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Public Service Commission

July 31, 2014

STAFF'S SECOND DATA REQUEST

Beth Keating, Esquire
215 South Monroe Street Suite 601
Tallahassee, Florida 32301
bkeating@gunster.com

Re: Docket No. 140016-GU - 2014 depreciation study by Florida Public Utilities Company.

Dear Mrs. Keating:

By this letter, Commission staff requests that Florida Public Utilities Company (FPUC), Florida Public Utilities Company-Indiantown Division (Indiantown), and Florida Division of Chesapeake Utilities Corporation (Chesapeake)(collectively referred to herein as Companies) provide responses to the following data requests. Please provide the responses to this Data Request in Excel or Word format with formulas intact and unlocked, as applicable.

1. Referring to the first paragraph of the July 2, 2014 narrative titled "COMPUTATION OF RATES – DEPRECIATION RATES SCHEDULES" (Narrative), please provide clarification on the statement "... each division was operating with <u>three separate sets</u> of depreciation rates based on its individual components." (emphasis added)

2. <u>Account 382.1 Meter Installations – MTU/DCU</u>

   a. Please define MTU and describe the assets it includes.

   b. Please define DCU and describe the assets it includes.

   c. The Company indicated that "[t]his is a new account to the consolidated depreciation study." Please specify what assets are recorded in this account.

   d. Please explain why the Company created this new account.

   e. Please explain the differences between this account and Account 382 Meter Installations.

   f. On page 3/5 of Exhibit AA, the Company recorded the net investment amount for Chesapeake division with no corresponding current depreciation rate and its components. Please provide the current Average Service Life, Average Remaining Life, Net Salvage, Reserve percentage, Age, curve, and Remaining Life Rate for this account.

g. On pages 1 of Exhibit AA, the Company reported that on 12/31/13 the consolidated reserve for this account was $144,669, while on page 5 of Exhibit AA the Company reported it was $145,741. Please reconcile these two records.

h. Referring to page 1/4 of Exhibit DD, please provide the rationale for using S2 as the Company's proposed-consolidated curve for calculating the depreciation rate.

3. Account 381.1 Meters – AMR Equipment

   a. On pages 1 of Exhibit AA, the Company reported that on 12/31/13 the consolidated reserve for this account was $562,863, while on page 5 of Exhibit AA the Company reported consolidate reserve was $567,746. Please reconcile these two records.

   b. On pages 1 of Exhibit AA, the Company reported that on 12/31/13 the consolidated reserve for the Total Distribution Plant was $72,640,864, while on page 5 of Exhibit AA the Company reported it was $72,646,820. Please reconcile these two numbers.

4. Please refer to page 3/5 of Exhibit AA for the following questions:

   a. Account 380.1 Service-Plastic
   Please explain why the Company used 1.5% as the current remaining life rate rather than 3.6% which is what prescribed in Order No. PSC-08-0364-PAA-GU. In your response, please provide the consolidated depreciation rate, its components, and the expense based on using the 3.6% rate rather than the 1.5% rate.

   b. Account 380.2 Service-Other
   Please explain why the Company used 3.3% as the current remaining life rate rather than 3.5% which is what prescribed in Order No. PSC-08-0364-PAA-GU. In your response, please provide the consolidated depreciation rate, its components, and the expense based on using the 3.5% rate rather than the 3.3% rate.

5. Account 376.1 Main-Plastic
   The Company proposed a net salvage (NS) of negative 15%. Exhibit BB, page 1/4, showed that FPUC experienced a NS of negative 17.76%, Chesapeake experienced a NS of 260.25%, and the consolidated a NS is 40.63%

   a. Please explain why the Company believed that the data on Exhibit BB for this account may contain non-typical salvage activity. (page 5/7 of Narrative)

   b. Please provide the definition of typical salvage and non-typical salvage, respectively, for this account with actual examples.

