense appropriate?

POSITION: No position pending responses to Staff discovery and evidence adduced at hearing.

ISSUE 23: Is the pensions and benefits reserve and expense appropriate?

POSITION: No position pending responses to Staff discovery and evidence adduced at hearing.

ISSUE 24: Should an adjustment be made to include Customer Deposits-Refunds in Working Capital?

POSITION: No position pending responses to Staff discovery and evidence adduced at hearing.

ISSUE 25: Should an adjustment be made to increase Interest Accrued in Working Capital?

POSITION: No position pending responses to Staff discovery and evidence adduced at hearing.

ISSUE 26: What is the appropriate projected test year Working Capital Allowance?

POSITION: No position at this time; this issue requires a calculation based upon the resolution of preceding issues.

ISSUE 27: What is the appropriate projected test year Rate Base?

POSITION: No position at this time; this issue requires a calculation based upon the resolution of preceding issues.

#### CAPITAL STRUCTURE

ISSUE 28: What is the appropriate return on common equity for the projected test year?

POSITION: The appropriate return on common equity is 11.3% based on the testimony of Staff witness Draper.

ISSUE 29: What is the appropriate flex rate liability amount and cost rate?

POSITION: No position pending responses to Staff discovery and evidence adduced at hearing.

ISSUE 30: What is the appropriate amount of accumulated deferred taxes to include in the capital structure?

POSITION: No position pending responses to Staff discovery and evidence adduced at hearing.

ISSUE 31: What is the appropriate amount and cost rate of the unamortized investment tax credits to include in the capital structure?

POSITION: No position pending responses to Staff discovery and evidence adduced at hearing.

ISSUE 32: Has FAS 109 been appropriately reflected in the capital structure, such that it is revenue neutral?

POSITION: No position pending responses to Staff discovery and evidence adduced at hearing.

ISSUE 33: Should the debit tax balances, associated with the temporary timing differences arising from unrecovered purchased gas costs and conservation cost recovery be removed, and if so, have they been appropriately removed?

POSITION: No position pending responses to Staff discovery and evidence adduced at hearing.

ISSUE 34: Have rate base and capital structure been reconciled appropriately?

POSITION: No position pending responses to Staff discovery and evidence adduced at hearing.

ISSUE 35: Is it appropriate for the Florida Division to adjust its capital structure to reflect that of its parent Chesapeake Utilities Corporations's capital structure?

POSITION: No position pending responses to Staff discovery and evidence adduced at hearing.

ISSUE 36: What is the appropriate weighted average cost of capital for the projected test year?

POSITION: No position at this time; this issue requires a calculation based upon the resolution of preceding issues.

NET OPERATING INCOME

ISSUE 37: Has Chesapeake properly removed PGA revenues, expenses, and taxes-other from the projected test year?

POSITION: No. Chesapeake has not removed PGA revenues, expenses, and taxes-other from the projected test year. An adjustment should be made to remove \$5,790,925, \$5,761,942, and \$28,983 for PGA revenues, expenses, and taxes-other, respectively.

ISSUE 38: Has Chesapeake properly removed conservation revenues, expenses, and taxes-other from the projected test year?

POSITION: No position pending responses to Staff discovery and evidence adduced at hearing.

ISSUE 39: Should an adjustment be made to increase revenues for the amount of interest earned on cash in working capital?

POSITION: Yes. Revenues should be increased by \$20,000.

ISSUE 40: What is the appropriate amount of projected test year total Operating Revenues?

POSITION: No position pending responses to Staff discovery and evidence adduced at hearing.

ISSUE 41: Should an adjustment be made to remove expenses for certain memberships and dues?

POSITION: Yes. Awaiting responses to Staff discovery to determine amount of adjustment.

ISSUE 42: Should an adjustment be made for lobbying expenses?

POSITION: No position pending responses to Staff discovery and evidence adduced at hearing.

ISSUE 43: What is the appropriate amount of rate case expense and what is the appropriate amortization period for that expense?

POSITION: No position pending responses to Staff discovery and evidence adduced at hearing.

ISSUE 44: Should an adjustment be made to bad debt expense?

POSITION: No position pending responses to Staff discovery and evidence adduced at hearing.

ISSUE 45: Should an adjustment be made for charitable contributions?

POSITION: No position pending responses to Staff discovery and evidence adduced at hearing.