   c. Please explain why, in 2012, FPUC incurred a cost of removal (COR) of 1,257% in this account. (First page of Exhibit L, page 3/3 (Revised))

   d. Please explain why, in 2008, Chesapeake experienced a net salvage of 8,797%, while each year from 2009 – 2012 it experienced only a large amount of COR. (Second page of Exhibit L, page 3/3 (Revised))

6. Account 376.2 Main-Steel
The Company proposed a NS of negative 30%. Exhibit BB, page 1/4, showed that FPUC experienced NS of negative 35.58%, Chesapeake experienced a NS of negative 123.48%, and the consolidated a NS is negative 82.73%.

    a. Please refer to page 5/7 of the Narrative. Please explain why the Company believes that the data on Exhibit BB for this account may contain non-typical salvage activity.

    b. Please provide the definition of typical salvage and non-typical salvage, respectively, for this account with actual examples.

    c. Please explain why, in 2012, FPUC incurred a COR of 110%.

    d. Please explain why Chesapeake experienced a very large amount of COR annually through out the study period. (Second page of Exhibit L, page 3/3 (Revised))

7. Account 380.1 Service-Plastic
The Company proposed a NS of negative 25%. Exhibit BB, page 1/4, showed that FPUC experienced a NS of negative 38.75%, Chesapeake experienced a NS of negative 7,037.45%, and the consolidated a NS is negative 79.77%.

    a. Please refer to page 5/7 of the Narrative. Please explain why the Company believed that the data on Exhibit BB for this account may contain non-typical salvage activity.

    b. Please provide the definition of typical salvage and non-typical salvage, respectively, for this account with actual examples.

    c. Please explain why each year, except for 2010, during the study period FPUC incurred COR of more than 45%.

    d. Please explain why each year from 2008-2012, Chesapeake incurred a very large amount of COR with zero or relatively very small amount of retirements.

    e. Please explain why the estimated 2013 NS for Chesapeake is negative 6,984% and indicate the actual NS the division experienced in 2013.

8. Account 380.2 Service-Other
The Company proposed a NS of negative 125%. Exhibit BB, page 1/4, showed that FPUC experienced a NS of negative 189.72%, Chesapeake experienced a NS of 5,816.79%, and the consolidated a NS is negative 140.71%.

    a. Please refer to page 5/7 of the Narrative. Please explain why the Company believed that the data on Exhibit BB for this account may contain non-typical salvage activity.

    b. Please provide the definition of typical salvage and non-typical salvage, respectively, for this account with actual examples.

c. Please explain why in most years during the study period FPUC incurred a very large of COR in this account. (First page of Exhibit L, page 3/3 (Revised))

d. Please explain why, in 2010, Chesapeake experienced a NS of negative 1,166%.

e. Please explain why the estimated 2013 NS for Chesapeake is 5,781%, and indicate the actual NS the division experienced in 2013.

9. <u>Account 382.0 Meter Installation</u>
The Company proposed a NS of negative 10%. Exhibit BB, page 2/4, showed that FPUC experienced a NS of negative 28.74%, Chesapeake experienced a NS of negative 1,637.33%, and the consolidated a NS of negative 357.30%.

a. Please refer to page 5/7 of the Narrative. Please explain why the Company believed that the data on Exhibit BB for this account may contain non-typical salvage activity.

b. Please provide the definition of typical salvage and non-typical salvage, respectively, for this account with actual examples.

c. Please explain why the estimated 2013 NS for FPUC division is negative 28.75%, and indicate the actual NS the division experienced in 2013.

d. Please explain why, in 2009, Chesapeake experienced a NS of negative 506,773%.

e. Please explain why the estimated 2013 NS for Chesapeake is 1,633%, and indicate the actual NS the division experienced in 2013.

10. <u>Accounts 376.1 Service-Plastic, 376.2 Service-Other, and 380.1 Service-Plastic</u>
Please provide the following for Accounts 376.1 Service-Plastic, 376.2 Service-Other, and 380.1 Service-Plastic:

a. The calculation of the consolidated current net salvage presented on page 1/4 of Exhibit DD, using a same format that the Company used in calculating its proposed consolidated net salvage shown in Exhibits BB and L.

b. The calculation of the consolidated current age presented on page 1/4 of Exhibit DD, using a same format that the Company used in calculating its proposed consolidated age shown in Exhibits CC and P.

11. <u>Account 397.1 Communication Equipment-AMI</u>
Please refer to column "Notes" on page 1/4 of Exhibit DD and page 3 of Narrative for the following questions:

a. Please confirm that what presented under <u>Note 1</u>, on page 3 of Narrative, pertains to note (1) on page 1/4 of Exhibit DD.

b. On page 3 of Narrative, the Company indicated that "[f]or Chesapeake Utilities, the reserve balance for Account 397.1 Communication Equipment-AMI, contained a balance, but the account did not contain a corresponding [I]nvestment." However, on page 3/5 of Exhibit AA, the Company recorded $5,956 as the net plant of 12/13/2013 for the account. Please explain.

c. Please explain why the $5,956 net plant discussed above is not recorded in any of the columns of the Consolidated Plant on pages 1/5 of Exhibit AA.

d. Please explain why on page 5/5 of Exhibit AA, there is negative $5,956 recorded in the Reserve column for this account.

e. On page 3 of Narrative, the Company also indicated that "[subsequent to 12/31/12, this reserve balance was adjusted as 82% to Account 381.1 Meters-AMR Equipment; and 18% to Account 382.1 Meter Installations-MTU/DCU; in the amounts of $4,884 and $1,072, respectively." Please provide the rationale for these adjustments.

12. Please refer to Exhibit AA, page 1 of 5 and page 5 of 5. The investment amount for Account 391.3 Computer Hardware/Software is $4,204,212 on page 1 but on page 5 it is reflected as $4,201,212. Please reconcile the discrepancy and provide the correct number.

13. Please refer to Exhibit DD, page 1 of 4. There are three accounts with $0 investment, $0 reserve, and no proposed depreciation inputs and rates (Account 392.3 Transportation – Heavy Trucks, Account 397.1 – Communications Equipment – AMR and Account 395 – Laboratory Equipment). Is FPUC proposing to eliminate these two accounts from inclusion in its depreciation proposal? Please explain your response.

14. Please refer to Exhibit J for FPUC, Chesapeake, and Indiantown for Account 390 - Structures. Estimated 2013 additions to this account are approximately $10,000; however, actual additions found in the Annual Status Reports for 2013 for the three companies total approximately $835,000. Please explain the reason for the difference between estimated and actual additions.

15. Please refer to Exhibits J and K and the 2013 Annual Status Report for Account 391, Furniture, for FPUC, Chesapeake, and Indiantown. The combined estimated 2013 additions and retirements are, respectively, $78,204 and $516. Actual combined 2013 additions and retirements are, respectively, $127,730 and $49,683. Please explain the reason for the difference between the estimated and actual additions as well as estimated and actual retirements.

16. Please refer to Exhibit AA, page 1, and the FPUC 2013 Annual Status Report for Account 391, excluding Furniture, for FPUC, Chesapeake, and Indiantown. The estimated 2013 total account balance for Account 391 (excluding Furniture) is $6,596,789 in Exhibit AA. The actual 2013 total account balance for Account 391 (excluding Furniture) is $5,216,836 (2013 total of FPUC, Chesapeake, and Indiantown). Please explain the reason(s) for the difference in investment between the forecast and the actual.

17. Assuming the Commission approves consolidated depreciation rates in this proceeding, does FPUC intend to file annual status reports for investment and accumulated depreciation using consolidated accounts?