ISSUE 46: Should an adjustment be made to remove image building or other inappropriate advertising expenses?

POSITION: No position pending responses to Staff discovery and evidence adduced at hearing.

ISSUE 47: Should an adjustment be made to remove expenses for company parties, picnics, or similar social company activities?

POSITION: No position pending responses to Staff discovery and evidence adduced at hearing.

ISSUE 48: Should an adjustment be made to Account 923, Outside Services?

POSITION: No position pending responses to Staff discovery and evidence adduced at hearing.

ISSUE 49: Should an adjustment be made to expenses for new employees hired and related moving expenses?

POSITION: No position pending responses to Staff discovery and evidence adduced at hearing.

ISSUE 50: Are the trend rates used by Chesapeake to calculate projected O&M expenses appropriate?

POSITION: No position pending responses to Staff discovery and evidence adduced at hearing.

ISSUE 51: Has Chesapeake used the appropriate trend basis for each O&M account?

POSITION: No. Only inflation should be used to trend the "Other Trended" amounts in Accounts 901, 920, 928, and 932.

ISSUE 52: Should the projected test year O&M expense be adjusted for the effect of any changes to the trend factors?

POSITION: Yes.

ISSUE 53: Should an adjustment be made to rent expense?

POSITION: No position pending responses to Staff discovery and evidence adduced at hearing.

ISSUE 54: Should an adjustment be made to periodic meter and regulator change-out expense?

POSITION: No position pending responses to Staff discovery and evidence adduced at hearing.

ISSUE 55: Should an adjustment be made for odorizing costs?

POSITION: No position pending responses to Staff discovery and evidence adduced at hearing.

ISSUE 56: Has Chesapeake justified its benchmark variances?

POSITION: No position pending responses to Staff discovery and evidence adduced at hearing.

ISSUE 57: What is the appropriate amount of projected test year O&M Expense?

POSITION: No position at this time; this issue requires a calculation based upon the resolution of preceding issues.

ISSUE 58: Should an adjustment be made to remove \$424 in franchise and consent amortization?

POSITION: Yes.

ISSUE 59: What is the appropriate accounting treatment and annual amortization to recover estimated clean-up costs of Chesapeake's manufactured gas plant site?

POSITION: No position pending responses to Staff discovery and evidence adduced at hearing.

ISSUE 60: What is the appropriate amortization amount and amortization period for Miscellaneous Intangibles?

POSITION: No position pending responses to Staff discovery and evidence adduced at hearing.

ISSUE 61: What is the appropriate amount of projected test year Depreciation and amortization Expense?

POSITION: No position at this time; this issue requires a calculation based upon the resolution of preceding issues.

ISSUE 62: What is the appropriate amount of Taxes Other Than Income Taxes?

POSITION: No position pending responses to Staff discovery and evidence adduced at hearing.

ISSUE 63: What is the appropriate Income Tax Expense, including current, deferred, ITC synchronization, and interest reconciliation?

POSITION: No position pending responses to Staff discovery and evidence adduced at hearing.

ISSUE 64: What is the appropriate level of Total Operating Expenses for the projected test year?

POSITION: No position at this time; this issue requires a calculation based upon the resolution of preceding issues.

ISSUE 65: What is the appropriate amount of projected test year Net Operating Income?

POSITION: No position at this time; this issue requires a calculation based upon the resolution of preceding issues.

OTHER

ISSUE 66: Should the Commission adopt the Transportation Cost Recovery mechanism proposed by Chesapeake to recover non-recurring costs related to transportation service from transportation classes?

POSITION: No position pending responses to Staff discovery and evidence adduced at hearing.

REVENUE DEFICIENCY

ISSUE 67: What is the appropriate projected test year revenue expansion factor to be used in calculating the revenue deficiency including the appropriate elements and rates?

POSITION: No position pending responses to Staff discovery and evidence adduced at hearing.

ISSUE 68: What is the appropriate projected test year revenue deficiency?

POSITION: No position at this time; this issue requires a calculation based upon the resolution of preceding issues.

ISSUE 69: Should any portion of the \$591,579 interim increase granted by Order No. PSC-00-1416-PCO-GU, issued on August 3, 2000, be refunded to customers?

POSITION: No position pending responses to Staff discovery and evidence adduced at hearing.

ISSUE 70: Should Chesapeake be required to file, within 60 days after the date of the final order in this docket, a description of all entries or adjustments to its future annual reports, rate of return reports, published financial statements, and books and records that will be required as a result of the Commission's findings in this rate case?

POSITION: Yes. Chesapeake should be required to fully describe the entries and adjustments that will be either recorded or used in preparing reports submitted to the Commission.

RATE DESIGN AND COST OF SERVICE

ISSUE 71: What are the appropriate billing determinants to be used in the projected test year?

POSITION: No position pending responses to Staff discovery and evidence adduced at hearing.

ISSUE 72: What is the appropriate cost of service methodology to be used in allocating costs to the various rate classes?

POSITION: No position pending responses to Staff discovery and evidence adduced at hearing.

ISSUE 73: Is Chesapeake's proposal to eliminate its nine existing rate classes and replace them with eighteen new rate classes appropriate?

POSITION: No position pending responses to Staff discovery and evidence adduced at hearing.

ISSUE 74: If any revenue increase is granted, what are the appropriate rates and charges for the Florida Division of Chesapeake Utilities Corporation resulting from the allocation of the increase among customer classes?

POSITION: No position pending responses to Staff discovery and evidence adduced at hearing.

ISSUE 75: Is Chesapeake's proposed General Sales Service (GSS) rate adjustment appropriate?

POSITION: No position pending responses to Staff discovery and evidence adduced at hearing.

ISSUE 76: Should the Residential Annual Contract Service (RACS) Rate Schedule be eliminated?

POSITION: Yes.

ISSUE 77: Should the Off-System Sales Rate Schedule be modified as requested by Chesapeake?

POSITION: No position pending responses to Staff discovery and evidence adduced at hearing.

ISSUE 78: Should customers who take service under special contracts be subject to a change in rates?

POSITION: No position pending responses to Staff discovery and evidence adduced at hearing.

ISSUE 79: Should the Residential Load Enhancement Sales Service (RLES) be eliminated?

POSITION: No position pending responses to Staff discovery and evidence adduced at hearing.

ISSUE 80: Should the existing Load Profile Enhancement Rider (Rider LE) be available to customers under all Rate Schedules?

POSITION: No position pending responses to Staff discovery and evidence adduced at hearing.

ISSUE 81: Should the current interruptible classification of customers be eliminated, except for those customers who lack alternate fuel capabilities and are located on the system such that their service could have an effect of system operations?

POSITION: No position pending responses to Staff discovery and evidence adduced at hearing.

ISSUE 82: Should customers be required to take 100% of their service as either sales or transportation service and not a combination of the two?

POSITION: No position pending responses to Staff discovery and evidence adduced at hearing.

ISSUE 83: Should the Maximum Allowable Construction Cost (MACC) be modified from five years to six years?

POSITION: No position pending responses to Staff discovery and evidence adduced at hearing.

ISSUE 84: Should Chesapeake's proposed Contract Sales Service and Contract Transportation Service riders be approved?

POSITION: No position pending responses to Staff discovery and evidence adduced at hearing.

ISSUE 85: What is the appropriate effective date for any new rates and charges approved by the Commission?

POSITION: Any new rates and charges should become effective 30 days after the Commission's vote approving such rates and charges.

#### TRANSPORTATION TARIFF

ISSUE 86: Should the Commission approve Chesapeake's proposed transportation tariff which was filed as part of this rate case to implement Rule 25-7.0335, Florida Administrative Code?

POSITION: No position at this time.

ISSUE 87: What is the appropriate effective date for Chesapeake's proposed transportation tariff?

POSITION: No position at this time.

ISSUE 88: Should this docket be closed?

POSITION: This docket should be closed after the Commission has issued its final order and the time for filing an appeal has expired.

e. Pending Motions

Staff has no pending motions.

f. Pending Confidentiality Claims or Requests

There are no pending confidentiality claims or requests.

g. Compliance with Order No. PSC-00-1279-PCO-GU

Staff has complied with all requirements of the Order Establishing Procedure entered in this docket.

Respectfully submitted this 18th day of September, 2000.

  
WM. COCHRAN KEATING, IV  
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FILED: SEPTEMBER 18, 2000

CERTIFICATE OF SERVICE

I HEREBY CERTIFY that one true and correct copy of Staff's Prehearing Statement has been furnished by U. S. Mail this 18th day of September, 2000, to the following:

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