18. Please refer to paragraph 5 and its associated footnote 1 of the Petition for Approval of 2014 Depreciation Studies (Petition) for the following questions.

    a. What are the accounts included in Florida Common Assets? Please provide, by account name and number, each account's associated investment and accumulated depreciation.

    b. What is the current allocation of the Florida Common Assets to each gas division (FPUC, Chesapeake, Indiantown, and if applicable, Fort Meade), the Electric Division, and the unregulated propane affiliates?

    c. How did FPUC determine the allocation?

    d. How long will the current allocation remain in effect?

    e. Assuming Commission approval of consolidated depreciation rates, does FPUC intend to use the current allocation when new depreciation rates are set? If no, what allocation does FPUC intend to use?

    f. Please explain why the Florida Common Assets are included in the FPUC gas study rather than, for example, in an Electric Division study.

    g. Assuming Commission approval of consolidated depreciation rates, would FPUC use the gas depreciation rates determined in this proceeding for the Florida Common Assets assigned to the Electric Division? If yes, please explain why those rates would be used. If no, what rates would be used for the Florida Common Assets assigned to the Electric Division?

    h. Is FPUC's proposal for Florida Common Assets the first time FPUC has made this proposal in a depreciation study? If yes, please explain why the proposal has not been made in the past. If no, in which dockets has FPUC made a proposal for depreciation rates for Florida Common Assets?

Please refer to paragraph 6 of FPUC's January 13, 2014, Petition for Data Request Nos. 19-23.

19. Please explain with specificity how Fort Meade's service environment is similar to FPUC, Chesapeake, and Indiantown. In your response, please provide examples.

20. Please explain with specificity how Fort Meade's company planning, growth, technology, physical conditions, and trends will now be consistent with FPUC, Chesapeake, and Indiantown. In your response, please provide examples.

21. Is Fort Meade’s investment and accumulated depreciation data incorporated within the instant proceeding’s depreciation studies? If no, please explain why not.

22. Is any account information available, e.g., account name and number, investment, and accumulated depreciation? If yes, please provide what is available and its “as of” date. If no, please explain why it is not available

23. Is any information available on what Fort Meade used for depreciation rates, average service life, age, gross salvage, and cost of removal? If yes, please provide what is available by account and its “as of” date. If no, please explain why it is not available.

24. Please refer to the Chesapeake Utilities Corporation’s (CUC) 2013 Form 10-K, page 70, section titled “Other Acquisitions” (2013 10-K). According to the 2013 10-K, CUC acquired certain operating assets of Fort Meade on December 2, 2013 for approximately $792,000. Of the $792,000, $670,000 was recorded in property, plant, and equipment; this is a preliminary valuation which may be adjusted based on the final valuation.

    a. Is the $670,000 as of December 2, 2013? If no, what is the date?

    b. Is the $670,000 net plant? If yes, please provide book investment and accumulated depreciation numbers, by account name and number, that comprise the $670,000. If no, please explain how the amount was determined, breaking it down into book investment and accumulated depreciation by account name and number.

    c. Is the $670,000 comprised of all depreciable plant? If no, how much is depreciable and how much is non-depreciable?

    d. Has the final valuation been completed? If no, is there a date for completion that is more specific than “no later than one year from the date of acquisition?” If yes, what is the date?

25. Has Chesapeake ever requested consulting/outside services fees for a depreciation study in a stand-alone docket?

    a. If yes, please identify the docket where Chesapeake’s request for consulting/outside services fees were approved or denied.

    b. If applicable, please identify the amortization period that was approved for the consulting/outside services fees.

26. Refer to revised Exhibit B, dated July 1, 2014, regarding the $5,000 of estimated additional expenses. Please provide a breakdown of the activities the company anticipates that the $5,000 will be used to perform.

Please file the original and five copies of the requested information by Monday, August 11, 2014, with Carlotta Stauffer, Commission Clerk, Office of Commission Clerk, 2540 Shumard Oak Boulevard, Tallahassee, Florida, 32399-0850. In addition, please provide an electronic copy of this response (with formulas intact and unlocked) to the following email addresses: sollila@psc.state.fl.us and cklancke@psc.state.fl.us. Please feel free to call me at (850) 413-6220 if you have any questions.

Sincerely,

Caroline Klancke
Senior Attorney

CMK/ace

cc: Office of Commission Clerk